U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

(Check One)

o **Registration statement pursuant to Section 12 of the Securities Exchange Act of 1934**

or

þ **Annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2006

Commission file number 1-14942

MANULIFE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Canada	**6311**	**Not applicable**
(Province or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

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:
þAnnual Information Form þ 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	1,547,024,631
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 o No þ

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 þ No o

Principal Documents

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

(a) Renewal Annual Information Form, dated March 19, 2007, for the fiscal year ended December 31, 2006;

(b) Management's Discussion and Analysis for the fiscal year ended December 31, 2006; and

(c) Consolidated Financial Statements for the fiscal year ended December 31, 2006 *(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. As of the end of Manulife Financial Corporation's (the "Company") fiscal year ended December 31, 2006, an evaluation of the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was carried out under the supervision and with the participation of the Company's principal executive officer and principal financial officer. Based upon that evaluation, the Company's principal executive officer and principal financial officer have concluded that as of the end of that fiscal year, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

(c) Management's Annual Report on Internal Control over Financial Reporting. The required disclosure has been provided under the heading "Management's Report on Internal Control over Financial Reporting" in the Company's Consolidated Financial Statements for the fiscal year ended December 31, 2006, filed as Exhibit 99.3 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 "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, 2006, filed as Exhibit 99.3 to this Annual Report on Form 40-F.

(e) Changes in Internal Control Over Financial Reporting. No change in the Company's internal control over financial reporting (as defined in Rule 13a-15(e) of the Exchange Act) occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Audit Committee Financial Expert.

The Board of Directors of the Company has determined that each of Messrs. Celeste, DeWolfe, Dineen, Graham, Kierans and Sawchuk (the "Financial Experts") has the necessary qualifications to be designated as an "audit committee financial expert" (within the meaning of applicable Securities and Exchange Commission rules). The Financial Experts are independent, as that term is defined by the New York Stock Exchange's listing standards. The disclosure provided under the heading "Audit & Risk Management Committee" in the Company's Renewal Annual Information Form, filed as Exhibit 99.1 hereto, is incorporated by reference herein. The Board's determination does not make

these directors “experts” for any purposes or impose greater duties, obligations or liabilities on them nor does it affect duties, obligations or liabilities of other members of the Board.

Code of Ethics.

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

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

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

Principal Accountant Fees and Services.

The following table represents the fees billed by Ernst & Young LLP to the Manulife Financial group of companies in 2006 and 2005.

(Canadian $ in millions)	Year ended December 31, 2006	Year ended December 31, 2005
Audit fees [1]	$ 27.6	$ 18.8
Audit-related fees [2]	0.8	0.6
Tax fees [3]	0.2	0.6
All other fees [4]	0.1	0.1
	$ 28.7	$ 20.1

1 Includes the annual audit, Sarbanes-Oxley Act of 2002 (“SOX”) attestation, reviews of quarterly reports, statutory audits and regulatory filings.

2 Includes consultations concerning financial accounting and reporting standards, due diligence in connection with mergers and acquisitions and audits in connection with proposed or consummated acquisitions.

3 Includes tax compliance, tax planning and tax advice services.

4 Includes work relating to accident and health claims.

Pre-Approval Policies and Procedures.

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

by a member of the Audit Committee appointed by the Audit Committee and acting on its behalf.

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

Off-Balance Sheet Arrangements.

In addition to the discussion of risk in Management's Discussion and Analysis for the fiscal year ended December 31, 2006, 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, 2006, filed as Exhibit 99.3 to this Annual Report on Form 40-F, include the following disclosures related to off-balance sheet arrangements:

Note 6(d)	Securities Lending
Note 17	Variable Interest Entities
Note 18	Commitments and Contingencies
Note 20	Derivative Financial 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	Allister P. Graham	Thomas E. Kierans
Arthur R. Sawchuk		

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 copies of these documents 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, thereunto duly authorized, on March 27, 2007.

Manulife Financial Corporation

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

EXHIBIT INDEX

Exhibit	Description
99.1	Renewal Annual Information Form, dated March 19, 2007, for the fiscal year ended December 31, 2006
99.2	Management's Discussion and Analysis for the fiscal year ended December 31, 2006
99.3	Consolidated Financial Statements for the fiscal year ended December 31, 2006 *(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 of the Securities Exchange Act of 1934
99.5	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14 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 2006 Annual Report entitled "Business of the Annual Meeting", "Board of Directors", "Statement of Corporate Governance Practices", "Risk Management", "Critical Accounting and Actuarial Policies" and "Principal Subsidiaries" (*Incorporated by reference into the Renewal Annual Information Form, dated March 19, 2007, for the fiscal year ended December 31, 2006*)

Exhibit 99.1

MANULIFE FINANCIAL CORPORATION

RENEWAL ANNUAL INFORMATION FORM
March 19, 2007

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GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Superintendent — the Superintendent of Financial Institutions (Canada).

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

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

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

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

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

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

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

FINANCIAL PRESENTATION AND EXCHANGE RATE INFORMATION

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

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

	As at and for the year ended December 31		
	2006	2005	2004
U.S. dollar			
Balance sheet	1.1653	1.1659	1.2036
Statement of operations	1.1340	1.2111	1.3015
Japanese yen			
Balance sheet	0.009790	0.009886	0.011718
Statement of operations	0.009752	0.011022	0.012035

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.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the "safe harbour" provisions of Canadian provincial securities laws and the U.S. *Private Securities Litigation Reform Act of 1995* . These forward-looking statements relate to, among other things, the Company's objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and can generally be identified by the use of words such as "may", "will", "could", "should", "would", "suspect", "outlook", "expect", "intend", "estimate", "anticipate", "believe", "plan", "forecast", "objective" and "continue" (or the negative thereof) and words and expressions of similar import, and include statements concerning possible or assumed future results set out under "Corporate Strategy" and "Business Operations". Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Information about material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements, may be found in this document under "Risk Factors" as well as under "Risk Management" and "Critical Accounting and Actuarial Policies" in MFC's Management's Discussion and Analysis for the year ended December 31, 2006 and elsewhere in MFC's filings with Canadian and U.S. securities regulators. The Company does not undertake to update any forward-looking statements.

CORPORATE STRUCTURE

HISTORY AND INCORPORATION

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

common stock of John Hancock. MFC's head office and registered office is located at 200 Bloor Street East, Toronto, Canada, M4W 1E5.

INTERCORPORATE RELATIONSHIPS

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

The principal subsidiaries of MFC, including direct and indirect subsidiaries, are listed in the section entitled "Principal Subsidiaries" of MFC's 2006 Annual Report filed on SEDAR, which section is incorporated herein by reference. These companies are incorporated in the jurisdiction in which their head office is located.

CORPORATE STRATEGY

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

Build on Existing Business Franchises

Manulife Financial enjoys recognized financial strength and leadership positions in a number of diverse international markets ranging from developing to mature and has built strong platforms for future growth in Canada, the United States and Asia. Management intends to strengthen the Company's business franchises in its existing markets and potentially expand into new markets where management believes the Company can establish a leading market position. In 2004, Manulife Financial significantly expanded the Company's positioning in North America through its merger with John Hancock The merger added the John Hancock operations and brand in the United States and the business of The Maritime Life Assurance Company ("Maritime Life") in Canada. In Asia, the merger increased scale and expanded Manulife Financial's presence into Malaysia and Thailand. Management believes that the Asian region's economic and demographic trends offer excellent medium and long-term growth potential. In 1996, Manulife Financial opened the first foreign joint venture life insurance company in China and by the end of 2006, the Company had operations in 16 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 in recent years through acquisitions in the Philippines, Indonesia and Taiwan.

Deliver Customized and Innovative Products and Services

Management believes that delivering customized and innovative financial protection products and wealth management products and services, which provide sustainable value at competitive prices, will continue to be a growth driver for Manulife Financial. Accordingly, the Company focuses on understanding customer needs and on developing, maintaining and deepening long-term customer relationships. To address the changing needs of its target customers, the Company has developed the ability to quickly bring new offerings to the marketplace to complement its broad array of products. In Canada, the Company introduced the first single combined personal borrowing and banking account, known as Manulife One, and more recently introduced the country's first Guaranteed Minimum Withdrawal Benefit ("GMWB") product called "GIF Select/Income Plus". In the United States, the Company launched an innovative long-term care policy with industry first features designed to reduce the cost and complexity of long-term care insurance. Also in the United States, new riders were added to the Company's highly successful variable annuity product, building upon the strength of the well-known rider 'Principal Plus for Life'. 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.

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 Canada, the Company has continued to build on its successful multiple channel and strategic alliance partnership strategy for the distribution of individual wealth management and insurance products. In the United

States, the John Hancock merger significantly broadened the Company's distribution capabilities by adding the John Hancock Financial Network ("JHFN"), and access to the M-Financial Group. The expanded distribution contributed to the record level of sales in 2006 in both variable annuities and individual insurance in the United States. In Asia and Japan, Manulife Financial's primary distribution channel is an exclusive agency force numbering approximately 25,000 agents. In recent years, the Company has expanded and diversified its distribution reach by adding new agreements with of 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 2006, the Company had expanded its distribution network in Japan to include 26 agreements with banks and securities brokers. By offering a diverse range of products and providing ongoing sales and marketing support, Manulife Financial strives to maintain long-term relationships with its agents, brokers and other distributors in each market. The Company expects to continue its strategy of anticipating and responding to changing customer distribution preferences.

Leverage Technology to Enhance Customer and Producer Services

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

Leverage Successful Strategies across Different Markets

Manulife Financial's product and geographic diversity allows the Company to transfer products and services, technology, distribution and marketing strategies, and business knowledge from one market to another. Management believes that the ability to leverage across markets enables the Company to capitalize quickly on emerging economic and demographic trends. Manulife Financial applied the expertise it gained in the United States variable annuity market to launch similar products in both Canada and Japan. The Company also transferred its successful Lifestyle Fund offerings to its Mutual Fund business, resulting in an expanded product offering and increased mutual fund sales.

Implement Strategic Acquisitions

Manulife Financial intends to focus on making strategic acquisitions in the financial services industry that strengthen and complement its core operations and that are priced to provide acceptable 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. Management believes that the Company's experience in executing and implementing strategic acquisitions, together with its management and capital resources, position Manulife Financial to continue its acquisition program with a focus on expanding its financial protection and wealth management businesses internationally.

GENERAL DEVELOPMENT OF THE BUSINESS

THREE YEAR HISTORY

The Company has proactively participated in the continuing consolidation and globalization of the financial services industry. Through acquisitions and organic growth, the Company has increased shareholders' net income from $1,539 million in 2003 to $3,985 million for the year ended December 31, 2006.

In 2004, Manulife Financial completed a merger with John Hancock, including its Canadian subsidiary Maritime Life. In December 2004, Manufacturers Life, MFC Insurance Company Limited (another Canadian insurance company subsidiary of the Company) and Maritime Life completed a reorganization that resulted in Maritime Life and MFC Insurance Company Limited transferring their business and assets to Manufacturers Life. Also in late 2004, the Company increased its ownership interest in Manulife Insurance (Thailand) Public Company Limited (formerly Interlife John Hancock Assurance Public Company Limited) ("Manulife Thailand") to approximately 95% of the outstanding common shares. The Company's shareholding in Manulife Thailand was further increased to approximately 98% at the end of December 2006.

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

In 2006, Manulife Financial focused on leveraging the benefits of the integrated organization and building on its competitive strengths. The Company continued to enhance its expanded distribution platform, introduce innovative

new products and leverage the John Hancock brand. These initiatives contributed to strong organic growth with premiums and deposits increasing to $64,939 million for the period ended December 31, 2006, compared to $61,306 million for the period ended December 31, 2005.

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, 2006, the Company had approximately 20,000 employees and operated in 19 countries and territories worldwide. The Company's business is organized into four operating divisions: U.S. Division, Canadian Division, Asia and Japan Division and Reinsurance Division. In addition, asset management services are provided by the Company's Investment Division, operating as MFC Global Investment Management ("MFC Global"). Each division has profit and loss responsibility and develops products, services, distribution and marketing strategies based on the profile of its business and the needs of its market. The U.S. Division is comprised of two reporting segments: U.S. Insurance and U.S. Wealth Management. The external asset management business of the Investment Division is reported under the Corporate and Other reporting segment.

SELECTED FINANCIAL STATISTICS BY DIVISION/REPORTING SEGMENT

The following charts provide a breakdown by operating division and reporting segment of the Company's total shareholders' net income, premiums and deposits and funds under management as at and for the year ended December 31, 2006.

Division/Reporting Segment (as a percent of Company total)	**Shareholders' Net Income**	**Premiums and Deposits**	**Funds Under Management**
U.S. Insurance	16%	10%	15%
U.S. Wealth Management	28%	54%	47%
U.S. Division	44%	64%	62%
Canadian Division	25%	21%	19%
Asia and Japan Division	18%	13%	9%
Reinsurance Division	7%	2%	1%
Corporate and Other	6%	0%	9%

Division/Reporting Segment ($ millions)	**Shareholders' Net Income**	**Premiums and Deposits**	**Funds Under Management**
U.S. Insurance	$ 622	$ 6,713	$ 61,258
U.S. Wealth Management	1,136	35,267	196,672
U.S. Division	1,758	41,980	257,930
Canadian Division	981	13,537	77,398
Asia and Japan Division	734	8,361	38,026
Reinsurance Division	294	1,010	3,009
Corporate and Other	218	51	37,654
Total	$ 3,985	$ 64,939	$414,017

U.S. DIVISION

U.S. Division includes U.S. Insurance and U.S. Wealth Management reporting segments. U.S. Insurance, consisting of Life and Long Term Care businesses, offers life, wealth accumulation and health insurance solutions for individuals and families. U.S. Wealth Management, which consists of Retirement Plan Services, Variable Annuities and Mutual Funds businesses, provides clients with a wide selection of wealth management solutions for their personal, family and business needs. Fixed Products is also part of U.S. Wealth Management, offering fixed rate products to the retail and institutional market. The retail fixed annuity product line includes fixed deferred annuities, structured settlements, terminal funding of pension and deferred compensation plans and immediate fixed annuities products. Institutional product offerings include a variety of specialized products and services to U.S. based qualified defined benefit and defined contribution retirement plans, as well as other retail and institutional investors.

The above reporting structure reflects a re-organization that occurred effective January 1, 2006, whereby the U.S. Protection reporting segment was re-named U.S. Insurance, and its Individual Insurance business was re-named Life. In addition, the Guaranteed and Structured Financial Products ("G&SFP") and Wealth Management segments were combined and are now being reported as U.S. Wealth Management. Within the Wealth Management segment, the Fixed Annuity business was combined with G&SFP to form the Fixed Products business. One spread-based and relatively small block of business was moved from Retirement Plan Services to Fixed Products, and the investment arm of Mutual Funds, Sovereign Asset Management, LLC, was realigned with the MFC Global Investments business in the Corporate segment and re-named MFC Global Investment Management (U.S.), LLC ("MFC Global (U.S.)"). In addition, the Variable Annuity business now reports as a separate business within U.S. Wealth Management.

U.S. Division operates principally through four insurance subsidiaries: John Hancock Life Insurance Company (U.S.A.) ("John Hancock USA"), John Hancock Life Insurance Company of New York ("John Hancock New York"), John Hancock Life Insurance Company ("John Hancock Life"), and John Hancock Variable Life Insurance Company ("John Hancock Variable"). In addition, U.S. Division has a joint venture arrangement with Metropolitan Life through its Long Term Care Partners LLC ("LTC Partners") subsidiary. Small blocks of business are also maintained in two subsidiaries, Manulife Insurance Company ("MIC") and John Hancock Insurance Company of Vermont ("JHVT"). U.S. Division also operates through mutual fund subsidiaries, The Berkley Financial Group, LLC, John Hancock Funds LLC ("John Hancock Funds"), MFC Global (U.S.), John Hancock Advisers, LLC ("John Hancock Advisers") and John Hancock Signature Services, Inc. ("John Hancock Signature Services"), through two distribution-only subsidiaries, John Hancock Distributors LLC ("John Hancock Distributors") and Signator Investors, Inc. ("Signator Investors"), and through an investment advisor, John Hancock Investment Management Services, LLC ("JHIMS")

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

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

John Hancock Advisers is an investment advisor, principally for mutual fund operations. John Hancock Funds, a registered broker-dealer wholly owned by John Hancock Advisers, distributes retail mutual funds and privately managed accounts. John Hancock Signature Services is a mutual fund transfer agent. MFC Global (U.S.) is an investment advisor providing investment management services for a broad array of investment products including mutual funds, separately managed accounts strategies and institutional advisory accounts.

John Hancock Distributors, a registered broker-dealer wholly owned by John Hancock USA, is the distributor of 529 Plans. Signator Investors is a registered broker-dealer and a registered investment adviser that distributes proprietary and non-proprietary wealth management and insurance products.

JHIMS is the investment advisor for John Hancock Trust ("JHT"), John Hancock Funds II Trust ("JHF II") and John Hancock Funds III Trust ("JHF III"), which are investment trusts for each of the Common Investment Platform, Lifestyle/Lifecycle and GMO fund products respectively.

Investment Platforms

U.S. Division offers products that provide customers with fixed and variable rate investments. Fixed rate products, offered by Retirement Plan Services, Life and Fixed Products, provide customers with a guaranteed investment return backed by the claims paying rating of John Hancock Life. John Hancock USA, John Hancock New York and John Hancock Variable. Variable rate products enable clients to participate in equity market growth through both

segregated and mutual fund investment vehicles. The segregated account products primarily invest in the Common Investment Platform and the Mutual Fund products are offered through the Mutual Fund Platform. In addition, U.S. Division maintains certain segregated accounts offered by Fixed Products.

The Common Investment Platform

All variable annuity and variable life products and certain Retirement Plan Services products invest in the JHT and JHF II common investment platforms. JHT and JHF II are mutual fund complexes registered under the U.S. *Investment Company Act of 1940* ("Investment Company Act"). JHIMS is the adviser for these two complexes and JHIMS contracts with both affiliated and unaffiliated sub-advisers to manage the assets in JHT and JHF II.

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

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

For those customers who want a simplified approach to investing, the Division also provides a suite of five Lifestyle Portfolios in both JHT and JHF II, which are pre-packaged, diversified funds-of-funds. Each portfolio has been designed to match the needs and risk tolerance of a wide range of customers, from conservative to aggressive. Lifestyle funds are constructed using a multi-step process that draws on the expertise of several groups of asset allocation professionals.

In an effort to broaden distribution of the Lifestyles funds to retail customers other than variable insurance contract holders and certain qualified pension plans, the Company created JHF II in 2005. Effective in the fourth quarter of 2005, assets were reorganized from both JHT and from the retail platform described below into comparable funds of JHF II. The new retail Lifestyle platform in JHF II is distributed by both the Retirement Plan Services and Mutual Funds businesses. In 2006, John Hancock further leveraged the success of its Lifestyle funds in JHT and JHF II with the introduction of Lifecycle funds in JHF II. While the Lifestyle funds are target risk funds, the Lifecycle funds are target date funds. The Lifecycle funds are also distributed by both Retirement Plan Services and Mutual Funds.

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

The Mutual Fund Platform

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

In 2006, the Company entered into an agreement with Grantham, Mayo, Van Otterloo ("GMO"), a Boston-based institutional asset manager, to sub-advise 7 mutual funds in the newly created JHF III. These funds have been added to the Mutual Fund Platform and became available for sale in July 2006.

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

Other Investment Platforms

The 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.

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

Proprietary Retail Distribution Network

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

U.S. Insurance

U.S. Insurance provides life and long-term care insurance products and services to select markets. The Life business focuses on high net-worth and emerging affluent markets by providing estate, business planning and other solutions with an array of protection and accumulation oriented life insurance products. The Long Term Care business provides insurance to individuals and groups to cover the costs of long-term care services including nursing homes, assisted living care facilities, adult day care and at home care. U.S. Insurance uses a multi-channel distribution network, including JHFN. In 2006, Life and Long Term Care accounted for 85% and 15% respectively, of U.S. Insurance's total funds under management, and 76% and 24% respectively of its total premiums and deposits.

In 2007, U.S. Insurance will focus on enhancing its position as a leader in the life and long-term care insurance markets by leveraging strong distribution capabilities across multiple channels, striving for excellence in client service, and continuing to offer a diversified and innovative product portfolio that meets client needs.

Life

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

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

The business is known for expertise in underwriting mortality risk, particularly for the older age market. The underwriting area continually updates its risk assessment standards based on emerging trends and medical developments. The business has capacity to place large individual insurance policies due to large retention limits of U.S. $20 million for single lives and U.S. $25 million on survivorship cases.

Products are sold through a multi-channel distribution strategy that includes JHFN as well as third-party producers. The third-party channels include independent agents, brokerage general agents, producer groups, broker-dealers and banks. The business actively develops and maintains its relationships with these distributors by providing technical support, delivery of competitive products, and advance marketing and sales support. Over the years, the business has solidified its strong shelf-space position with key distributors and broadened its distribution channels by establishing new relationships with broker-dealers, producer groups and banks. In 2007, the Life business plans to continue focusing on strong relationships with existing distributors while further developing its field and account management capacity to reach additional producers and grow sales.

The Life business has a history of being able to rapidly develop and launch innovative life insurance products. It is well-positioned in the market with a streamlined product portfolio that offers a single competitive product in each market segment in which it competes. In 2007, the Life business will continue to assess client needs and ensure its products remain competitive. Product launches include a new non-participating whole life product that will be introduced in early 2007 as well as refreshed versions of several key Universal Life products.

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 manufactures and sells individual and group long-term care insurance products. Individual policies are available for sale to people between the ages of 18 and 84. Group products are designed for employees of small to large employers.

John Hancock was one of the first companies to offer long-term care insurance and has been in the market for more than 18 years. As of September 30, 2006, John Hancock was the number two provider of long-term care insurance in the U.S. market, measured by sales results and based on 2006 third quarter year-to-date data published by LIMRA.

The business has expertise in all aspects of long-term care operations from marketing and sales to claims processing. Many products meet tax-qualified regulatory requirements.

Long-term care products are sold within the United States through a multi-channel strategy that includes traditional independent agents, general agents, producer groups, broker-dealers and wirehouses. JHFN is a major distributor for the business. The business develops and maintains its relationships with its distributors by providing technical support, delivery of customized products, and marketing and sales support. Over the years, the business has broadened its distribution channels by establishing new relationships with broker-dealers and producer groups and through partnerships with other insurance companies.

In 2007, Long Term Care will focus on maintaining its reputation as a leader in the industry through the introduction of new individual and group products. One example of this is the new Retail Leading Edge product introduced in late 2006, offering unique features which are expected to appeal to a younger demographic and those seeking an easier to understand product. Continued focus on the group market is also expected with increased acceptance of the Corporate Choice small group long-term care product and further product introductions during 2007 aimed at the mid to small group market segment.

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 Variable Annuities business offers products primarily to middle and upper-income individuals. The Retirement Plan Services business provides 401(k) solutions to small and medium-sized businesses. The Mutual Funds business provides a variety of mutual funds, 529 Plans and privately managed accounts to individuals and institutional investors. The Fixed Product business provides fixed annuities primarily to middle and upper-income individuals as well as a variety of fee and spread-based products to institutional clients. At December 31, 2006, Variable Annuities, Retirement Plan Services, Mutual Funds and Fixed Products accounted for 28%, 27%. 20% and 25%, respectively, of U.S. Wealth Management's total funds under management. These businesses contributed approximately U.S.$9.1 billion, U.S.$11.5 billion U.S.$7.6 billion and U.S.$2.9 billion, respectively, to U.S. Wealth Management's total premiums and deposits.

Variable Annuities

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

Product offerings include the Venture, Venture III and Venture Vantage products. The Venture product offers traditional variable annuity features, such as a minimum death benefit guarantee, no front-end sales costs and a gradually declining surrender charge rate. In addition to these traditional features, the Venture III product offers a shortened surrender charge period for improved investor liquidity, while the Venture Vantage product offers a deposit-driven payment enhancement. These products offer several optional benefits, such as three versions of GMWB. The GMWB option provides for guaranteed returns through periodic withdrawals of amounts invested.

Variable Annuity products are principally sold through the wholesale operation, Wood Logan, and through JHFN. Distribution will be a major strategic focus in 2007 as variable annuities are wholesaled to independent broker-dealer firms and banks through Wood Logan. Maintaining a competitive product design, leveraging the John Hancock brand and further developing the bank channel are all anticipated to successfully grow the business in the coming year. Management recognizes the need to provide strong, customer-oriented service. An internal quality program, as well as external surveys, provide important benchmarking information relative to the industry and support this service culture. The strategy is to continue to develop the technical expertise and professionalism of staff, to continually review and update key processes and to improve systems capabilities. Annuities will continue to leverage web-based technology to enhance customers' access to information, promote the use of self-service and streamline complex administrative procedures.

Throughout 2006, Variable Annuities continued to develop its variable annuity portfolio with a clear focus on meeting the needs of customers, maintaining competitiveness within the market and managing the risk profile of the business. In 2006, the business reintroduced and enhanced its dollar cost averaging program and increased the payment enhancement on its bonus product. In October 2006, the business launched two new versions of the guaranteed withdrawal benefit rider, Principal Plus for Life Spousal and Principal Plus for Life Annual Step.

Retirement Plan Services

The 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 2006 third quarter LIMRA/Cerulli's pension survey results, Retirement Plan Services continues to be ranked as the top seller of 401(k) plan products in this market, as measured by new sales, new cases and new participants. In

addition to maintaining leadership in the micro and small plan segments (less than U.S.$3 million in assets), Retirement Plan Services is also focused on expanding its presence in the mid-sized pension segment (U.S. $3 million to U.S.$ 25 million in assets).

Retirement Plan Services' 401(k) group annuity product includes investment, communication and record-keeping services with plan administration provided through third party administrators ("TPAs"). Retirement Plan Services also provides investment services only products that include investments and communication without record keeping services, and a recently launched defined benefit product.

Management is committed to delivering quality investment alternatives, participant education and communications, and superior service that is responsive and flexible. Management's focus on technology and ongoing measurement of quality and satisfaction has resulted in very strong retention and high approval amongst our plan sponsor customers. In recognition of its commitment, Retirement Plan Services has received Best in Class rankings in many areas according to the 2006 Chatham Partners Plan Sponsor satisfaction benchmark survey, as well as various awards from such prominent organizations as Plan Sponsor Magazine and The League of American Communication Professionals.

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. John Hancock 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, Retirement Plan Services offers on-line marketing, educational and client/broker-dealer administrative support through its broker web site.

Mutual Funds

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

Management's strategy for growth in the 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, John Hancock Funds competes as a mid-sized asset management 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. Nearly 60% of assets are managed internally, with the remainder managed by six sub-advisors. Its product portfolio consists of an extensive selection of open-end equity and fixed-income funds, a suite of five Lifestyle funds, a number of closed-end funds and a wide range of separate account strategies.

The 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, 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 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.

Fixed Products

Fixed Products consists of retail fixed rate products and fee and spread-based products to institutional investors.

Retail Products

Similar to the variable annuities portfolio, the retail fixed annuity product line provides tax-deferred growth from which regular income payments may be received. However, unlike the variable annuity product line, the fixed annuity investor does not take on any investment risk as returns are guaranteed by Fixed Products. The fixed annuity line includes individual immediate annuities and deferred annuities. Immediate annuities do not have an accumulation

phase and begin the predetermined payment phase right after the product is purchased. Conversely, deferred annuities are an accumulation product that offers a fixed rate of return.

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

The Company's deferred annuity contract, Guaranteed Principal Annuity Plus ("GPA Plus") is a flexible premium contract and offers interest rate guarantee periods ranging from 1 to 6 years from the date of purchase. Each deposit creates a new guarantee period. The interest rate provided in the first year of the initial guarantee period may be supplemented by an interest rate bonus, which may increase as cumulative total deposits increase. Subsequent interest rate guarantees are renewed annually and are established at the Company's sole discretion, subject to lifetime minimum interest guarantees defined in each contract. GPA Plus offers the CARESolutions Plus rider, which is designed to protect the client from the high costs of assistance required should the contract owner become unable to perform certain activities of daily living. Each deferred annuity contract may be converted to an immediate annuity at any time, at the contract owner's option.

Fixed Products distributes its retail products through a variety of channels. Single Premium Annuities are sold through pension consultants who represent corporate retirement plan sponsors or through brokers who receive a commission for sale of the Company's products. Structured settlement annuities are offered through brokers specializing in dispute resolution. Deferred annuities are sold through JHFN and Wood Logan, similar to variable annuities.

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

Institutional Products

The Institutional Fixed Product line offers spread-based products and fee-based products in a variety of markets. The spread-based products are SignatureNotes, which are debt securities issued directly by John Hancock Life to retail investors via a broker-dealer network. These debt securities, available to investors in the United States in U.S.$1,000 increments, are offered weekly under a U.S.$3 billion shelf registration prospectus with varying terms and maturity dates, as permitted in the prospectus.

Fixed Products' institutional fee-based products generally pass the 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. Fixed Products typically employs affiliated investment advisors to manage these assets. Fixed Products 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 Fixed Products for customer relationship reasons.

Competition

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

Competitors in the U.S. life and long-term care insurance markets vary across product lines, but are primarily other large insurance companies that distribute through similar channels. Competitive advantage is based on the ability to develop flexible product features to meet individual customer needs, and to develop and service a variety of distribution channels. U.S. Insurance's competitive strengths include product innovation, underwriting expertise, access to multiple distribution channels, and high quality customer service. Its competitive position is also enhanced by its scale as a sales leader in both the life and long-term care insurance markets.

U.S. Wealth Management's competitive strengths include innovation, multiple distribution channels, high quality customer service and wholesaling excellence. The 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 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 Mutual Funds business includes mutual fund and insurance companies that compete based on fund performance and distribution capability. Fixed Products operates in a variety of institutional and retail markets. Retail-based products face strong competition from insurance companies and bank-issued certificates of deposit on aspects such as investment and interest rates, product offerings, customer service and financial strength. In the institutional market, although a large number of companies offer these products, the market is concentrated because it demands issuers of high financial quality and competition has become restricted to insurance companies with superior financial ratings. While current spread levels and adherence to pricing disciplines make sales in the institutional markets difficult, Fixed Products will continue to concentrate on the less price-sensitive retail markets. Fixed Products believes that it will be able to compete successfully in its chosen markets as a result of the brand name, investment management expertise, national distribution, flexible product design and competitive pricing.

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

CANADIAN DIVISION

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

Canadian Division is comprised of three main businesses: Individual Insurance, Individual Wealth Management and Group which in 2006 accounted for 16%, 30% and 54% respectively, of Canadian Division's premiums and deposits.

Individual Insurance

Individual Insurance offers a range of products including universal life insurance, term life insurance, whole life insurance and living benefits insurance. 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 Life Centre and Affinity Markets, which markets products directly to consumers through associations or affinity sponsorship.

Individual Life 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 based on new premiums on life insurance policies sold in Canada, according to data published by LIMRA. The primary method of distribution for individual life insurance products is through 5,800 independent advisors, 20,000 general agency brokers and more than 14,800 stockbrokers. The Company's producers are independent contractors, paid on commission, who sell both the Company's products and the products of other life insurance companies. A network of regional offices, which provides product, marketing and sales support, tax and estate planning expertise and financial planning tools, supports producers 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. The Company's living benefit products include Critical Illness, Long-Term Care and Disability products providing a complete suite of industry leading products 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 distributors.

Affinity Markets

The Company is a leading provider of life, living benefits and health insurance to affinity organizations in Canada. A range of products, including life, health, travel and disability insurance are directly marketed to members of professional, alumni and retiree associations, financial and retail institutions and direct to consumers. 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.

The Company currently insures more than 600,000 members of more than 100 sponsors and more than 87,000 members through the direct to consumer channel. Management's strategy for Affinity Markets is to protect its strong market position and provide growth and profitability by expertly servicing and cross selling to its block of long standing in-force clients, expanding its growing specialized products and distribution channels, testing new ideas, building on positive results and being opportunistic.

Individual Wealth Management

Individual Wealth Management ("IWM") includes all individual savings and retirement products business, including segregated funds and annuities, Manulife Bank of Canada ("Manulife Bank") products and services, Manulife Securities International Ltd. ("MSIL") and the retail mutual fund business of Elliott & Page Limited ("Elliott & Page").

Under the Manulife Investments brand, IWM offers annuities and mutual funds. Individual annuities include fixed-rate annuity products, which are supported by the Company's general fund assets, and variable annuity products, which provide investments in segregated funds. The Company's segregated fund offerings allow investors to customize their portfolios to fit their own 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 123 funds and the ability to hold a combination of fixed and segregated fund assets within the same contract. In 2006, the Company introduced the first GMWB segregated fund product, GIF Select/Income Plus, to the Canadian marketplace. This new product category is positioned to meet the growing needs of clients entering the payout phase of retirement who are looking for predictable, sustainable and potentially increasing retirement income. IWM also offers immediate annuities and RRIFs providing retirement income for individuals, including fixed-rate annuities. These products are designed to provide individuals with a regular income stream from the funds that they have deposited or that have been deposited on their behalf.

The target market for IWM products is middle and upper-income individuals. In 2006, the Company was the number one provider of individual fixed and variable annuities in Canada as measured by total assets, according to information from a survey of major insurance companies published by LIMRA. Individual annuity products are distributed through independent advisors, advisors in general agencies and licensed representatives in stock brokerage firms. The Company had relationships with 5,800 independent advisors, 20,000 general agency brokers and more than 14,800 stockbrokers with investment dealer firms as at December 31, 2006.

Manulife Bank is Canada's eighth largest domestic bank, based on assets, with over $8 billion in assets, and is the leader in banking solutions offered exclusively through financial advisors. Manulife Bank's product offerings include savings and chequing accounts, GIC's, 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, allowing them to pay down their debts sooner.

Elliott & Page manages a family of 51 mutual funds, with assets under management of $8.7 billion as at December 31, 2006. Elliott & Page is the fifteenth largest mutual fund company in Canada as ranked by the Investment Funds Institute of Canada as at December 31, 2006.

MSIL distributes mutual funds for both the Company and third party mutual fund companies through approximately 900 licensed independent mutual fund representatives. The products distributed by MSIL complement the other investment products within the IWM portfolio.

Group Businesses

The Group Businesses are comprised o Group Benefits and Group Savings and Retirement Solutions ("GSRS"), which 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 benefits programs that include features such as absence management services, short and long-term disability protection, dental coverage, supplementary health and hospital coverage, drug plan coverage and accidental death and dismemberment protection. Group Benefits is the second largest provider of group benefits in Canada, based on data published in the 2005 Fraser Group Universe Report. In 2006, premiums and deposits generated by Group Benefits exceeded $5.5 billion.

Marketing, product and distribution is focused on four market segments, including: large (Corporate), medium-sized (Signature), and small (Alpha) businesses, as determined by the number of employees, as well as Trusteed business which was added in 2004. Group Benefits products are distributed through a number of distribution channels, including a national network of regional officers that serve major centres across Canada and provide local service to clients. Effective client relationship management is key to building customer satisfaction and loyalty. The distribution model for Group Benefits is aligned with this objective with roles dedicated to new business and account management. Account executives work with a network of consultants, brokers and advisors contracted by clients 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. In 2006, Group Benefits continued to implement a strategy to further grow its market share of small group business through Managing General Agents and launched a pilot initiative to increase market penetration in Atlantic 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 their objective of providing their employees with health protection. This is achieved by providing flexible, customized solutions that address employer concerns while improving the health and productivity of employees. For example, the Company's Absence and Disability services offer plan sponsors an integrated approach to managing the costs associated with disability while providing employees with the support they need to be able to return to work as soon as possible. In 2006, this product was expanded to short term disability, offering "claims adjudication services only" and claims management skills to plan sponsors who process regular benefit payments themselves. As well, the Integrated Absence Management product, currently used by a number of very large clients, has been made available to smaller clients through a new standard service model and on an ad hoc basis for specific claims.

In 2006, Group Benefits also launched ClearSource, a new benefits solution for the increasing number of Canadian plan sponsors who have a small number of employees in the United States.

Group Savings and Retirement Solutions

Products provided by GSRS include defined contribution pension plans, group RRSPs, deferred profit-sharing plans, employee share ownership plans, non-registered group savings plans and a group retirement income plan. GSRS offers a comprehensive suite of services for defined contribution plans including a series of product options, a range of investment choices and plan member administration services and supports an investment management only service for group clients that features a multi-manager approach to meeting the clients' investment objectives.

GSRS provides group retirement plans to more than 4,400 employers across Canada. GSRS targets all key market segments in Canada offering solutions to small, medium, large and jumbo-sized employers. The business unit's products are distributed across Canada by a team of salaried pension account executives working through external employee benefit consulting firms, brokers, independent producers and certain strategic alliance partners.

Competition

The Company's Canadian markets are mature and extremely competitive with a large number of providers. 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. Key competitors for wealth management products and services include other Canadian insurance companies, as well as mutual fund companies and banks. In the Group Benefits market, 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. Individual Insurance's primary competitors include Canadian insurance companies and branches of non-Canadian insurance companies, with growing competition from banks.

In this competitive environment, management believes Canadian Division will sustain its leadership in the marketplace over the long term by focusing on its strengths of product innovation, service excellence and multi-channel distribution expansion to meet the needs of its customers.

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.

Each Asian territory is managed as a discrete business operation, where local general managers have accountability for all aspects of the operations. The Company operates through wholly owned subsidiaries, majority-owned subsidiaries and branches of subsidiaries in Hong Kong, the Philippines, Singapore, Indonesia, Taiwan, Macau, Japan, Vietnam and Thailand. In China, the Company operates through a joint venture. In Malaysia, the Company operates through a publicly traded corporation in which the Company is the largest shareholder.

A regional office in Hong Kong provides specialist functional support to each territory in the areas of financial management, human resources, information technology, regional business development and agency development. An exclusive agency force, consisting of approximately 25,000 agents, is a key part of the region's strategy and a regional leadership structure is used to develop a consistent approach to expand the distribution force.

Hong Kong

In Hong Kong, the Division markets individual life and health insurance, group life and health insurance, and group pension products, as well as Company-sponsored mutual funds. The sale of individual life insurance products is the primary contributor to net income.

Individual Operations

Hong Kong's Individual Insurance line provides a full range of life insurance products denominated in both Hong Kong and U.S. dollars, including whole life insurance, universal variable life insurance, term life insurance and endowment insurance. The Individual Insurance business sells individual health insurance. Products have been sold primarily in the middle and upper-income markets, with the goal of broadening this target segment to improve the market share in the high income group by offering products with greater benefit features. Based on new annualized premiums during 2006, the Company was the seventh largest provider of individual life and health insurance products in Hong Kong as at September 30, 2006, 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, 2006, the Company had over 3,500 active agents in Hong Kong. In this market, management believes that an exclusive agency force should remain the primary distribution channel for the Company to serve its target markets. In response to increasing competition, management intends to continue to expand its distribution through other distribution channels such as brokers and bank retail outlets, and in 2005 entered a distribution relationship with Citi Ka Wah Bank to sell its life insurance products.

During 2006, the Company continued development of a customer service management system that supports centralized services to customers and enhanced call centre capabilities. This system was designed to replace the existing administrative system in order to enhance the delivery of products and services to clients. Conversion was completed during the year.

Group Operations

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

Hong Kong's Group Pension business launched the Mandatory Provident Fund ("MPF") business line in 2000 and the Company continued to expand its MPF customer base during 2006 by leveraging its large exclusive agency force and reputable service standards. Based on assets under management, the Company was the second largest MPF service provider in the market in 2006. Enhancements to systems and procedures continued in 2006 to provide better services to customers, including new capabilities on web sites to enable customers to effectively manage their MPF activities through the Internet.

Wealth Management Operations

The Company, operating through Manulife Asset Management (Hong Kong) Limited ("MAM"), markets a range of mutual funds to individuals through direct solicitation and the exclusive agency force, and to institutional clients through direct solicitation. As at December 31, 2006, MAM had $1,200 million of mutual funds under management. Management believes that MAM is well positioned to capitalize on the anticipated growth in the developing retail

mutual fund market in Hong Kong, as the market becomes more sophisticated in its need for wealth management products.

Japan

The market for traditional death protection products is expected to continue to shrink in Japan due to the aging of the Japanese population. In 2003, Manulife Japan closed its traditional product line to new business in keeping with its strategic focus on universal life insurance and variable annuity products. In September 2006, the Company expanded its product offering to include a new and strategically important corporate life insurance product called Prosperity Increasing Term Life Insurance. The product was developed to meet a broad range of corporate needs from financial protection to the securing of business funds.

Manulife Japan is one of a few companies to introduce universal life insurance products in Japan. Over the last 25 years, these products have become an important feature of all other advanced life insurance markets around the world. ManuMed, a medical product offered on the Universal Life product platform, contributed about one-third of Manulife Japan's regular insurance sales in both 2006 and 2005.

Effective April 1, 2004, Manulife Japan significantly enhanced its position in the variable annuity market with the establishment of a strategic alliance with Mitsubishi Tokyo Financial Group ("MTFG"), one of Japan's top four banks. In October 2005, MTFG merged with UFJ Holdings, Inc., the parent company of UFJ Bank and formed MUFG, thereby expanding the distribution network further. In 2006, Manulife Japan entered into selling agreements with eight banks and securities firms, including Nomura Securities (the largest securities firm in Japan), Resona Bank and Saitama Resona Bank. For both Nomura Securities and Resona Bank the Company launched new GMWB-type products. In July 2006 Manulife Japan suspended sales of certain of its variable annuity products (Two Surprise, ManuNext and Mattanashi) in response to the need to clarify the tax treatment of these products. As a consequence, the Company experienced a significant decline in variable annuity products sales in the second half of 2006. In November 2006 the Company launched an innovative new GMWB variable annuity product for MUFG, Nikko Cordial and other existing distributors. This new product has highly advanced features that fulfill a variety of customers' needs and management expects that this launch will restore sales levels to those previously enjoyed. Manulife Japan has plans to continue its expansion of distribution partners in 2007 with a focus on the sale of the Company's new GMWB product.

Funds under management increased by $1.6 billion to $14.9 billion as at December 31, 2006, from $13.3 billion as at December 31, 2005. Positive net policyholder cash flows from sales of variable annuity and universal life insurance products were partially offset by maturities and lapses on the block of policies acquired from Daihyaku and the depreciation of the Japanese yen.

In 2006, Manulife Japan undertook various initiatives to increase the number of PlanRight Advisors ("PAs") and to increase their productivity. Specifically, the Company changed the recruiting system and tightened selection to pursue high quality recruitment aimed at improving new PA retention rates. It also upgraded the training system, developed a simple tool for need-based sales, and explored the Small Medium Enterprise ("SME") market in a bid to increase PA productivity. In addition, to strengthen management in Sales Offices, Manulife Japan introduced a new leadership training program for sales managers and introduced a new compensation system in which the variable portion was enlarged, reflecting the idea of pay for performance. As of December 31, 2006, MLJ had over 3,600 PAs in 120 sales offices across Japan.

Other Markets

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

Singapore, Indonesia and Malaysia currently represent the Division's largest businesses outside of Hong Kong and Japan in terms of funds under management, and together contributed approximately 15% of the Division's premiums and deposits in 2006. In Singapore, strong growth has continued across the business, mainly driven by increases in regular premium sales and single premium sales through both the agency distribution and bancassurance channels. As at December 31, 2006, total assets under management increased 30% year over year. Sales in Indonesia were below prior year levels, mainly caused by lower mutual fund sales as investor confidence was yet to fully recover from the mid-2005 instability in the mutual fund industry, which was driven by a sharp rise in interest rates. In Malaysia, sales were below last year levels whereas total premiums and deposits continued to grow as a result of strong premium sales as well as effective efforts to retain policies.

In China, Manulife-Sinochem Life Insurance Co. Ltd. (“MSL”) markets personal accident insurance, whole life insurance, term and endowment insurance and annuities in Shanghai, Guangzhou, Beijing, and in thirteen additional cities, as MSL opened one branch and six sales offices in 2006. With a growing economy and a low penetration rate for insurance products, management believes that the Chinese market offers significant long-term potential. In addition, the Company received approval to open new sales offices in Changzhou and a branch in Shandong, with business operations expected to commence in 2007. In Taiwan, business growth in 2006 was driven by an increase in the number of active agents and an increase in single premium sales in the universal variable product. In the Philippines, premiums and deposits continue to grow and assets under management grew by 34% from a year ago. Funds under management increased by 43% in Vietnam, driven by product initiatives, a commitment to service and a focus on continuous improvement of the agency force. Regular premium sales in Thailand continue to show strong growth as a result of the continued focus on quality, professionalism and a full time approach to the agency career.

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

Competition

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

The Japanese life insurance market is extremely competitive. The household penetration rate of life insurance is approximately 90% and, as a result, a large percentage of new life insurance sales are replacements of existing policies. The market for traditional insurance products is shrinking and is dominated by four large, domestic companies. These companies captured approximately 50% of the total market as measured by premium revenue in the first half of Manulife Japan’s 2006 fiscal year. Manulife Japan’s local fiscal year runs from April 1 to March 31.

Some foreign insurers are capturing market share by focusing on market segments exhibiting good growth while smaller domestic companies continue to suffer from negative interest rate spreads and decline of in-force policies. The Japanese market for sickness and medical insurance and variable annuity products continues to grow and competition among foreign and domestic insurers in these product segments is intensifying, pointing to the importance of offering these products in capturing market share.

One of the fastest growing segments of the life insurance market in Japan is the sale of variable annuities, particularly through bank branches. Partly as a result of strong variable sales through MUFG since April 2004, Manulife Japan placed sixth amongst its competitors with a 7% in-force market share for the first half of the 2006 Japanese fiscal year, an increase from the 6.5% share in the first half of the 2005 Japanese fiscal year. New business market share for the 2005 Japanese fiscal year was 9.1%. The top three companies currently control over 51% of the in-force market in the first half of the 2006 Japanese fiscal year and 54% of new business in the 2005 Japanese fiscal year. Foreign multi-national insurance companies dominate this market, holding 52.1% of variable annuity assets under management in the first half of the 2006 Japanese fiscal year.

In April 2004, the Japanese Financial Services Agency (“FSA”) announced that by the end of 2007 banks will be able to sell a full range of insurance products including whole life, medical and automobile insurance. Deregulation has accelerated during the last two years with the latest deregulation of single premium endowment and single premium whole life products in December 2005.

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

REINSURANCE DIVISION

Established in 1984, Reinsurance Division has grown to be one of North America's leading providers of risk management solutions, specializing in retrocession. Reinsurance Division's innovative products generate customer interest worldwide, with business written in North America, Europe and Asia. Through offices in Canada, the United States, Germany, Belgium, Singapore, Japan and Barbados, Reinsurance Division provides customer-focused solutions in the following business lines:

- Life — offering retrocession of traditional life mortality risk and specialized coverages such as structured/non-traditional solutions;
- Property and Casualty — offering retrocession of traditional property, catastrophe and aviation risks as well as specialized non-traditional solutions for Property and Casualty reinsurers; and
- International Group Program ("IGP") — offering reinsured group life, health and pension products and services through an international network of direct insurers to multinational clients for their local, national and globally mobile employees.

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

Life

The majority of Reinsurance Division's Life reinsurance business is the retrocession of traditional life insurance mortality risk. The Life reinsurance business line also provides structured reinsurance solutions assisting client life insurance and reinsurance companies with capital and surplus management.

This business line markets directly to leading life reinsurance companies, primarily in North America and Europe, leveraging long standing relationships with many of these companies. Management's strategy continues to focus on maintaining Reinsurance Division's leadership position in the life retrocession market by continually strengthening key client relationships and selectively pursuing new opportunities possessing appropriate risk and return profiles. As part of this strategy, Reinsurance Division leverages long-standing client relationships, the ability to offer large per life capacity and the Company's capital strength. These attributes continue to be a significant competitive advantage for the Life reinsurance business line. Further, these attributes moderate the effects of a shrinking life reinsurance market resulting from ongoing industry consolidation, increased retention by direct writers and pricing pressures.

Property and Casualty

The Property and Casualty reinsurance business line has established itself as a leader in providing traditional retrocession coverages to a select clientele in the property and aviation reinsurance markets. This line of business also selectively writes non traditional retrocession solutions. Reinsurance Division remains a niche competitor in a property and casualty reinsurance market dominated by a small number of large reinsurers.

This line of business continues to market directly to reinsurance companies and through select reinsurance brokers. The 2005 storm losses led to a capacity shortage in the traditional property catastrophe market, while increasing market prices and improving risk-adjusted returns for this line of business. This trend is expected to continue throughout 2007 and the Reinsurance Division intends to continue to write traditional property catastrophe coverages at 2006 levels.

International Group Program

IGP is the reinsurance of employee group insurance and pension coverages provided to multinational corporations by a global network of participating direct insurance companies. IGP assists multinational corporations in managing employee benefits costs through a reinsurance pooling of the corporation's worldwide employee benefits experience and related economies of scale. IGP is marketed to multinational corporations and their affiliates through representatives from the participating direct insurers, with support from IGP staff. Management's strategy is to maintain IGP's position in the North American market, and continue to grow market share in Europe and Asia. Although competition from leading providers is expected to increase, IGP expects to maintain its leading position through continued leadership in North America while growing in Europe and Asia.

Accident

Reinsurance Division actively manages the Company's run off Accident reinsurance business (including that written previously by John Hancock Life), focusing on the accurate quantification of exposures, monitoring and liability management.

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, though approximately four smaller networks also operate on an international or regional basis.

INVESTMENT DIVISION

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

General Fund Assets

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

Consolidated General Fund Invested Assets

	December 31, 2006		December 31, 2005	
($ millions)	Carrying Value	% of Total	Carrying Value	% of Total
Bonds	103,159	60	103,315	62
Mortgages				
Commercial (1)	21,808	13	22,279	13
Residential	3,549	2	2,553	2
Agricultural	2,774	2	3,176	2
Stocks	11,272	7	8,715	5
Real estate	5,905	3	5,279	3
Policy loans	6,413	4	6,120	4
Cash and short-term investments	10,745	6	8,723	5
Bank loans	2,009	1	1,806	1
Other investments	3,530	2	4,448	3
Total invested assets (2)	171,164	100.0	166,414	100.0

(1) Including multi-unit residential.

(2) For additional information on invested assets, see note 6(a) to MFC's Audited Annual Financial Statements for the year ended December 31, 2006 filed on SEDAR.

The consolidated general fund invested assets were denominated 64% in U.S. dollars, 28% in Canadian dollars, 4% in Japanese yen and 4% in other currencies as at December 31, 2006. The Company has various policies and procedures, each subject to periodic review and approval by the Board of Directors, designed to measure and control risk in the management of the Company's general fund assets. These include policies and procedures relating to asset liability mismatch, market, liquidity, currency, credit and derivatives. These policies and procedures are also designed to ensure compliance with the various Canadian and U.S. regulatory requirements to which the Company is subject.

Bonds

As at December 31, 2006, the bond portfolio was $103.2 billion, representing 60% of the carrying value of consolidated general fund invested assets, with 71% of the bond portfolio rated "A" or higher and 96% rated "BBB" (investment grade) or higher. Investment grade bonds include the securities of more than 3,000 different issuers, with no corporate issuer representing more than 0.5% of such bonds. Below investment grade bonds include the securities of more than 200 different issuers, with no issuer representing more than 5.6% of such bonds. Net impaired bonds had a carrying value of $168 million. The following table summarizes the Company's bond portfolio credit quality.

Bond Portfolio Credit Quality

($ millions) NAIC Designation[1]	Rating Agency Designation[2]	December 31, 2006 Carrying Value	December 31, 2006 % of Total	December 31, 2005 Carrying Value	December 31, 2005 % of Total
1	AAA	22,656	22.0	24,143	23.4
1	AA	20,586	20.0	17,599	17.0
1	A	29,350	28.4	28,588	27.7
2	BBB	26,095	25.3	27,199	26.3
3 & below	BB & lower and unrated	4,472	4.3	5,786	5.6
Total		103,159	100.0	103,315	100.0

(1) NAIC designations are assigned no less frequently than annually.

(2) Sources: Dominion Bond Rating Service Ltd.; Standard & Poor's Ratings Services; Moody's Investors Service, Inc.; Fitch IBCA; Thomson Financial Bankwatch, Inc.; Rating & Investment Information, Inc.; Japan Credit Rating Agency, Ltd. and internal ratings. Rating designation includes all gradations within the relevant category.

Of the bond portfolio, 26% was invested in government-related securities as at December 31, 2006. The remainder was primarily composed of corporate bonds. As at December 31, 2006, the bond portfolio was 70% denominated in U.S. dollars, 21% in Canadian dollars, 4% in Japanese yen and 5% in other currencies.

Based on a conventional definition of private placements, consisting of issues that are illiquid and for which a market price is not readily available, the Company held $33.5 billion of bonds acquired through private placements and commercial loans as at December 31, 2006, constituting 32.5% of the Company's total bond portfolio. Of these, 51% were rated "A" or higher and 94% were rated "BBB" or higher. Applying a broader definition used by Canadian regulators, which includes U.S. 144A securities with registration rights, private placements and commercial loan bonds would be $37.3 billion, or 36.1% of the Company's total bond portfolio. The Company invests in private placement bonds 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 bonds 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 portfolio.

Bond Portfolio Scheduled Maturities

($ millions)	December 31, 2006 Carrying Value	December 31, 2006 Fair Value	December 31, 2005 Carrying Value	December 31, 2005 Fair Value
Due in one year or less	4,073	4,086	4,107	4,127
Due after one year through five years	23,052	23,001	21,093	21,086
Due after five years through ten years	24,547	24,652	27,515	27,609
Due after ten years	39,510	41,942	38,248	41,366
Mortgage-backed securities	11,977	11,903	12,352	12,242
Total	103,159	105,584	103,315	106,430

Mortgages

As at December 31, 2006, mortgage investments represented 17% of general fund invested assets. The mortgage portfolio is diversified by location, property type and mortgagor. First mortgages represented 98% of total mortgages. All mortgages are secured by real properties with 47% located in Canada and 53% located in the United States. Commercial mortgages constituted 78% 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, 2006 Carrying Value	December 31, 2006 % of Total	December 31, 2005 Carrying Value	December 31, 2005 % of Total
Consolidated Company				
Multi-unit residential (1)	4,471	16	4,315	15
Retail	6,688	24	6,888	25
Office	4,788	17	5,217	19
Industrial	3,574	13	3,678	13
Other Commercial	2,287	8	2,181	8
Other Residential	3,549	12	2,553	9
Agricultural	2,774	10	3,176	11
Total	28,131	100	28,008	100
Canada				
Multi-unit residential (1)	2,427	9	2,148	7
Retail	2,634	10	2,748	10
Office	1,712	6	1,787	6
Industrial	1,786	6	1,861	7
Other Commercial	1,104	4	999	4
Other Residential	3,547	12	2,546	9
Agricultural	0	0	0	0
Total	13,210	47	12,089	43
United States				
Multi-unit residential (1)	2,044	7	2,167	8
Retail	4,054	14	4,140	15
Office	3,066	11	3,420	13
Industrial	1,788	7	1,817	6
Other Commercial	1,176	4	1,175	4
Other Residential	0	0	0	0
Agricultural	2,774	10	3,176	11
Total	14,902	53	15,895	57
Other Countries				
Office	10	0	10	0
Other Commercial	7	0	7	0
Other Residential	2	0	7	0
Total	19	0	24	0

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

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

Mortgage Portfolio — Regional Distribution

($ millions)	December 31, 2006 Carrying Value	December 31, 2006 % of Total	December 31, 2005 Carrying Value	December 31, 2005 % of Total
Canada				
Ontario	6,662	24	6,309	22
Western Canada	4,614	16	4,111	15
Quebec	1,087	4	932	3
Other Canada	847	3	737	3
	13,310	47	12,089	43
United States				
Pacific	3,847	14	3,879	14
Mid-Atlantic	2,082	7	2,186	8
New England	1,187	4	1,295	5
Central Northeast	1,642	6	1,764	6
South Atlantic	2,767	10	3,045	11
Other	3,377	12	3,726	13
	14,902	53	15,895	57
Other Countries	19	0	24	0
Total	28,131	100	28,008	100

Mortgages are originated through a network of 16 branches across Canada and the United States. In 2006, the Company originated approximately one-half 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 17% of the total mortgage portfolio as at December 31, 2006. The Company also had privately insured mortgages representing 1.3% of the total mortgage portfolio as at December 31, 2006. 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, 2006, 0.05% of the Company's Canadian mortgage portfolio and 0.07% of the U.S. mortgage portfolio were considered delinquent.

Stocks

As at December 31, 2006, stocks represented 7% of the consolidated general fund invested assets. The Company's stock portfolio is diversified by industry sector and issuer, and is 92% comprised of publicly listed common shares. The stock portfolio was invested 33% in Canadian issuers, 40% in U.S. issuers, 20% in Asian issuers and 7% in other issuers. The largest single issuer in the stock portfolio represented 2% of the portfolio.

Real Estate

Real estate represented 3% of the consolidated general fund invested assets as at December 31, 2006. As at December 31, 2006, the real estate carrying value was $5.9 billion, with 62% located in the United States, 31% in Canada and 7% in Japan and other Asian countries.

The Company's real estate investment activities focus on major urban centres. Commercial office properties are the largest component, representing 71% of the portfolio as at December 31, 2006, with the remainder split among timber, agricultural, residential, retail, industrial and other property types. The overall occupancy rate for all commercial real estate investments as at December 31, 2006 was over 95%.

The real estate portfolio, as at December 31, 2006, had a market value surplus of $1,307 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 2006, approximately 75% 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, 2006. Most individual life insurance policies, excluding term insurance, provide the policyholder with the right to obtain a policy loan from the Company. Such loans are made in accordance with the terms of the respective policies and are carried at the outstanding balance.

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

Other Investments

Other investments include $2.7 billion of unconsolidated joint ventures, partnerships, funds, limited liability corporations, leases, subordinated debt of life insurance companies and $545 million of oil and gas producing properties. Also included are various types of derivative instruments. Oil and gas assets are located in Alberta, Saskatchewan and Ontario, Canada.

Impaired Assets

As at December 31, 2006, impaired assets net of allowances were $341 million, representing 0.2% of consolidated general fund invested assets. Allowances for losses on bonds and mortgages 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. Stocks are written down to market value if an impairment in the value of the entire stock portfolio, determined net of deferred realized gains and losses, 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 is charged to income. Once established, an allowance is only reversed if the conditions that caused the impairment no longer exist. The Company had established allowances for impairment of $186 million as at December 31, 2006.

Third Party Assets

Separate from the General Fund, MFC Global manages a significant book of assets on behalf of clients of the Company's operating divisions and institutional clients. Third party assets under management increased to $93.9 billion, up three per cent from $91.1 billion in 2005. The disposition of an investment subsidiary, as part of the completion of the John Hancock integration, reduced assets managed on behalf of institutional clients by $8.5 billion. Excluding this disposition, third party assets increased 14 per cent due to strong investment returns, positive net cash flows from the segregated and mutual funds businesses as well as newly acquired institutional mandates.

As at December 31			Change	
($ in millions)	**2006**	2005	$	%
Managed on behalf of				
Operating Division clients	**$66,602**	$62,896	$3,706	6
Institutional clients	**27,252**	28,166	(914)	(3)
Total third party assets	**$93,854**	$91,062	$2,792	3

RISK FACTORS

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

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

Manulife Financial has established an enterprise level strategy that guides its risk taking and risk management activities globally. The Company's enterprise risk management strategy sets out comprehensive policies and rigorous standards of practice related to risk governance, risk identification and monitoring, risk measurement, and risk control and mitigation.

Further explanation of Manulife Financial's risk management approach and the risks relating to Manulife Financial and its business, and the accounting and actuarial assumptions and estimates used by Manulife Financial in the preparation of its financial statements, can be found in the sections under "Risk Management" and "Critical Accounting and Actuarial Policies" in MFC's Management's Discussion and Analysis for the year ended December 31, 2006, which sections are incorporated herein by reference.

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. Strategic risk, credit risk, market, asset liability and liquidity risk, insurance risk and operational risk are the major categories of risk described in the sections of MFC's Management's Discussion and Analysis referred to above. Management has identified the following as risk factors that could cause actual performance and results to differ materially from expectations: level of competition and consolidation, changes in laws and regulations, general business and economic conditions, currency rates and Company liquidity, accuracy of information received from counterparties and the ability of counterparties to meet their obligations, accuracy of accounting policies and actuarial methods used by the Company, ability to maintain the Company's reputation, legal and regulatory proceedings, the disruption of or changes to key elements of the Company's or to public infrastructure systems, the ability to attract and retain key executives, environmental concerns, the ability to complete acquisitions and execute strategic plans, and the ability to adapt products and services to the changing market. These risk factors should be considered in

conjunction with the other information in this Annual Information Form and the documents incorporated by reference herein. The Company cautions that the preceding discussion of risks is not exhaustive.

GOVERNMENT REGULATION

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

CANADA

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

The ICA requires the filing of annual and other reports on the financial condition of the Company, provides for periodic examinations of the Company's affairs, imposes restrictions on transactions with related parties, and sets forth requirements governing reserves for actuarial liabilities and the safekeeping of assets and other matters. OSFI supervises Manulife Financial on a consolidated basis (including capital adequacy) to ensure that OSFI has an overview of the group's activities. This includes the ability to review both insurance and non-insurance activities conducted by subsidiaries of Manulife Financial with supervisory power to bring about corrective action. The most recently completed periodic examination of Manulife Financial, conducted in February 2007, did not raise any issues which were found to be material.

Investment Powers

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

Capital Requirements

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

Restrictions on Shareholder Dividends and Capital Transactions

The ICA prohibits the declaration or payment of any dividend on shares of an insurance company if there are reasonable grounds for believing a company is, or the payment of the dividend would cause the company to be, in contravention of any regulation made under the ICA respecting the maintenance of adequate capital and adequate and appropriate forms of liquidity, or any direction made to the company by the Superintendent. Dividends exceeding retained net income for the two preceding financial years plus net income for the year to the day of declaration of the dividend require approval of the Superintendent. The ICA also requires an insurance company to notify the Superintendent of the declaration of a dividend at least 10 days prior to the date fixed for its payment. 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 also 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 is registered as an investment counsel and portfolio manager across Canada and is subject to regulation by the provincial and territorial securities regulators. MSIL is registered under provincial and territorial securities laws to sell mutual funds across Canada and is subject to regulation by the provincial and territorial securities regulators as well as the Mutual Fund Dealers Association of Canada, a self-regulatory organization.

Assuris

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.

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 registered 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 agencies 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. The ACLI has established the Insurance Marketplace Standards Association ("IMSA"), a self-regulatory organization, to implement its Principles and Code of Ethical Life Insurance Market Conduct, which includes a third party assessment procedure. John Hancock USA was originally admitted to membership in IMSA in April 1998. Its most recent re-certification was effective on November 28, 2004. John Hancock Life was initially certified by IMSA on March 31, 1998. Its most recent re-certification was effective on March 31, 2005.

Investment Powers

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

Minimum Statutory Surplus and Capital

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

NAIC IRIS Ratios

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

Risk-Based Capital Requirements

In order to enhance the regulation of insurer solvency, state regulators have adopted the NAIC model law implementing RBC requirements for life insurance companies. The requirements are designed to monitor capital adequacy and to raise the level of protection that statutory surplus provides for policyholders. The model law measures four major areas of risk facing life insurers: (i) the risk of loss from asset defaults and asset fluctuation; (ii) the risk of loss from adverse mortality and morbidity experience; (iii) the risk of loss from mismatching of asset and liability cash flows due to changing interest rates; and (iv) general business risk. Insurers having less statutory surplus than required by the RBC model formula are subject to varying degrees of regulatory action depending on the level of capital inadequacy. Based on the formula adopted by the NAIC, each of the Company's U.S. insurance company subsidiaries exceeded the RBC capital requirements as at December 31, 2006.

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 would exceed a specified amount. In Michigan approval is required for a dividend that would exceed John Hancock USA's earned surplus and in Massachusetts approval is required for a dividend that would exceed John Hancock Life's statutory unassigned funds. Regulatory approval is also required in Michigan if the distribution (together with other distributions during the previous 12 months) exceeds the greater of John Hancock USA's statutory net operating income for the previous year or 10% of its surplus determined at the end of the previous year. The determination must be made in accordance with statutory accounting principles. In Massachusetts, approval is required if the distribution (together with other distributions during the previous 12 months) exceeds the greater of John Hancock Life's statutory net gain from operations for the previous year or 10% of its surplus determined at the end of the previous year. In both states, approval is deemed to have occurred if notice is filed and it has not been disapproved during the 30-day notice period.

Securities Law

Certain of the Company's subsidiaries and certain investment funds, policies and contracts offered by them are subject to regulation under federal securities laws administered by the Securities Exchange Commission ("SEC") and under certain state securities laws. Certain segregated funds of the Company's insurance subsidiaries are registered as investment companies under the Investment Company Act, 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 National Association of Securities Dealers, Inc.

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

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, 2006, MFC had approximately 1.547 billion Common Shares, 14 million Class A Shares Series 1, 14 million Class A Shares Series 2 and 12 million Class A Shares Series 3 issued and outstanding.

Certain Provisions Of The Class A Shares As A Class

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

Priority

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

Certain Provisions Of The Class B Shares As A Class

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

Priority

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

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

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

Directors' Right to Issue in One or More Series

Both the Class A Shares and the Class B Shares may be issued at any time and from time to time in one or more series. Before any shares of a series are issued, the Board of Directors of MFC shall fix the number of shares that will form such series, if any, and shall, subject to any limitations set out in the by-laws of MFC or in the ICA, determine the designation, rights, privileges, restrictions and conditions to be attached to the Class A Shares or the Class B Shares, as the case may be, of such series, the whole subject to the filing with the Superintendent of the particulars of such series, including the rights, privileges, restrictions and conditions determined by the Board of Directors of MFC. A summary of the terms of the Class A Shares Series 1, Class A Shares Series 2 and Class A Shares Series 3 can be found at Notes 12 and 14 of MFC's Audited Annual Financial Statements for the year ended December 31, 2006 filed 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.

The Company has paid the following cash dividends between January 1, 2004 and December 31, 2006:

I. On the Common Shares, (i) a dividend of $0.21 per share was paid on March 19, 2004 and June 21, 2004, (ii) a dividend of $0.26 per share was paid on September 20, 2004, December 17, 2004 and March 21, 2005, (iii) a dividend of $0.30 per share was paid on June 20, 2005, September 19, 2005 and December 19, 2005, (iv) a dividend of $0.35 per share was paid on March 20, 2006 and June 19, 2006, (v) a dividend of one Common Share per each issued and outstanding Common Share was paid on June 2, 2006, (vi) a dividend of $0.175 per share was paid on September 19, 2006, and (vii) a dividend of $0.20 per share was paid on December 19, 2006;

II. On the Class A Shares, Series 1, a dividend of $0.25625 per share was paid on the 19 th day, or the first business day thereafter, of March, June, September and December in each year starting on September 19, 2003;

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

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

CONSTRAINTS ON OWNERSHIP OF SHARES

The ICA contains restrictions on the purchase or other acquisition, issue, transfer and voting of the shares of MFC. Pursuant to these restrictions, no person is permitted to acquire any shares of MFC without the approval of the Minister of Finance if the acquisition would cause the person to have a “significant interest” in any class of shares of MFC. The restrictions also prohibit any person from becoming a “major shareholder” of MFC. In addition, MFC is not permitted to record any transfer or issue of shares of MFC if the transfer or issue would cause the person to breach the ownership restrictions. For these purposes, a person has a significant interest in a class of shares of MFC where the aggregate of any shares of that class beneficially owned by that person, any entity controlled by that person and by any person associated or acting jointly or in concert with that person exceeds 10% of all the outstanding shares of that class of shares of MFC. A person is a major shareholder if the aggregate of any shares in a class of voting shares held by that person and by any entity controlled by that person exceeds 20% of the outstanding shares of that class, or, for a class of non-voting shares, a holding exceeding 30% of that class. If a person contravenes any of these restrictions, the Minister of Finance may, by order, direct such person to dispose of all or any portion of those shares. In addition, the ICA prohibits life insurance companies, including MFC, from transferring or issuing shares of any class to Her Majesty in right of Canada or of a province, an agent of Her majesty, a foreign government or an agent of a foreign government.

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

RATINGS

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

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

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

DBRS Ratings

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

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

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

Fitch Ratings

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

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

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

S&P's Ratings

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

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

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

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		
2006	High (C$)	Low (C$)	Volume (000s)	High (U.S.$)	Low (U.S.$)	Volume (000s)
January	$ 35.81	$33.96	58,044	$ 30.92	$ 29.03	15,009
February	$ 37.28	$34.42	68,514	$ 32.28	$ 29.94	12,896
March	$ 37.56	$36.20	56,864	$ 32.71	$ 31.30	12,921
April	$ 37.28	$36.38	45,875	$ 33.00	$ 31.30	10,983
May	$ 37.32	$35.17	75,235	$ 33.63	$ 31.92	17,960
June	$ 37.15	$33.83	68,273	$ 33.62	$ 30.05	18,607
July	$ 37.30	$34.99	46,129	$ 32.89	$ 29.95	13,296
August	$ 36.88	$34.39	53,056	$ 33.13	$ 30.52	13,377
September	$ 37.20	$35.22	49,768	$ 33.27	$ 31.40	11,655
October	$ 37.24	$35.35	54,684	$ 32.85	$ 31.12	14,279
November	$ 38.75	$36.34	51,111	$ 34.27	$ 32.08	12,952
December	$ 39.80	$37.62	37,140	$ 34.48	$ 32.87	13,377

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		
2006	High (C$)	Low (C$)	Volume (000s)	High (C$)	Low (C$)	Volume (000s)
January	$ 27.34	$27.00	307	$ 25.80	$ 25.00	556
February	$ 27.39	$27.00	258	$ 25.50	$ 25.05	682
March	$ 27.24	$27.00	234	$ 25.70	$ 25.05	477
April	$ 27.19	$26.94	213	$ 25.50	$ 24.51	261
May	$ 27.24	$26.62	98	$ 25.00	$ 24.40	263
June	$ 26.98	$26.40	216	$ 25.00	$ 24.50	353
July	$ 26.34	$25.60	86	$ 24.90	$ 24.27	192
August	$ 26.74	$26.21	319	$ 25.05	$ 24.55	610
September	$ 27.04	$26.31	262	$ 25.33	$ 25.00	196
October	$ 26.99	$26.70	141	$ 25.45	$ 25.14	432
November	$ 27.19	$26.60	92	$ 25.79	$ 25.31	293
December	$ 27.00	$26.61	204	$ 26.10	$ 25.40	132

				TSX – Series 3		
2006				High (C$)	Low (C$)	Volume (000s)
January				$ 24.95	$ 24.50	1,850
February				$ 24.95	$ 24.75	390
March				$ 25.05	$ 24.75	429
April				$ 24.99	$ 23.77	239
May				$ 24.50	$ 24.00	440
June				$ 24.95	$ 24.25	348
July				$ 24.50	$ 24.07	404
August				$ 24.97	$ 24.25	188
September				$ 24.96	$ 24.62	211
October				$ 25.00	$ 24.60	436
November				$ 25.09	$ 24.84	631
December				$ 25.33	$ 24.95	291

LEGAL PROCEEDINGS

The Company is regularly involved in litigation, both as a defendant and as a plaintiff. The litigation naming the Company as a defendant ordinarily involves its activities as a provider of insurance protection and wealth management products, and as an investment adviser, employer and taxpayer. In addition, government and regulatory bodies in Canada, the United States and Asia, including provincial and state regulatory bodies, state attorneys general, the SEC, the National Association of Securities Dealers, Inc. 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. As with many other companies in the financial services industry, the Company has been requested or required by such government and regulatory authorities to provide information with respect to market timing and late trading of mutual funds, and sales compensation practices and broker-dealer practices, including with respect to mutual funds underlying variable life and annuity products. Management of the Company believes that these inquiries are similar to those made to many financial service companies by various agencies regarding practices, policies and procedures relating to trading in mutual fund shares, sales compensation and broker-dealer practices. The Company intends to continue to cooperate fully with government and regulatory authorities in connection with their respective inquiries. The Management of 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 financial condition or results of operations.

DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

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

The following table sets forth for each of the Directors of MFC, their province or state and country of residence, position with Manulife Financial and their principal occupation as at March 19, 2007. Additional information on each Director can be found at the sections entitled "Board of Directors" in MFC's Management Information Circular dated March 14, 2007 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 3, 2007.

Name and Residence	Position with Manulife Financial	Principal Occupation
Arthur R. Sawchuk Ontario, Canada	Chairman of the Board	Chairman 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
Dr. Gail C.A. Cook-Bennett Ontario, Canada	Director	Chair, Canada Pension Plan Investment Board (Canada Pension Plan funds management)
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) (1)
Robert E. Dineen, Jr New York, United States	Director	Of Counsel, Shearman & Sterling (law firm)
Pierre Y. Ducros Quebec, Canada	Director	President, P. Ducros & Associates, Inc. (investment firm)
Allister P. Graham Ontario, Canada	Director	Chairman Emeritus, Nash Finch Company (food retail and distribution company) (2)
Thomas E. Kierans Ontario, Canada	Director	Chair, The Canadian Journalism Foundation (not-for-profit organization) (3)

Name and Residence	Position with Manulife Financial	Principal Occupation
Dr. Lorna R. Marsden Ontario, Canada	Director	President and Vice Chancellor, York University
Hugh W. Sloan, Jr Michigan, United States	Director	Deputy Chairman, Woodbridge Foam Corporation (manufacturer of automobile parts)
Gordon G. Thiessen Ontario, Canada	Director	Chair, Canadian Public Accountability Board (4)

(1) Prior to September 2002, Richard DeWolfe was Chairman and Chief Executive Officer of The DeWolfe Companies, Inc.

(2) Prior to June 2006, Allister Graham was Chairman and Interim Chief Executive Officer of Nash Finch Company. Prior to February 2006, Mr. Graham was Chairman of Nash Finch Company.

(3) Prior to December 2005, Thomas Kierans was Chairman, CSI Global Education Inc., and prior to November 2004, Mr. Kierans was Chairman, The Canadian Institute for Advanced Research

(4) Prior to October 2002, Gordon Thiessen was a Corporate Director.

EXECUTIVE OFFICERS

The name, province or state and country of residence, and position of each of the executive officers of Manulife Financial are set forth in the following table as of March 19, 2007.

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, Asian and Japan Division (4)
Geoffrey G. Crickmay Tokyo, Japan	Executive Vice President and General Manager, Japan (5)
Simon R. Curtis Ontario, Canada	Executive Vice President and Chief Actuary (6)
John D. DesPrez III Massachusetts, United States	Senior Executive Vice President, John Hancock
J. Roy Firth Ontario, Canada	Executive Vice President, Canadian Individual Wealth Management (7)
Bruce Gordon Ontario, Canada	Senior Executive Vice President and General Manager, Canadian Division
Donald A. Guloien Ontario, Canada	Senior Executive Vice President and Chief Investment Officer
Marianne Harrison Ontario, Canada	Executive Vice President and Controller (8)
Beverly S. Margolian Ontario, Canada	Executive Vice President and Chief Risk Officer (9)
John C. Mather Ontario, Canada	Senior Executive Vice President and Chief Information and Technology Officer (10)
Paul L. Rooney Ontario, Canada	Senior Executive Vice President and General Manager, Canadian Division (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 (13)

(1) Prior to April 2004, Diane Bean was Senior Vice President, Corporate Human Resources and Communications. Prior to December 2002, Ms. Bean was Senior Vice President, Corporate Human Resources. Prior to July 2002, Ms. Bean was Senior Vice President, Business Development.

(2) Prior to October 2004, Jean-Paul Bisnaire was Executive Vice President, Business Development and General Counsel. Prior to July 2004, Mr. Bisnaire was a partner at Davies Ward Phillips & Vineberg LLP, a law firm with offices in Toronto, Montreal and New York.

(3) Prior to April 2004, James Boyle was Senior Vice President, U.S. Annuities.

(4) Prior to January 2007, Robert Cook was Executive Vice President, Life Insurance, John Hancock. Prior to April 2004, Mr. Cook was Senior Vice President, U.S. Insurance.

(5) Prior to July 2004, Geoffrey Crickmay was Executive Vice President and Deputy General Manager, Japan. Prior to April 2004, Mr. Crickmay was Senior Vice President, Sales and Marketing, Japan. Prior to January 2004 Mr. Crickmay was Senior Vice President, Group Business, Canadian Operations.

(6) Prior to April 2004, Simon Curtis was Senior Vice President and Chief Actuary.

(7) Prior to April 2004, Roy Firth was Senior Vice President, Individual Wealth Management Canadian Operations.

(8) Prior to May 2004, Marianne Harrison was Senior Vice President and Corporate Controller. Prior to September 2003, Ms. Harrison was Chief Financial Officer, Wealth Management with TD Bank Financial Group.

(9) Prior to April 2004, Beverly Margolian was Senior Vice President and Chief Risk Officer.

(10) Prior to July 2006, John Mather was Senior Executive Vice President and Chief Administration Officer. Prior to December 2002, Mr. Mather was Executive Vice President and Chief Information Officer.

(11) 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, 2006 was 1,258,295, which represented less than one per cent of the outstanding Common Shares.

TRANSFER AGENT AND REGISTRAR

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

In Canada: CIBC Mellon Trust Company
P.O. Box 7010, Adelaide Street Postal Station
Toronto, Ontario, Canada, M5C 2W9
Toll Free: 1-800-783-9495

In the United States: Mellon Investor Services LLC
P.O. Box 3316, South Hackensack
New Jersey, U.S.A. 07606
Toll Free: 1-800-249-7702

MATERIAL CONTRACTS

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

On July 8, 2005, the SEC declared effective a joint registration statement filed in the United States by MFC and John Hancock Life relating to medium term notes sold by John Hancock Life to retail investors under the SignatureNotes program on or after June 29, 2005, the payment of which is fully and unconditionally guaranteed by MFC. MFC has also fully and unconditionally guaranteed the SignatureNotes sold by John Hancock Life prior to July 8, 2005. MFC's guarantees of the SignatureNotes 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 SignatureNotes. John Hancock Life had approximately U.S. $2.42 billion principal amount of SignatureNotes outstanding as at December 31, 2006, with capacity to issue a further U.S. $1.98 billion principal amount under the terms of issuance program governing the SignatureNotes as at that date. More information about MFC's guarantee of the SignatureNotes can be found at Note 22(e) of MFC's Audited Annual Financial Statements for the year ended December 31, 2006 filed on SEDAR.

MFC entered into a trust indenture dated December 14, 2006 (the "MFLP Indenture") with CIBC Mellon and Manulife Finance (Delaware), L.P. ("MFLP") as a guarantor of the debentures of MFLP issued under the MFLP Indenture. Under the terms of the MFLP Indenture, MFC unconditionally and irrevocably guaranteed on a senior basis the payment of principal, premium, if any, interest and redemption price in respect of $550,000,000 principal amount of 4.448% fixed/floating senior debentures of MFLP due December 15, 2026. MFC also unconditionally and irrevocably guaranteed on a subordinated basis the payment of principal, premium, if any, interest and redemption price in respect of $650,000,000 principal amount of 5.059% fixed/floating subordinated debentures of MFLP due December 15, 2042. More information about MFC's guarantee of the debentures issued by MFLP can be found at Note 18(f) of MFC's Audited Annual Financial Statements for the year ended December 31, 2006 filed on SEDAR.

INTERESTS OF EXPERTS

The auditors of MFC are Ernst & Young LLP, Ernst & Young Tower, 222 Bay Street, P.O Box 251, Toronto, Ontario, M5K 1J7. Simon Curtis, Executive Vice President and Appointed Actuary of MFC, provided a valuation of policy liabilities of the Company for its consolidated balance sheets as at December 31, 2006 and 2005. At the time such experts prepared the applicable report and at the date hereof, the listed experts and the designated professionals of the listed experts own beneficially, directly or indirectly, less than one percent of the outstanding securities or other property of the Company.

AUDIT & RISK MANAGEMENT COMMITTEE

Composition Of The Audit Committee

Messrs. Richard B. DeWolfe, Thomas E. Kierans, Lino J. Celeste, Robert E. Dineen Jr., Thomas P. d'Aquino, Allister P. Graham and Arthur R. Sawchuk 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 for approximately one year. Mr. Kierans had held the post of Chair of the Audit Committee for 7 years. 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, Kierans, Celeste, Dineen, Graham and Sawchuk 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 education and experience of each member is as follows: Mr. DeWolfe holds a bachelors 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. Kierans holds a Master of Business Administration from University of Chicago, 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. Mr. Celeste is an electrical engineer, is the past Chairman of Aliant Inc. and was the President and Chief Executive Officer of New Brunswick Telephone Company Limited. Mr. Dineen holds a law degree from Syracuse University of Law, and is a member of the board of directors of Nova Chemicals Corporation. Mr. d'Aquino holds a bachelors degree from University of British Columbia, a Master of Laws degree 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 Counsel of Chief Executives. Mr. Graham is currently the Chairman Emeritus of Nash Finch Company and was formerly the Chairman and Chief Executive Officer of The Oshawa Group Limited. Mr. Sawchuk holds a degree in mechanical engineering from the University of Manitoba, is the former Chairman, President and Chief Executive Officer of DuPont Canada, Inc., and is also a director of Manitoba Telecom Services Inc., Bowater Inc. and the Canadian Institute for Advanced Research.

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 Management Information Circular dated March 14, 2007 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 Management Information Circular dated March 14, 2007 filed on SEDAR, which section is incorporated herein by reference.

ADDITIONAL INFORMATION

Additional information with respect to the Company, including Directors' and Officers' remuneration and indebtedness, principal holders of securities, and securities authorized for issuance under the Company's equity compensation plans, where applicable, is contained in MFC's Management Information Circular dated March 14, 2007 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 in SEDAR at www.sedar.com and is accessible at the Company's web site, www.manulife.com. Requests for materials may be sent to the Investor Relations Department of Manulife Financial at 200 Bloor Street East, NT-7, Toronto, Canada M4W 1E5.

SCHEDULE 1 — AUDIT & RISK MANAGEMENT COMMITTEE CHARTER

Manulife Financial Corporation (the "Company")

Audit & Risk Management Committee Charter (2007)

1. Overall Role and Responsibility

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

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

(i) the quality and integrity of financial information;

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

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

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

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

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

2. Structure and Composition

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

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

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

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

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

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

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

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

3. Structure, Operations and Assessment

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

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

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

3.4 The Committee shall, on an annual basis:

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

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

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

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

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

4. Specific Duties

The Committee will carry out the following specific duties:

4.1 Oversight of the Independent Auditor

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

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

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

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

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

(f) Annually review any delegation of authority to grant preapprovals of audit and permitted non-audit services and the full Committee shall be informed of each non-audit service.

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

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

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

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

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

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

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

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

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

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

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

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

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

4.2 Financial Reporting

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

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

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

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

(e) Review and discuss with management and the independent auditor management's report on its assessment of internal controls over financial reporting 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 *Insurance Companies Act* (Canada), including the parts of the annual financial statement and the annual return filed under s. 665 of the Act, prepared by the actuary, and such other matters as the Committee may direct.

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

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

4.3 Oversight of the Company's Internal Audit Function

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

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

4.4 Oversight of Risk Management

(a) Review and approve periodically:

(i) management's risk philosophy; and

(ii) risk management policies.

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

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

(i) independent auditor; and

(ii) the internal auditor.

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

4.5 Oversight of Regulatory Compliance

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

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

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

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

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

4.6 Proxy Circular

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

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

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

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” and “continue” (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: level of competition and consolidation, changes in laws and regulations, general business and economic conditions, currency rates and Company liquidity, accuracy of information received from counterparties and the ability of counterparties to meet their obligations, accuracy of accounting policies and actuarial methods used by the Company, ability to maintain the Company’s reputation, legal and regulatory proceedings, the disruption of or changes to key elements of the Company’s or to public infrastructure systems, the ability to attract and retain key executives, environmental concerns, the ability to complete acquisitions and execute strategic plans, and the ability to adapt products and services to the changing market. 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 our most recent Annual Report, and elsewhere in our filings with Canadian and U.S. securities regulators. We do not undertake to update any forward-looking statements.

Management's Discussion and Analysis
Financial Performance

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

Net Income

The Company's shareholders' net income for 2006 was $3,985 million, up 21 per cent from $3,294 million reported in 2005. On a constant currency basis, net income increased $927 million. Fee income grew across all wealth management businesses due to higher assets, resulting from both net policyholder cash flows and positive equity market performance. Investment returns also contributed to investment related gains in the John Hancock Fixed product group and lower segregated fund guarantee charges. In 2006, the changes in actuarial methods and assumptions contributed $24 million to shareholders' net income compared to $64 million in 2005. In both years, we reported income related to tax events. The 2006 events included a reduction in Canadian federal tax rates; changes in Ontario tax rules with respect to investment income tax; and the favourable net resolution of outstanding tax matters. In 2005 we reported net tax benefits in Japan related to the recognition of future tax assets. Charges to income in 2005 included Property and Casualty reinsurance losses related to Hurricanes Katrina and Wilma and integration expenses related to the John Hancock merger.

Summary Statements of Operations

For the years ended December 31 (Canadian $ in millions, unless otherwise stated)	**2006**	2005	2004
Premium income	**$ 19,104**	$ 18,587	$ 16,287
Investment income	**10,433**	9,936	8,103
Other revenue	**4,657**	4,166	3,108
Total revenue	**$ 34,194**	$ 32,689	$ 27,498
Policy benefits	**$ 19,912**	$ 19,871	$ 17,033
General expenses	**3,271**	3,378	2,877
Investment expenses	**892**	746	623
Commissions	**3,546**	3,338	2,683
Interest expense	**962**	788	629
Premium taxes	**270**	244	208
Non-controlling interest in subsidiaries	**5**	2	20
Total policy benefits and expenses	**$ 28,858**	$ 28,367	$ 24,073
Income before income taxes	**$ 5,336**	$ 4,322	$ 3,425
Income taxes	**(1,366)**	(1,031)	(874)
Net income	**$ 3,970**	$ 3,291	$ 2,551
Less: net income (loss) attributed to participating policyholders	**(15)**	(3)	1
Net income attributed to shareholders	**$ 3,985**	$ 3,294	$ 2,550
Preferred share dividends	**(30)**	(14)	—
Net income available to common shareholders	**$ 3,955**	$ 3,280	$ 2,550
Diluted earnings per share	**$ 2.51**	$ 2.03	$ 1.81

Earnings per Common Share and Return on Common Shareholders' Equity

Diluted earnings per common share for 2006 was $2.51, up 24 per cent from $2.03 in 2005. The return on common shareholders' equity for 2006 was 16.8 per cent, up from 14.1 per cent for 2005.

Premiums and Deposits

Premiums and deposits for 2006 were $64.9 billion, up six per cent compared to $61.3 billion in 2005. On a constant currency basis, premiums and deposits increased 12 per cent.

General fund premiums were $19.1 billion in 2006, up three per cent from $18.6 billion in 2005. Premiums increased in all insurance businesses due to strong growth in the businesses, with the exception of Japan where there were lower universal life sales from conversion programs and in Reinsurance where 2005 included reinstatement premiums on contracts impacted by Hurricane Katrina.

Segregated fund deposits were $33.3 billion in 2006, up five per cent from $31.8 billion in 2005. This growth was driven by record levels of deposits in U.S. Wealth Management, in Hong Kong wealth businesses and in Canadian Group Savings and Retirement Solutions. Partially offsetting the growth were lower sales in Canadian Individual Wealth Management and in the wealth management business in Japan.

Mutual fund deposits were $9.3 billion, up 25 per cent from $7.4 billion in 2005. The growth was a result of expanded distribution and the launch of Lifestyle funds by U.S. Wealth Management. ASO premium equivalents were $2.2 billion in 2006, up three per cent from $2.1 billion in 2005 and relate to administrative services in Canadian Group Benefits. Other fund deposits were $1.1 billion compared to $1.4 billion in 2005 and include College Savings products, *Signature*Notes sales and Private Managed Accounts within U.S. Wealth Management.

Premiums and Deposits

For the years ended December 31 (Canadian $ in millions)	**2006**	2005	2004
General fund premiums	**$ 19,104**	$18,587	$16,287
Segregated fund deposits	**33,287**	31,786	25,104
Mutual fund deposits	**9,270**	7,408	5,809
ASO premium equivalents	**2,225**	2,150	1,710
Other fund deposits	**1,053**	1,375	1,489
Total premiums and deposits	**$ 64,939**	$61,306	$50,399

Investment Income

Investment income was $10.4 billion for 2006, up five per cent from $9.9 billion reported in 2005. Gross investment income increased by two per cent due to an increase in general fund assets and an increase in yields due to the positive equity market performance. While credit experience was very favourable in both 2006 and 2005, the 2006 favourable experience exceeded 2005 by $139 million. Amortization of net realized and unrealized gains increased due to positive equity markets and appreciation in real estate holdings.

Investment Income

For the years ended December 31 (Canadian $ in millions)	**2006**	2005	2004
Gross investment income	**$ 9,263**	$ 9,112	$ 7,439
Net charges for impaired assets	**(1)**	(140)	(115)
Amortization of net realized and unrealized gains	**1,171**	964	779
Investment income	**$10,433**	$ 9,936	$ 8,103
Yield	**6.67%**	6.15%	5.88%

Other Revenue

Other revenue was $4.7 billion for 2006, up 12 per cent from $4.2 billion in 2005. Fee income in the wealth management businesses increased due to higher average assets under management. Partially offsetting this increase was income received in 2005 of $89 million, from the wind-up of the estate of Daihyaku Mutual Life Insurance Company (“Daihyaku”), a business acquired in 2001.

Policy Benefits

Policy benefits were $19.9 billion in both 2006 and 2005. The decline in death, disability and other claims of eight per cent was primarily due to claims reported in 2005 with respect to Hurricanes Katrina and Wilma. Maturity and surrender benefits also declined, down six per cent from 2005, primarily related to a large surrender in the closed John Hancock Life participating block during 2005. Offsetting these declines was a $1.2 billion increase in the policy benefits expense related to the change in actuarial liabilities. The increase is due to the growth in premiums; the changes in maturities and surrenders; the impact of the favourable equity markets on the actuarial liabilities related to equity-linked products in Canada; and business growth.

Policy Benefits

For the years ended December 31 (Canadian $ in millions)	**2006**	2005	2004
Death, disability and other claims	**$ 5,949**	$ 6,449	$ 4,785
Maturity and surrender benefits	**9,814**	10,398	8,659
Annuity payments	**3,316**	3,366	2,828
Policyholder dividends and experience rating refunds	**1,528**	1,569	1,391
Net transfers to segregated funds	**432**	465	507
Change in actuarial liabilities	**(1,127)**	(2,376)	(1,137)
Total policy benefits	**$ 19,912**	$19,871	$17,033

General Expenses

General expenses were $3.3 billion in 2006, down three per cent from $3.4 billion in 2005. The 2005 expenses include a charge for integration expenses of $145 million and a charge of $60 million to cover guarantees made to clients that were referred to Portus

Alternative Asset Management Inc. Excluding these charges, expenses were up three per cent due to increased personnel expense from higher staff levels to support business growth and normal compensation increases.

Investment Expenses

Investment expenses were $892 million, up 20 per cent from $746 million in 2005. The increase is due to higher sub-advisory fees from growth in segregated fund assets.

Investment Expenses

For the years ended December 31
(Canadian $ in millions)

	2006	2005	2004
Related to invested assets	**$ 336**	$ 313	$ 280
Related to segregated, mutual and other funds	**556**	433	343
Total investment expenses	**$ 892**	$ 746	$ 623

Commissions

Commissions were $3.5 billion in 2006, up six per cent from $3.3 billion in 2005. The increase was driven by sales in John Hancock Life and John Hancock Variable Annuities where sales increased 21 per cent and 15 per cent respectively.

Interest Expense

Interest expense was $962 million in 2006, up 22 per cent from $788 million in 2005. The increase was due to an increase in bank loan volumes in the Canadian banking operations as well as an increase in interest on tax contingencies.

Income Taxes

Income taxes were $1,366 million in 2006, up 32 per cent from $1,031 million in 2005. The effective tax rate in 2006 was 25.6 per cent and in 2005 was 23.9 per cent. As discussed above, there were a number of tax related items in both 2005 and 2006.

Funds Under Management

Funds under management grew by 11 per cent, or $42.5 billion, to $414.0 billion as at December 31, 2006 from $371.5 billion as at December 31, 2005, primarily due to sales of wealth management products and the impact of rising equity markets over the last twelve months. The increase was partially offset by $4.9 billion of scheduled maturities of John Hancock Fixed institutional products.

Funds Under Management

As at December 31
(Canadian $ in millions)

	2006	2005	2004
General fund	**$171,164**	$166,414	$169,142
Segregated funds held by policyholders [1]	**172,048**	139,695	117,570
Mutual and other funds [1]	**70,805**	65,345	60,645
Total funds under management	**$414,017**	$371,454	$347,357

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

Fourth Quarter Results

Net Income

The Company's shareholders' net income for the fourth quarter of 2006 was $1,100 million, up 21 per cent from $908 million reported a year earlier. The increase was due to the positive equity markets compared to last year; strong growth in the business; the return to profitability in the Property and Casualty reinsurance business; and favourable impacts on the Company's tax position.

Premiums and Deposits

Premiums and deposits for the quarter were $15.8 billion, down two per cent from $16.2 billion reported a year earlier. Premiums and deposits have grown substantially in most of our business lines. Items offsetting this growth include a decline in Japan segregated fund deposits due to the temporary suspension of sales of a variable annuity product and the impact of the stronger Canadian dollar.

Financial Highlights

For the quarter ended December 31
(Canadian $ in millions)

	2006	2005
Shareholders' net income	**$ 1,100**	$ 908
Premiums and deposits	**$ 15,819**	$ 16,184

Moving Forward

We are well positioned in each of the markets in which we operate and our global diversity provides us with one of the best growth platforms in the industry. Our more than 20,000 employees and thousands of distribution partners serve millions of customers in 19 countries and territories around the world. Our diverse international operations allow us to leverage our people, products, technology and expertise quickly and effectively in new markets.

U.S. Insurance

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

In 2006, U.S. Insurance contributed 16 per cent of the Company's shareholders' net income, 10 per cent of premiums and deposits and as at December 31, 2006, accounted for 15 per cent of the Company's funds under management.

Financial Performance

U.S. Insurance's shareholders' net income for 2006 was $622 million, up one per cent from $614 million reported in 2005. On a U.S. dollar basis, earnings increased by eight per cent driven by strong new business margins and favourable mortality experience in John Hancock Life, in-force business growth in John Hancock Long Term Care, and favourable investment returns in both businesses. Earnings growth was partially offset by unfavourable long-term care claims experience.

Summary Statements of Operations

For the years ended December 31	Canadian $			U.S. $		
(in $ millions)	**2006**	2005	2004	**2006**	2005	2004
Premium income	**$ 5,488**	$ 5,382	$ 4,710	**$ 4,839**	$ 4,450	$ 3,644
Investment income	**2,982**	2,868	2,372	**2,630**	2,369	1,833
Other revenue	**614**	620	463	**542**	512	358
Total revenue	**$ 9,084**	$ 8,870	$ 7,545	**$ 8,011**	$ 7,331	$ 5,835
Policyholder benefits	**$ 6,051**	$ 6,091	$ 5,387	**$ 5,336**	$ 5,030	$ 4,166
General expenses	**610**	574	464	**538**	474	360
Investment expenses	**124**	98	72	**109**	83	56
Commissions	**1,196**	1,042	803	**1,055**	863	620
Other	**168**	138	119	**148**	114	92
Total policy benefits and expenses	**$ 8,149**	$ 7,943	$ 6,845	**$ 7,186**	$ 6,564	$ 5,294
Income before income taxes	**$ 935**	$ 927	$ 700	**$ 825**	$ 767	$ 541
Income taxes	**(313)**	(313)	(233)	**(276)**	(259)	(180)
Net income attributed to shareholders	**$ 622**	$ 614	$ 467	**$ 549**	$ 508	$ 361

Premiums and Deposits

Premiums and deposits of $6.7 billion in 2006 were unchanged from 2005. On a U.S. dollar basis, premiums and deposits grew by seven per cent due to higher first year and renewal universal life premiums resulting from strong sales during the year as well as increased sales and in-force business growth in John Hancock Long Term Care. Growth in premiums and deposits was partially offset by lower participating policyholder life insurance product premiums.

Premiums and Deposits

For the years ended December 31	Canadian $			U.S. $		
(in $ millions)	**2006**	2005	2004	**2006**	2005	2004
Premium income	**$ 5,488**	$ 5,382	$ 4,710	**$ 4,839**	$ 4,450	$ 3,644
Segregated fund deposits	**1,225**	1,284	1,106	**1,080**	1,060	857
Total premiums and deposits	**$ 6,713**	$ 6,666	$ 5,816	**$ 5,919**	$ 5,510	$ 4,501

Funds Under Management

Funds under management were $61.3 billion as at December 31, 2006 compared to $57.9 billion as at December 31, 2005. This increase reflects in-force business growth and strong equity market performance over the last year.

Funds Under Management

As at December 31	Canadian $			U.S. $		
(in $ millions)	**2006**	2005	2004	**2006**	2005	2004
General fund	**$ 48,675**	$ 46,507	$ 46,148	**$ 41,770**	$ 39,889	$ 38,342
Segregated funds	**12,583**	11,374	10,953	**10,798**	9,755	9,100
Total funds under management	**$ 61,258**	$ 57,881	$ 57,101	**$ 52,568**	$ 49,644	$ 47,442

Moving Forward

Our focus is on enhancing our position as a leader in the life and long-term care insurance markets by leveraging our strong distribution capabilities across multiple channels, striving for excellence in client service, and continuing to offer a diversified and innovative product portfolio that meets client needs.

At John Hancock Life, we will maintain strong relationships with our current distributors and implement programs to further enhance field and account management capacity to reach additional producers and grow sales. Our operational and customer service initiatives are focused on improving service through the use of technology to streamline processes. Our underwriting expertise is one of our competitive advantages and we will continue to grow capacity to provide better service and response time to our customers. On the product front, we are well positioned in the market with a streamlined product portfolio that offers a competitive product in each of our market segments. Product launches planned for 2007 include a new non-participating whole life product, as well as new versions of our market leading key universal life products.

At John Hancock Long Term Care, we will leverage our reputation as a leader in the industry. We will broaden our distribution capacity by continuing to enhance the support infrastructure tied to the sales process. These enhancements include providing product education and simplifying the selling and enrolment process for distributors. Customer service initiatives are focused on providing increased support and resources at the earlier stages of the claims process, when customers value service the most. Product leadership is also one of our competitive advantages and we will maintain our position as a leader in the industry. In late 2006, we introduced a new retail product called 'Leading Edge' that offers unique features designed to appeal to a younger demographic and those seeking a product that is easier to understand. Growth in the group market is also expected with increased acceptance of the Corporate Choice small group long-term care product and further product introductions during 2007 aimed at the mid-to-small group market segment.

JHFN remains the leading distributor of our life and long-term care insurance products, and is one of our top sellers of proprietary wealth management products in the United States. With programs to promote agent growth and the expansion of agencies, combined with strong John Hancock product offerings, we expect to drive sales growth and to attract and retain the best agent resources.

U.S. Wealth Management

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

- **John Hancock Retirement Plan Services ("RPS") provides 401(k) plans to small and medium-sized businesses.**
- **John Hancock Variable Annuities ("VA") offers products primarily to middle and upper-income individuals.**
- **John Hancock Mutual Funds ("Mutual Funds") offers a variety of mutual funds, privately managed accounts and 529 College Savings plans.**
- **Fixed Products group was formed in 2006 by combining the operations of the Guaranteed and Structured Financial Products ("G&SFP") business, whose primary focus was fixed rate products for the institutional market, with the Retail Fixed Annuity business. Institutional product offerings include a variety of specialized products and services to U.S. based qualified defined benefit and defined contribution retirement plans, as well as other retail and institutional investors. Product offerings in our institutional business, where tight spreads persist, continue to be on an opportunistic basis. The retail fixed annuity product line includes fixed deferred annuities, structured settlements, terminal funding of pension and deferred compensation plans and immediate fixed annuities products.**

In 2006, U.S. Wealth Management contributed 28 per cent of the Company's shareholders' net income, 54 per cent of total premiums and deposits, and as at December 31, 2006, accounted for 47 per cent of the Company's funds under management.

Financial Performance

U.S. Wealth Management's shareholders' net income for 2006 was $1,136 million, up 31 per cent from $868 million reported in 2005. On a U.S. dollar basis, earnings increased 40 per cent. The increase was principally due to favourable investment results in our Fixed Products business and also due to increased fee income on higher average assets in our VA, RPS and Mutual Funds businesses. These increases were partially offset by the negative impact of a stronger Canadian dollar.

Summary Statements of Operations

For the years ended December 31 (in $ millions)	**Canadian $**			**U.S. $**		
	2006	2005	2004	**2006**	2005	2004
Premium income	**$ 3,741**	$ 3,265	$ 2,400	**$ 3,298**	$ 2,704	$ 1,854
Investment income	**2,858**	3,020	2,274	**2,520**	2,494	1,763
Other revenue	**2,412**	2,052	1,635	**2,127**	1,697	1,261
Total revenue	**$ 9,011**	$ 8,337	$ 6,309	**$ 7,945**	$ 6,895	$ 4,878
Policyholder benefits	**$ 5,031**	$ 4,866	$ 3,684	**$ 4,434**	$ 4,025	$ 2,850
General expenses	**784**	790	650	**692**	653	501
Investment expenses	**455**	371	290	**400**	309	225
Commissions	**1,003**	923	721	**886**	763	555
Other	**158**	176	104	**139**	146	81
Total policy benefits and expenses	**$ 7,431**	$ 7,126	$ 5,449	**$ 6,551**	$ 5,896	$ 4,212
Income before income taxes	**$ 1,580**	$ 1,211	$ 860	**$ 1,394**	$ 999	$ 666
Income taxes	**(444)**	(343)	(251)	**(392)**	(283)	(195)
Net income attributed to shareholders	**$ 1,136**	$ 868	$ 609	**$ 1,002**	$ 716	$ 471

Premiums and Deposits

Premiums and deposits were $35.3 billion, up 17 per cent or $5.1 billion from $30.2 billion reported in 2005. On a U.S. dollar basis, premiums and deposits were up 24 per cent, reflecting strong growth of segregated fund deposits in our VA and RPS businesses as well as growth in our mutual fund deposits. Premiums are approximately 11 per cent of the total premiums and deposits and are mostly attributable to our Fixed Products business. The guaranteed fund options on RPS and VA products are also included in premiums. Premium growth of 15 per cent was primarily due to increased sales of our payout annuity products, driven by product updates in late 2005.

Segregated fund deposits are 64 per cent of total premiums and deposits and are attributable to our RPS and VA businesses. Both RPS and VA deposit levels hit record levels in 2006. RPS segregated fund deposits of U.S. $11.3 billion grew by 26 per cent as a result of higher recurring deposits from a growing block of in-force participants, continued market acceptance of the Fiduciary Standard Warranty and higher asset values on new business due to favourable equity markets. RPS deposits include U.S. $0.6 billion related to the John Hancock staff 401(k) pension plan. VA segregated fund deposits of U.S. $8.5 billion increased by 15 per cent attributable to the continued success of the Principal Plus for Life ("PPFL") benefit rider. PPFL is a guaranteed minimum withdrawal benefit.

Mutual fund deposit growth was a result of expanded distribution and the late 2005 launch of the Lifestyle funds. Included in other fund deposits are deposits from Private Client Group ("PCG") and College Savings products and deposits received on Fixed Products' *Signature*Notes. Other fund deposits declined slightly from the prior year as sales growth in the College Savings business was more than offset by a decline in PCG and *Signature*Notes sales due to very competitive conditions in each of their market segments.

Premiums and Deposits

For the years ended December 31			Canadian $			U.S. $
(in $ millions)	**2006**	2005	2004	**2006**	2005	2004
Premium income	**$ 3,741**	$ 3,265	$ 2,400	**$ 3,298**	$ 2,704	$ 1,854
Segregated fund deposits	**22,645**	20,208	17,176	**19,962**	16,715	13,208
Mutual fund deposits	**7,828**	5,384	3,622	**6,903**	4,449	2,813
Other fund deposits	**1,053**	1,375	1,489	**927**	1,135	1,148
Total premiums and deposits	**$ 35,267**	$ 30,232	$ 24,687	**$ 31,090**	$ 25,003	$ 19,023

Funds Under Management

Funds under management were $196.7 billion as at December 31, 2006, an increase of 12 per cent over the $175.7 billion reported a year ago. This growth was principally in segregated funds and mutual funds and due to both continued strong net policyholder cash flows in RPS, VA and Mutual Funds businesses, and the cumulative effect of favourable equity market performance over the twelve month period. These increases were partially offset by the excess of scheduled maturities over new sales in the Fixed Products business.

Funds Under Management

As at December 31			Canadian $			U.S. $
(in $ millions)	**2006**	2005	2004	**2006**	2005	2004
General fund	**$ 44,947**	$ 52,051	$ 56,138	**$ 38,570**	$ 44,644	$ 46,642
Segregated funds	**112,269**	89,996	77,151	**96,344**	77,191	64,100
Mutual funds	**35,499**	30,248	30,140	**30,464**	25,944	25,042
Other funds	**3,957**	3,438	2,887	**3,396**	2,949	2,398
Total funds under management	**$196,672**	$175,733	$166,316	**$168,774**	$150,728	$138,182

Moving Forward

Building on our strong sales and earnings growth in 2006, we are striving to continue our growth momentum into 2007 through a combination of investments in distribution, exceptional service and competitive products.

RPS continues to be the #1 seller of 401(k) pension plans in the 5 to 500 lives market. In 2007, RPS will focus on maintaining its dominance in the small size plans segment while further expanding into the mid-size plans segment of this market. We anticipate that sales in 2007 will benefit from the continued acceptance of the Fiduciary Standard Warranty as well as the recently introduced Lifecycle allocation funds. Lifecycle funds are asset allocation funds designed to move from an aggressive to a more conservative asset allocation as the investor nears his or her target retirement date. In 2007, we will also remain focused on a combination of new product offerings and service initiatives. New product initiatives will be aimed at both streamlining our pricing and at increasing plan participation rates and contribution amounts. Service initiatives will continue to involve further automation and enhancement of service capabilities to support larger plans.

VA experienced record sales activity in 2006 on the strength of its PPFL flagship product. In late 2006 the business launched its next generation PPFL riders which include two new options, Annual Step and Spousal Income, to retain our competitive position in the market. The improvements to PPFL, enhancements made to other customer benefits and the expansion of the number of product pricing structures available to customers are expected to drive sales growth in 2007. Investments to expand wholesaler distribution and the implementation of new sales agreements with two top-tier distribution partners are expected to boost sales momentum in key market segments. In 2007 we will continue to make significant investments to further improve our on-line access and electronic processing in order to enhance our already strong service position with both customers and producers.

Mutual Funds will continue to implement its strategy of expanded distribution supported by top performing funds and new product offerings. The expanded distribution strategy includes increasing the number of wholesalers in the field to enable us to more effectively distribute our broad array of investment solutions to major brokerage firms and financial planners. In addition, the creation of the Platform Sales Group in mid-2006, builds distribution strength. This group is focused on promoting our mutual funds to the professional buyers in the brokerage market to gain inclusion on recommended lists of funds or asset allocation programs. We will continue to strongly promote and market the new funds launched in 2006, including new funds managed by GMO, a world class institutional money manager and Classic Value II and International Classic Value managed by Pzena Investment Management, LLC. In 2007, Mutual Funds will continue to add innovative new products including nine Lifecycle target date asset allocation funds managed by best in class external investment management firms. In addition we expect to see continued success of the Lifestyle funds launched in late 2005. The Lifestyle funds are a flagship product offering of our RPS and VA businesses and are being offered to the retail market through the Mutual Funds business. We have also begun to offer Lifestyle through our College Savings 529 plans products and expect to see growth in sales in 2007 from this product.

In our Fixed Products group, sales growth will be driven through product innovation and distribution expansion. Product offerings in the institutional market, where tight spreads persist, continue to be on an opportunistic basis. On the product innovation front, the Guaranteed Principal Annuity (GPA) Plus fixed deferred annuity product will be revamped to offer more choices for surrender charge periods and optional coverage riders. We will also be enhancing our *Signature*Notes product. Distribution related initiatives include expanding the bank, financial planner and wirehouse channels through the hiring of additional sales directors and implementation of new selling agreements to extend our marketing reach for both fixed and immediate deferred annuities. We will pursue opportunities for institutional sales, with particular focus on the Trust Owned Health Insurance (TOHI) and 401(k) stable value fund markets.

Canadian Division

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

In 2006, Canadian Division contributed 25 per cent of the Company's shareholders' net income, 21 per cent of total premiums and deposits and as at December 31, 2006, accounted for 19 per cent of the Company's funds under management.

Financial Performance

Canadian Division's shareholders' net income for 2006 was $981 million, up 21 per cent from $809 million reported in 2005. The reduction in federal tax rates outlined in the 2006 Federal Budget, together with changes in the Ontario tax rules with respect to investment income tax, contributed $62 million to earnings. Excluding this earnings impact, shareholders' net income for the year was $919 million, up 14 per cent from 2005. This increase was attributable to business growth, particularly in Manulife Bank and segregated fund assets under management; significantly improved claims experience in Individual Insurance; an improved expense position reflecting cost containment initiatives in combination with business growth across the division; and the favourable impact on actuarial liabilities from actions taken to improve the asset mix strategies in several businesses. These positive earnings contributions were dampened by the deterioration in Group Benefits claims experience as compared to the very favourable experience of a year ago.

Net loss attributable to the participating policyholders was $61 million, as compared to a loss of $12 million in 2005. The major contributors to the loss in 2006 were changes in actuarial assumptions related to a previously acquired block of participating business, a special dividend declared to policyholders of Manulife Canada Limited (formerly Zurich Life Insurance Company of Canada) and the impact of new business.

Summary Statements of Operations

For the years ended December 31 (Canadian $ in millions)	**2006**	2005	2004
Premium income	**$ 5,932**	$ 5,761	$ 5,259
Investment income	**3,164**	2,771	2,343
Other revenue	**798**	734	543
Total revenue	**$ 9,894**	$ 9,266	$ 8,145
Policyholder benefits	**$ 6,402**	$ 6,126	$ 5,590
General expenses	**926**	882	770
Investment expenses	**214**	200	164
Commissions	**771**	726	603
Other	**411**	287	207
Total policy benefits and expenses	**$ 8,724**	$ 8,221	$ 7,334
Income before income taxes	**$ 1,170**	$ 1,045	$ 811
Income taxes	**(250)**	(248)	(194)
Net income	**$ 920**	$ 797	$ 617
Less: net income (loss) attributed to participating policyholders	**(61)**	(12)	3
Net income attributed to shareholders	**$ 981**	$ 809	$ 614

Premiums and Deposits

Premiums and deposits for the year ended December 31, 2006 were $13.5 billion, consistent with 2005 levels. Premiums increased across the insurance businesses reflecting sales growth and strong retention. On the deposit side, strong growth in Group Savings and Retirement Solutions was dampened by declines in Individual Wealth Management's proprietary mutual fund and segregated fund sales. Individual Wealth Management's 2005 segregated fund sales were unusually high in advance of the withdrawal of a key product from our product portfolio in the third quarter of 2005. Sales activity had declined throughout 2006 but rebounded in the fourth quarter with the October release of the new segregated fund product, IncomePlus, featuring a guaranteed minimum withdrawal benefit, the first of its kind in Canada. Mutual fund sales declined from 2005, reflecting less competitive fund offerings. Four new mutual funds were launched late in the third quarter and further enhancements are planned in 2007 to improve our competitive positioning.

Premiums and Deposits

For the years ended December 31 (Canadian $ in millions)	**2006**	2005	2004
Premiums	**$ 5,932**	$ 5,761	$ 5,259
Segregated fund deposits	**4,619**	4,514	3,116
Mutual fund deposits	**761**	1,107	973
ASO premium equivalents	**2,225**	2,150	1,710
Total premiums and deposits	**$ 13,537**	$ 13,532	$ 11,058

Funds Under Management

Funds under management of $77.4 billion at December 31, 2006 grew by 12 per cent from $69.0 billion at December 31, 2005. Continued growth in Manulife Bank's mortgage lending, combined with the impact of rising equity markets on market-linked products in Individual Insurance were the primary contributors to the growth in general fund assets. Segregated funds rose by 17 per cent reflecting equity market appreciation and positive net client cash flows from the wealth management businesses.

Funds Under Management

As at December 31 (Canadian $ in millions)	**2006**	2005	2004
General fund	**$ 46,509**	$42,424	$38,787
Segregated funds	**27,448**	23,443	19,422
Mutual and other funds	**3,441**	3,152	2,348
Total funds under management	**$ 77,398**	$69,019	$60,557

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 that meets the needs of our customers. We have built a diverse portfolio of products, services and distribution channels to meet the needs of a broad marketplace, diversifying the income risk to shareholders.

We have a multi-channel approach to the marketplace. Over the past five years, the Individual Insurance and Wealth Management distribution reach has grown through acquisition and disciplined distribution expansion. Our channels include Managing General Agents ("MGAs"), independent advisors and investment dealers accessed through wholesalers. Organizational changes made in both the MGA and independent advisor channels in the latter half of 2006, will improve service and efficiency to advisors and their customers. Affinity Markets will continue to strengthen sponsor organization relationships and expand its direct to consumer reach. Group Benefits will continue to reinforce strong relationships with brokers, consultants and customers as well as expand distribution through MGAs and target areas with lower market penetration. Group Savings and Retirement Solutions' dedicated sales representatives will continue to partner with their consultant or brokerage channels to provide value-added products with industry-leading tools and training to plan sponsors.

Product innovation and service excellence is key to meeting the needs of our customers, advisors, consultants, and plan sponsors. Our growth plans include offering enhanced options and services to existing clients and cross-selling within and across business units. Changing demographics and health care reform are presenting new opportunities for growth, and aging baby boomers are a key target market for both insurance and wealth management products. As such, Individual Insurance will increase its emphasis on estate planning-based life insurance sales and will continue to focus on growing its relatively new product lines – critical illness and long-term care insurance. Individual Wealth Management launched a guaranteed minimum withdrawal benefit product, IncomePlus, late in 2006. IncomePlus is designed to provide investors approaching retirement with predictable, sustainable and potentially increasing income to help their money last throughout retirement. This product is expected to be a key contributor to future growth. Individual Wealth Management will also expand into structured products, such as market-linked notes and closed-end funds. Manulife Bank will establish an advisor service centre in Halifax, providing an alternate base to support future growth. Group Benefits will focus on extending product options to existing customers and increasing customer satisfaction by expanding electronic capabilities and customized solutions. Affinity Markets will build upon its recent successes to continue to grow the travel insurance business. Following Group Savings and Retirement Solutions recent success in securing several large cases, they will focus on enhancing service and support for large case clients while maintaining an active product and service development program to deliver continued growth across a broad range of market segments.

All of our businesses continually make investments in upgrading technology to enhance our interaction with advisors and customers and improve operational efficiency. Our technology capabilities will be expanded to support new product offerings and to introduce additional services to advisors and customers. We continue to focus on expanding services that are offered over the internet, with initiatives planned across the Division to improve electronic-based interaction with advisors and customers. One such initiative is "Insight", a web-based inquiry and reporting tool for advisors that provides them with a more consolidated view of the Manulife products held by their individual customers. In addition, we will continue to enhance compliance and governance support, for example, to retirement plan sponsors.

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. Within Asia, 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 2006, Asia and Japan Division contributed 18 per cent of the Company's shareholders' net income, 13 per cent of total premiums and deposits and as at December 31, 2006, accounted for nine per cent of the Company's funds under management.

Financial Performance

Asia and Japan Division's shareholders' net income for 2006 was $734 million in 2006 and $732 million in 2005. On a U.S. dollar basis earnings increased six per cent. Excluding the amount reported in 2005 for the net tax benefits in Japan, shareholders' net income increased by $87 million or 13 per cent (18 per cent on a U.S. dollar basis). This increase was driven by higher fee income on the growth of funds under management in Japan's variable annuity business and Hong Kong pension and wealth management businesses as well as improved in-force experience in the Hong Kong life business. Outside Hong Kong and Japan ("Other Asia Territories") earnings were bolstered by growth from several small acquisitions in the Philippines and growth in Indonesia's individual life business. These increases were partially offset by the impact of the stronger Canadian dollar.

Summary Statements of Operations

For the years ended December 31	**Canadian $**			**U.S. $**		
(in $ millions)	**2006**	2005	2004	**2006**	2005	2004
Premium income	**$ 2,933**	$ 2,962	$ 2,936	**$ 2,588**	$ 2,448	$ 2,261
Investment income	**863**	716	618	**761**	592	474
Other revenue	**515**	354	240	**454**	294	185
Total revenue	**$ 4,311**	$ 4,032	$ 3,794	**$ 3,803**	$ 3,334	$ 2,920
Policyholder benefits	**$ 2,083**	$ 1,908	$ 2,006	**$ 1,839**	$ 1,575	$ 1,544
General expenses	**564**	574	585	**498**	474	449
Investment expenses	**44**	35	41	**39**	29	31
Commissions	**566**	624	532	**498**	517	410
Other	**84**	81	69	**73**	67	54
Total policy benefits and expenses	**$ 3,341**	$ 3,222	$ 3,233	**$ 2,947**	$ 2,662	$ 2,488
Income before income taxes	**$ 970**	$ 810	$ 561	**$ 856**	$ 672	$ 432
Income taxes	**(190)**	(69)	(74)	**(168)**	(57)	(57)
Net income	**$ 780**	$ 741	$ 487	**$ 688**	$ 615	$ 375
Less: net income (loss) attributed to participating policyholders	**46**	9	(2)	**41**	7	(2)
Net income attributed to shareholders	**$ 734**	$ 732	$ 489	**$ 647**	$ 608	$ 377

Premiums and Deposits

Premiums and deposits were $8.4 billion in 2006, down eight per cent from $9.1 billion in 2005. On a U.S. dollar basis, premiums and deposits were down two per cent, as strong growth in Hong Kong and the other territories was more than offset by year over year declines in Japan and Indonesia.

Overall premiums growth of six per cent was comprised of growth of 17 per cent in the Other Asia Territories, reflecting improved individual insurance business in Indonesia and continued growth in China, and a nine per cent increase in Hong Kong Individual Insurance. Largely offsetting this was an eight per cent decline in premiums in Japan, as a result of lower universal life premiums.

Segregated funds grew substantially in Hong Kong, driven by higher pension contributions and sales of unit-linked products; in Singapore, fueled by a buoyant economy and employment outlook; and in Indonesia, as pension sales increased. Offsetting these increases was a decline in segregated fund deposits of U.S. $0.7 billion in Japan due to the temporary suspension of a variable annuity product pending clarification of its tax treatment. A replacement for the suspended product was launched in November 2006.

Mutual funds are sold in Hong Kong and Indonesia. Deposits in Hong Kong increased by 59 per cent as a result of favorable market returns and the expansion of our fund offerings. Due to the fallout from the mid-2005 market turmoil in Indonesia, mutual fund deposits were lower through the first three quarters versus the prior year. Deposits in the fourth quarter of the year were up year over year.

Premiums and Deposits

For the years ended December 31 (in $ millions)	Canadian $			U.S. $		
	2006	2005	2004	**2006**	2005	2004
Premium income	**$ 2,933**	$ 2,962	$ 2,936	**$ 2,588**	$ 2,448	$ 2,261
Segregated fund deposits	**4,747**	5,226	3,591	**4,177**	4,323	2,776
Mutual fund deposits	**681**	917	1,214	**598**	751	945
Total premiums and deposits	**$ 8,361**	$ 9,105	$ 7,741	**$ 7,363**	$ 7,522	$ 5,982

Funds Under Management

Funds under management grew by $6.3 billion to $38.0 billion as at December 31, 2006 from $31.7 billion as at December 31, 2005. This growth was due to variable annuity sales in Japan; increased business volumes in pension and wealth management products in Hong Kong; the positive impact of rising equity markets; and recovering mutual fund sales in Indonesia. These increases were partially offset by maturities and lapses in Japan's Daihyaku block.

Funds Under Management

As at December 31 (in $ millions)	Canadian $			U.S. $		
	2006	2005	2004	**2006**	2005	2004
General fund	**$ 17,050**	$ 16,111	$ 16,135	**$ 14,633**	$ 13,819	$ 13,406
Segregated funds	**17,232**	12,282	7,910	**14,787**	10,533	6,572
Mutual and other funds	**3,744**	3,303	4,064	**3,213**	2,834	3,377
Total funds under management	**$ 38,026**	$ 31,696	$ 28,109	**$ 32,633**	$ 27,186	$ 23,355

Moving Forward

Hong Kong and Japan continue to be the largest contributors to the Division's earnings. However, other operations within Asia are becoming more significant as a result of rapid growth and business expansion over recent years. Our plans are to continue to diversify and grow through the expansion of these other operations. We will also diversify our business by expanding the geographical scope of our employee benefit and asset management operations.

Our primary distribution channel is our approximately 25,000 professionally trained agents. We believe our professional agency and staff represent a competitive advantage, whereas competitors' products are generally sold through part-time agents. We will continue to build on our strength in this channel by tailoring initiatives to strengthen recruitment, training and retention of agents. While our primary focus is agency, sales through alternative distribution relationships represent a significant portion of sales in Japan, Singapore, Malaysia, Indonesia and Hong Kong. In Japan, regulations have changed to allow the banks to sell a full range of insurance products by the end of 2007. We are working to expand and leverage our bank relationships to capitalize on this regulatory change.

Product innovation remains a key element of our strategy. In 2006, pension and wealth management sales in Hong Kong and variable annuity sales in Japan were key contributors to business growth. In 2007, we will leverage this success by launching a variable annuity product with minimum guaranteed withdrawal benefits in Hong Kong, Singapore and Taiwan, leveraging the expertise we developed in Japan, the United States and Canada. In Japan, we expect our revamped variable annuity product, launched in November 2006, to capture a significant share of the market. Across the Division, we continue to develop enhanced wealth management products and investment options to capitalize on the shift in customer needs to wealth accumulation and preservation. For example, late in 2006, we launched a principal protected note product in Malaysia offered through HSBC.

On the insurance side of the business, an innovative recurring premium unit linked product, that enables policyholders to share in the investment returns, will be launched in Hong Kong early in 2007 to capitalize on the growing market demand for these products. Other territories also plan to enhance their unit-linked product offerings in 2007. In Japan, we launched an increasing term product in 2006 targeted at corporate clients seeking to manage the incidence of their tax liabilities. Early sales of this product have been above expectations.

In 1996, Manulife, together with our partner Sinochem, created Manulife-Sinochem Life Insurance Co. Ltd. ("MSL"), the first joint venture life insurance company in the People's Republic of China. In 2006, MSL continued its rapid geographic expansion by opening seven new branches and sales offices, bringing its total up to 16. MSL's 2007 plans include the opening of several more branches and sales offices and the continued development of our existing operations.

Reinsurance Division

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

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

- **Life – offering retrocession of traditional life mortality risk as well as specialized coverages such as structured/non-traditional solutions;**
- **Property and Casualty – offering traditional property catastrophe and aviation as well as specialized non-traditional retrocession for Property and Casualty reinsurers; and**
- **International Group Program ("IGP") – offering group life, health and pension products and services to multinational clients for their local national and globally mobile employees.**

In 2006, Reinsurance Division contributed seven per cent of the Company's shareholders' net income and two per cent of the Company's premiums and deposits.

Financial Performance

Reinsurance Division's shareholders' net income for 2006 was $294 million compared to a net loss of $108 million in 2005. During 2005, earnings were significantly impacted by losses stemming from reported claims related to Hurricanes Katrina and Wilma. Excluding these losses, earnings increased by $121 million due to favourable experience in Life Reinsurance along with favourable claims experience and margin growth in the Property and Casualty business.

Summary Statements of Operations

For the years ended December 31	**Canadian $**			**U.S. $**		
(in $ millions)	**2006**	2005	2004	**2006**	2005	2004
Premium income	**$ 1,010**	$ 1,217	$ 982	**$ 890**	$ 1,005	$ 756
Investment income	**208**	185	183	**184**	156	141
Other revenue	**19**	27	35	**17**	22	28
Total revenue	**$ 1,237**	$ 1,429	$ 1,200	**$ 1,091**	$ 1,183	$ 925
Policyholder benefits	**$ 764**	$ 1,452	$ 810	**$ 675**	$ 1,202	$ 624
General expenses	**52**	45	45	**45**	38	35
Investment expenses	**3**	3	3	**3**	3	3
Commissions	**5**	20	20	**5**	19	15
Other	**10**	(2)	10	**8**	(2)	8
Total policy benefits and expenses	**$ 834**	$ 1,518	$ 888	**$ 736**	$ 1,260	$ 685
Income (loss) before income taxes	**$ 403**	$ (89)	$ 312	**$ 355**	$ (77)	$ 240
Income taxes	**(109)**	(19)	(82)	**(96)**	(15)	(63)
Net income (loss) attributed to shareholders	**$ 294**	$ (108)	$ 230	**$ 259**	$ (92)	$ 177

Premiums

Premiums declined by 17 percent to $1,010 million in 2006 from $1,217 million in 2005. Premiums in the Life Reinsurance line increased due to strong new business volumes. Premiums in the Property and Casualty business decreased as a result of reinstatement premiums recorded in 2005 on contracts impacted by Hurricane Katrina as well as a continued shift from non-traditional to traditional business in the current year.

Premiums

For the years ended December 31	**Canadian $**			**U.S. $**		
(in $ millions)	**2006**	2005	2004	**2006**	2005	2004
Life reinsurance	**$ 476**	$ 452	$ 466	**$ 419**	$ 374	$ 357
Property and Casualty reinsurance	**97**	310	180	**86**	257	138
International Group Program reinsurance	**437**	455	336	**385**	374	261
Total premiums	**$ 1,010**	$ 1,217	$ 982	**$ 890**	$ 1,005	$ 756

Moving Forward

We remain focused on maintaining our leadership position within our three core markets.

The market for life reinsurance is expected to continue to decline due to pricing pressures, industry consolidation and increased retention by direct writers. This has also led to a shift from direct writers reinsuring a pro rata share of a block of business towards reinsur-

ing benefits in excess of a specified amount. These trends put a modest downward pressure on our retrocession volumes. On the positive side, as a result of the consolidation activity in the reinsurance industry, there will be fewer companies, creating an opportunity for us to increase volumes by reinsuring blocks of their in-force business. In addition, we will continue to opportunistically leverage our large per life capacity and the capital strength of the Company. These attributes have allowed Life Reinsurance to write a number of large in-force transactions in the past few years and are expected to continue to be a significant competitive advantage in the future.

Property and Casualty Reinsurance has established a recognized market position as a leader in providing retrocessional coverage for a very select clientele in the property and aviation reinsurance markets. The coverage is in the form of traditional and non-traditional contracts. Non-traditional reinsurance contracts are described in the supplement below. Demand for non-traditional property and casualty products almost completely disappeared in 2006 while various regulatory bodies continued their investigations of the risk transfer conditions in non-traditional contracts. In the traditional market, conditions changed following the volatile storm season of 2005. We increased our prices in 2006 and improved risk-adjusted returns to the Company, reflective of a hardening property catastrophe market and shrinking supply. We expect these market conditions to continue into 2007. During 2006 we limited our exposure in this line of business and, in 2007, we expect to continue writing business at these 2006 levels.

IGP expects to maintain its market leading position through continued dominance in North America while growing in Europe and Asia, despite increasing competition from leading providers.

Supplemental Information Regarding Non-Traditional Reinsurance

Non-Traditional Life Reinsurance

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

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

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

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

Non-Traditional Property Reinsurance

Manufacturers P&C Limited ("MPCL"), a subsidiary of the Company, currently offers non-traditional retrocessional coverage to large international reinsurers. The non-traditional product currently offered by MPCL is known as a spread loss cover. This type of non-traditional cover has been referred to in the industry as "finite risk reinsurance" or "finite reinsurance." All spread loss covers currently offered by MPCL are prospective property catastrophe excess of loss covers.

The most significant differences between a typical traditional treaty and a typical non-traditional contract (spread loss cover) are provisions relating to non-renewal premium and provisions relating to a notional experience account balance ("EAB"). The covers are generally 12 months in duration, with no obligation for either party to renew. An EAB tracks the performance of the treaty. The EAB is basically the premiums paid less claims incurred less MPCL's margin. Positive amounts may be returned to the cedant. Negative amounts are carried forward in the EAB if the contract renews. Unlike traditional covers, with non-traditional covers, a non-renewal premium provision requires the cedant to pay an additional premium if the cedant does not renew the treaty and the EAB is negative. This non-renewal premium is typically less than 80% of the negative EAB, so that sufficient risk transfer is provided to qualify for reinsurance accounting.

Corporate and Other

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

In 2006, Corporate and Other contributed six per cent of the Company's shareholders' net income and accounted for nine per cent of the Company's funds under management.

Financial Performance

Corporate and Other's shareholders' net income for 2006 was $218 million, down 42 per cent from $379 million reported in 2005. Contributing to the decrease were the unfavourable claims experience in the John Hancock Accident and Health business; lower income from changes in actuarial methods and assumptions; and lower investment income. Partially offsetting these items were lower integration expenses and credit related recoveries.

Summary Statements of Operations

For the years ended December 31
(Canadian $ in millions)

	2006	2005	2004
Investment income	**$ 358**	$ 376	$ 313
Other revenue	**299**	379	192
Total revenue	**$ 657**	$ 755	$ 505
Policyholder benefits	**$ (419)**	$ (572)	$ (444)
General and investment expenses	**387**	552	416
Other	**411**	357	352
Total policy benefits and expenses	**$ 379**	$ 337	$ 324
Income before income taxes	**$ 278**	$ 418	$ 181
Income taxes	**(60)**	(39)	(40)
Net income attributed to shareholders	**$ 218**	$ 379	$ 141

Other revenue was $299 million in 2006, a decrease of 21 per cent from the $379 million reported in 2005. The decrease relates to the $89 million received in 2005 from the wind-up of the estate of Daihyaku, a business acquired in 2001.

General and investment expenses were $387 million, down 30 per cent from $552 million reported in 2005. The decrease was primarily as a result of integration expenses incurred in 2005 and a charge in 2005 of $60 million to cover guarantees made to clients that were referred to Portus Alternative Asset Management Inc.

Policyholder benefits were a recovery of $419 million, down 27 per cent from a recovery of $572 million in 2005. Policyholder benefits relate to the JH A&H business, the transfer of credit risk from operating divisions and changes in actuarial methods and assumptions. The reduced income from these items relates to unfavourable claims experience in JH A&H and the impact of changes in methods and assumptions, partially offset by favourable credit experience.

Funds Under Management

Funds under management of $37.7 billion as at December 31, 2006 increased by nine per cent over the $34.4 billion reported a year ago. The growth in the general fund assets reflects the growth in capital from the combination of net income over the past twelve months and net new capital issued during the year of $1.7 billion, offset by shareholders' dividends of $1,163 million, and the repurchase of 45 million common shares for $1,631 million. Segregated funds in this division relate to segregated funds from timber investments. Other funds under management decreased because of the disposition of an investment subsidiary as part of the completion of the John Hancock integration.

Funds Under Management

As at December 31
(Canadian $ in millions)

	2006	2005	2004
General fund	**$ 10,974**	$ 6,634	$ 9,187
Segregated funds[1]	**2,516**	2,600	2,134
Other funds	**24,164**	25,204	21,206
Total funds under management	**$ 37,654**	$ 34,438	$ 32,527

1 Segregated funds is reduced by a consolidation adjustment for seed funds of $571 million (2005 – $361 million and 2004 – $320 million).

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 external third party retail and institutional clients through a variety of products and distribution channels. MFC Global manages a broad range of investments including equities, government and corporate bonds, private placements, real estate, mortgages, oil and gas, timber and farmland. Additionally, MFC Global has a physical presence in key financial centers around the world, including the United States, Canada, the United Kingdom, Japan, Australia, Hong Kong, and throughout South-east Asia.

General Fund Assets

The Company's general fund invested assets increased to $171.2 billion as at December 31, 2006 from $166.4 billion as at December 31, 2005. The goal in investing in these assets is to maximize returns while operating within the Company's investment, risk management, asset liability matching and investment policies. The following table shows the composition of the Company's general fund invested assets.

General Fund Assets

As at December 31 (Canadian $ in millions)	2006 Carrying value	2006 % of total	2005 Carrying value	2005 % of total
Bonds	**$103,159**	**60**	$103,315	62
Mortgages	**28,131**	**17**	28,008	17
Stocks	**11,272**	**7**	8,715	5
Real estate	**5,905**	**3**	5,279	3
Policy loans	**6,413**	**4**	6,120	4
Cash and short-term investments	**10,745**	**6**	8,723	5
Bank loans	**2,009**	**1**	1,806	1
Other investments	**3,530**	**2**	4,448	3
Total invested assets	**$171,164**	**100**	$166,414	100

Bonds

The Company's bond portfolio represented 60 per cent of invested assets as at December 31, 2006. This portfolio invests in a combination of public bonds and private debt and is diversified by sector as well as by industry, duration and issuer. There was no significant change in sector distribution over the year. At year end 2006, 96 per cent of the portfolio was invested in investment grade rated securities (BBB and higher).

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

As at December 31 (Canadian $ in millions)	2006 Carrying value	2006 % of total	2006 % Investment Grade	2005 Carrying value	2005 % of total	2005 % Investment Grade
Government and agency	**$ 27,049**	**26**	**97**	$ 27,200	27	98
Financial	**21,281**	**21**	**99**	19,558	19	98
Telecommunications	**3,042**	**3**	**96**	3,447	3	91
Utilities	**13,444**	**13**	**93**	13,449	13	90
Energy	**6,044**	**6**	**95**	6,028	6	92
Industrial	**5,880**	**6**	**95**	6,101	6	90
Securitized (ABS/MBS)	**11,977**	**12**	**99**	12,352	12	99
Consumer (non-cyclical)	**5,375**	**5**	**96**	5,781	6	93
Consumer (cyclical)	**3,186**	**3**	**84**	3,037	3	80
Basic materials	**3,355**	**3**	**81**	3,584	3	84
Technology	**358**	**0**	**99**	316	0	98
Media and internet	**1,813**	**2**	**90**	2,094	2	91
Diversified and miscellaneous	**355**	**0**	**99**	368	0	98
Total bonds	**$103,159**	**100**	**96**	$103,315	100	94

Mortgages and Real Estate

As at December 31, 2006, mortgages represented 17 per cent of invested assets with 47 per cent of the mortgage portfolio in Canada and 53 per cent in the United States. Commercial mortgages accounted for 78 per cent of total mortgages with the rest being agricultural and residential mortgages. Predominantly composed of first mortgages, the portfolio is diversified by geographic region, property type and mortgagor. Government-insured loans represented 17 per cent of the total mortgage portfolio, offering an excellent risk-adjusted return. All mortgages are secured by real properties.

As at December 31, 2006, three per cent of the Company's invested assets were held in real estate. The portfolio is focused on high quality office buildings located in superior downtown and large suburban markets across North America and Japan. The portfolio has been managed such that the Company has been able to deliver occupancy rates that are consistently higher than industry average. The portfolio is also diversified by geographic region and property type, with 62 per cent located in the United States, 31 per cent in Canada

and seven per cent in Asia. Commercial office properties represented 71 per cent of the portfolio, with the remainder shared between industrial, retail, residential and other property types.

Stocks

As at December 31, 2006, stocks represented seven per cent of invested assets. The portfolio consists primarily of publicly traded common stocks and is diversified by industry sector and issuer. As at December 31, 2006, the stock portfolio was invested 40 per cent in U.S. issuers, 33 per cent in Canadian issuers, 20 per cent in Asian issuers and seven per cent in other issuers.

Other Investments

Other investments include unconsolidated joint ventures, partnerships, funds, limited liability corporations, leases, subordinated debt of life insurance companies and oil and gas holdings. Other investments also includes various types of derivative instruments including interest rate and currency swaps, interest rate caps and floors, swaptions and futures used to hedge and manage the Company's exposure to changes in interest rates, foreign exchange rates and equity market prices.

Third Party Assets

Separate from the General Fund, MFC Global manages a significant book of assets on behalf of clients of the Company's operating divisions and institutional clients. Third party assets under management increased to $93.9 billion, up three per cent from $91.1 billion in 2005. The disposition of an investment subsidiary, as part of the completion of the John Hancock integration, reduced assets managed on behalf of institutional clients by $8.5 billion. Excluding this disposition, third party assets increased 14 per cent due to strong investment returns, positive net cash flows from the segregated and mutual funds businesses as well as newly acquired institutional mandates.

Third Party Assets

As at December 31 (Canadian $ in millions)	**2006**	2005	**Change** $	 %
Managed on behalf of:				
Operating Division clients	**$ 66,602**	$ 62,896	$ 3,706	6
Institutional clients	**27,252**	28,166	(914)	(3)
Total third party assets	**$ 93,854**	$ 91,062	$ 2,792	3

Moving Forward

Consistently achieving superior investment returns and growing the investment management business remain the two primary goals of the Investment Division. The challenge ahead will be maintaining high returns in investment grade assets in an environment which continues to be characterized by tight spreads, low interest rates and highly priced assets. MFC Global's unique portfolio of alternative assets results in enhanced yields, diversified risk and provides a competitive advantage. Going forward, the Division will continue to leverage our strong distribution network, expanded expertise and significant scale to aggressively grow the business.

Risk Management

Overview

Manulife Financial is in the business of taking risk to generate profitable growth. Risk must be managed effectively to safeguard our reputation and capital, and to meet the expectations of our shareholders, customers and regulators. Our 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. Manulife Financial seeks to achieve this by capitalizing on business opportunities that are aligned with the Company's risk taking philosophy, risk appetite and return expectations, by identifying, monitoring and measuring all key risks taken, and by proactively executing effective risk control and mitigation programs.

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

An enterprise level strategy has been established that guides our risk taking and risk management activities globally. The enterprise risk management strategy sets out comprehensive policies and rigorous standards of practice related to risk governance, risk identification and monitoring, risk measurement, and risk control and mitigation. In order to ensure that we can effectively execute our risk management strategy, we continuously invest to attract and retain qualified risk professionals, and to build and maintain the necessary processes, tools and systems.

Specific risk management strategies are also in place for each broad risk category: strategic risk, credit risk, market and asset liability and liquidity risk, insurance risk and operational risk. To ensure consistency, these strategies incorporate policies and standards of practice that are aligned with those within the enterprise risk management strategy, covering:

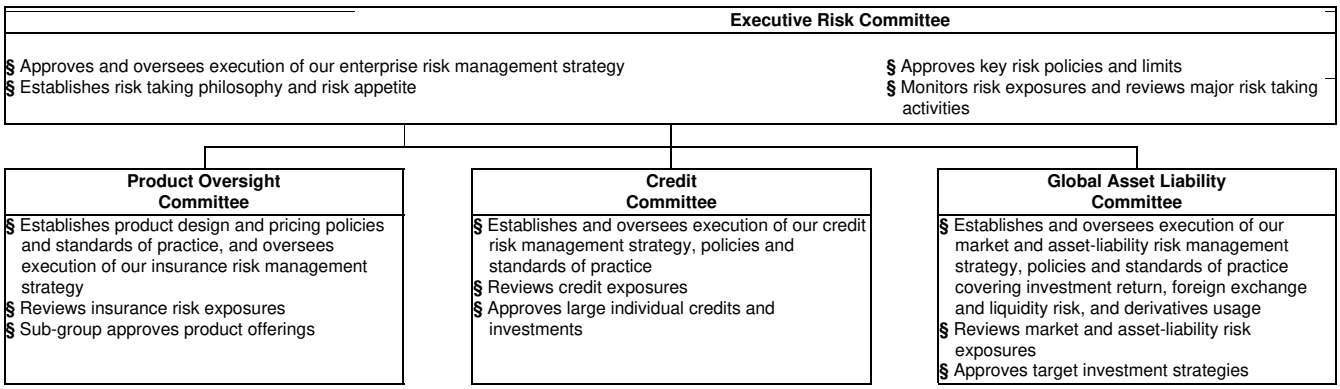
- Assignment of risk management accountabilities across the organization;
- Delegation of authorities related to risk taking activities;
- Philosophy related to assuming risks;
- Establishment of specific risk limits;
- Identification, measurement, monitoring, and reporting of risks; and
- Activities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

Risk Governance

Sound business decisions require a strong risk culture, and a well-informed executive management and Board of Directors. The Audit and Risk Management Committee ("ARMC") of the Board of Directors oversees our global risk taking activities and risk management practices. The ARMC approves and periodically reviews our enterprise risk management strategy, risk taking philosophy, overall risk appetite, and approves and monitors compliance with all key risk policies and limits. The ARMC regularly reviews with management trends in material risk exposures and major risk taking activities, and the ongoing effectiveness of our risk management practices. The Conduct Review and Ethics Committee of the Board oversees activities and risks specifically related to conflicts of interest, confidentiality of information, customer complaints and related third party transactions, and the Management Resources and Compensation Committee of the Board oversees global human resources strategy, policies and 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 strategies, and is supported by the Chief Financial Officer and Chief Risk Officer ("CRO") as well as by the Executive Risk Committee ("ERC"), comprised of members from the Company's Executive Committee. Together, they shape and continuously promote our risk culture throughout our global operations. The ERC, along with other executive-level risk oversight committees, establishes risk policy, guides risk taking activity, monitors material risk exposures, and sponsors strategic risk management priorities throughout the organization.

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



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

Corporate Risk Management ("CRM"), under the direction of the CRO, establishes and maintains our enterprise risk management strategy as well as specific risk management strategies for each broad risk category, and oversees the execution of these strategies across the enterprise. CRM monitors and reports on enterprise-wide risk exposures and oversees economic capital modeling. CRM proactively partners with business units to ensure a consistent enterprise-wide assessment of risk, risk-based capital, and risk-adjusted returns. CRM also drives the development and introduction of new risk measurement and management practices, and risk education, throughout our organization.

Other corporate groups are responsible for overseeing the execution of risk management strategies for certain risks. Global Compliance oversees our regulatory compliance risk management program, Corporate Legal oversees management of our legal risks, Corporate Treasury oversees liquidity and foreign exchange risk management, Corporate Information Technology oversees business interruption risk management, and Corporate Human Resources manages our global human resource programs. Internal Audit independently assesses the effectiveness of our risk management strategies and their execution across the enterprise. The Chief Actuary performs the Dynamic Capital Adequacy Testing that is required by regulators.

Risk Identification and Monitoring

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

The ERC and the ARMC each review a comprehensive report quarterly that presents all key elements of our risk profile and exposures across all risk categories enterprise-wide, incorporating both quantitative risk measures and qualitative assessments. The report presents 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 report includes a scan of our external risk environment, a consolidated view of our exposure to all material risks, highlights recent developments and management activity, and facilitates monitoring of compliance with all risk policy limits.

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

Risk Measurement

Risk exposures are evaluated using a variety of risk measures. Certain of these risk measures are used across a number of risk categories, while others apply only to a single risk type. Risk measures range from simple key risk indicators and scenario impact analyses, to deterministic stress testing and sophisticated stochastic scenario modeling of economic value, 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.

The Company evaluates its consolidated internal risk-based capital using a combination of internal economic capital and Canadian-based Minimum Continuing Capital and Surplus Requirements ("MCCSR"). Economic capital measures the amount of equity needed to support risks, covering potential extreme losses that could occur, with a pre-defined confidence level. We evaluate our consolidated earnings volatility using an internal 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. Strong controls are in place over the development, implementation and application of the stochastic scenario models used in measuring economic capital, earnings at risk and performing other risk analyses across our organization.

The Dynamic Capital Adequacy Test examines our regulatory capital adequacy over a five year projected timeframe, incorporating both existing and projected new business activities, by stress-testing a number of significantly adverse but "plausible" scenarios.

Risk Control and Mitigation

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

Risk mitigation activities, such as product and investment portfolio management, hedging, reinsurance and insurance protection are used to ensure our aggregate risk remains within our risk appetite and limits. Internal controls within the business units and corporate functions are in place to limit our exposure to operational risk, such as regulatory and compliance risk and information security breaches and to ensure integrity of our business and financial results.

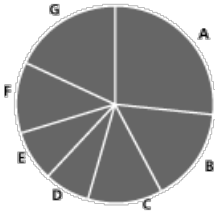
The Company manages risk taking activities against an overall group appetite for assuming risk that reflects the financial condition, and the business strategies and risk tolerances approved by the Board of Directors. The risk appetite is set in relation to a variety of risk measures including economic 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:

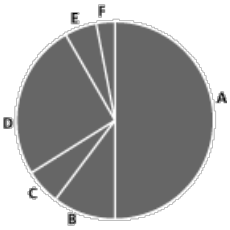
Internal Risk-Based Capital By Risk Type

A Credit
B Interest Rates
C General Fund Equities
D Off-Balance Sheet Product Guarantees & Fees
E Real Estate & Other Assets
F Claims
G Policy Retention & Other Insurance Risks



Internal Risk-Based Capital By Product

A Individual Insurance
B Long Term Care
C Group Insurance
D Individual Wealth Management & Fixed Annuities
E Variable Annuities
F Group Annuities & Pensions



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 other insurance and non-insurance financial services companies. Customer loyalty and retention, and access to distributors, is influenced by many factors, including our product features, service levels, prices relative to our competitors, and our reputation. External business, political and regulatory environments can significantly impact the products and services we can offer, and their price. Changes to laws, taxes, and regulations could reduce barriers to entry, increase cost of compliance, or reduce the attractiveness of some of our product offerings. Continuing consolidation of the financial services industry may increase competition further, and effective execution of desirable transactions is a challenge. Financial strength and claims paying ability ratings are also important to our competitive position. A ratings downgrade could reduce the demand for our products and services, increase the level of surrenders of our products, and negatively impact the cost and availability of capital to us.

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;
- **§** 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 Asset Liability Risk and Liquidity Risk
Market and asset liability 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 and asset liability risk management strategy. The strategy covers the management of a variety of risks that arise in generating the investment returns required to support product liabilities, as well as the 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, interest rate changes, and foreign exchange rate changes. The committee also oversees the management of liquidity. Our market and asset liability risk management strategy is designed to keep potential losses from these risks within acceptable limits.

Global investment policies, approved by the ARMC, establish enterprise-wide and portfolio level targets and limits, as well as delegated transaction approval authorities. The targets and limits are designed to ensure investment portfolios are widely diversified across asset classes and individual investment risks, and are suitable for the liabilities they support. We monitor actual investment positions and risk exposures regularly, and report the positions and exposures to the Global Asset Liability Committee on a quarterly basis, with some exposures reported monthly. We also present reports to the ERC and the ARMC quarterly.

Segmentation and Investment Approach General account product liabilities are segmented into groups with similar characteristics and are

each supported with a uniquely segmented 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 investment policies and goals encompass asset mix, quality rating, duration and cash flow profile, liquidity, currency mix and industry concentration targets, as

well as portfolio management styles such as active or indexed for public equities and buy-and-hold or actively traded for public bonds. 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 long-term returns, subject to considerations related to regulatory and economic capital requirements, and tolerances with respect to short-term income volatility and long-term extreme event risk. Governing business unit asset liability committees and the Global Asset Liability Committee approve the investment policies and goals.

Several products, such as payout annuities and insurance, have guaranteed obligations extending well beyond terms for which returns can generally be locked in with certainty, typically about 25 to 30 years in North America. To support obligations falling within the period for which investment returns can be locked in, we invest in fixed income assets that have a generally matching cash flow or key rate duration profile. We support the remaining liabilities, which give rise to systemic investment return risk as they cannot be cash flow matched, with assets managed to achieve a target return sufficient to support these obligations over their long-term investment horizon. We do this by investing in a prudent amount of a diversified basket of non-fixed income assets, with the balance invested in fixed income portfolios. We allocate any recurring premium inflows, after funding current obligations, between the matching investment strategies and target return investment strategies as needed to support obligations.

To support wealth management products with fixed and highly predictable benefit payments, we invest in fixed income assets that have a generally matching cash flow or key rate duration profile. These products primarily have short to medium-term obligations and offer interest rate guarantees for specified terms on single premiums.

Other products such as participating insurance, universal life insurance and U.S. fixed annuities, largely pass through the investment performance of the assets we invest in to support these products to our policyholders, through dividends declared or rates of interest credited. We manage the assets supporting these products to achieve a target return designed to maximize dividends or credited rates, subject to established risk tolerances.

Derivatives, including foreign exchange contracts, interest rate and cross currency swaps, forward rate agreements and options are used to manage interest rate, foreign currency and equity risks. We mitigate the unique 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.

Investment Return Risk

Key Risk Factors Investment return risk relates primarily to potential losses arising from asset returns insufficient to support product liabilities and is driven by our asset allocation, market influences, as well as the nature of embedded product guarantees and policyholder options.

The investment return risk within our general account arises mainly from: the uncertainty of returns that can be achieved on investments to be made in the future as recurring premiums are received, the uncertainty of returns that can be achieved on existing asset portfolios being managed for long-term return supporting long-dated liabilities, minimum rate guarantees on products where investment returns are generally passed through to policyholders, and embedded policyholder withdrawal options. Investment return risk within the general account may also arise from any tactical mismatch positions taken between the cash flow or key rate duration profile of assets and liabilities that are generally targeted to be matched.

If the cash flow and maturity profile of our assets are shorter than our guaranteed liabilities, interest rate declines may reduce the future return on invested assets earmarked to support those liabilities. On the other hand, for products with adjustable rates, if rates increase significantly, we may need to increase credited rates and reduce margins in order to remain competitive or face potential increases in surrenders on these products. Declines in market values of equity, commercial real estate, and to a lesser extent, timberlands will impact the market value of our general account investments.

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

In addition, the level of our sales activity may be affected by the performance of stock markets, interest rates, inflation and general economic conditions as these will influence the performance of our general account investments, segregated funds and mutual funds.

Risk Management Strategy Interest rate risk management policies and standards of practice are clearly defined and communicated, including interest rate risk exposure limits and delegated trading authorities approved by the ARMC, as well as accountabilities for managing and monitoring interest rate risk. Asset duration, key-rate duration or 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 manage fixed income assets invested for total return against established external benchmarks and portfolio managers maintain interest rate risk exposure positions within prescribed limits.

We mitigate 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. We manage total non-fixed income asset investments against an established aggregate limit, representing a small proportion of total assets, 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 investment return risk arising from off-balance sheet products through benefit guarantee design, limitations on fund offerings and the use of reinsurance. We design new product benefit guarantees and fund offerings to meet established extreme event risk exposure limits, based on economic capital. We have reinsurance in place on existing business that transfers investment return related benefit guarantee risk, where appropriate.

The Company's aggregate exposure to equities is managed against enterprise-wide limits that are approved by the ERC and the ARMC. These limits cover the combined risk arising from off-balance sheet product death and living benefit guarantees, asset-based fees and general account investments.

Market risk exposures are evaluated using a variety of techniques and measures that are primarily based on projecting asset and liability cash flows under a variety of future interest rate and market return scenarios. These measures include durations, key-rate durations, convexity, cash flow gaps, shareholders' economic value at risk based on specific stress scenarios, earnings at risk and economic capital. We monitor and report exposures quarterly to the Global Asset Liability Committee, the ERC and the ARMC.

The following tables show the shareholders' economic value at risk under sample 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 internal models. We calculate shareholders' economic value as the net present value of future cash flows related to current assets, recurring premiums to be received and product benefit and expenses to be paid, all discounted at market yields and adjusted for tax. The stress scenarios are:

- an immediate and permanent parallel increase of one per cent in interest rates for all maturities across all markets;
- an immediate and permanent parallel decrease of one per cent in interest rates for all maturities across all markets, subject to a minimum interest rate of 0.25 per cent; and
- an immediate 10 per cent decline in the market value of non-fixed income assets.

Exposures are shown separately for segments supported with asset-liability matching mandates and segments supported with total return mandates.

Exposures Arising in Segments Supported with Matching Mandates Liability segments supported with matching mandates include non-adjustable product benefit and expense obligations falling within a period for which returns can generally be locked in, typically 25 to 30 years. These liabilities represented approximately half of our product liabilities as at December 31, 2006. Our strategy is to support these liabilities with fixed income assets that have a generally matching cash flow or key rate duration profile.

The following table shows the shareholders' economic values at risk arising from segments supported with asset-liability matching mandates under the interest rate stress scenarios described above.

Shareholders' Economic Value at Risk Arising from Segments Supported with Matching Mandates

As at December 31 (Canadian $ in millions)	1% change in interest rates Increase	 Decrease
2006		
Wealth management	**$ 22**	**$ (24)**
Insurance	**247**	**(325)**
Total	**$ 269**	**$ (349)**
2005		
Wealth management	$ (11)	$ 16
Insurance	227	(314)
Total	$ 216	$ (298)

As at December 31, 2006, our wealth management business supported with matching mandates had virtually no sensitivity to parallel interest rate changes. Within our insurance liability segments supported with matching mandates, we remain positioned to benefit from increases in interest rates in our U.S. long-term care, U.S. life insurance and Canadian insurance segments, and consequently remain exposed to potential permanent declines in interest rates.

Exposures Arising in Segments Supported with Target Return Mandates Liability segments supported with target return mandates include non-adjustable product benefit and expense obligations falling beyond the period for which returns can generally be locked in, typically 25 to 30 years, as well as all liabilities with benefits that can generally be adjusted. These liabilities represented approximately half of our product liabilities as at December 31, 2006. Target return mandate segments also include our shareholders' equity account. These liabilities are supported by asset portfolios incorporating a prudent amount of a diversified basket of non-fixed income assets, with the balance invested in fixed income portfolios. For our asset segments supporting non-adjustable long-dated liabilities, the underlying economic risk exposure is the potential failure to achieve the assumed returns over the entirety of their long investment horizon. For our asset segments supporting adjustable product liabilities, the embedded economic risk arises primarily from embedded minimum guarantees and policyholder withdrawal options.

The following table shows the shareholders' economic values at risk arising from segments supported by total return mandates described above, under the three stress scenarios.

Shareholders' Economic Value at Risk Arising from Segments Supported by Target Return Mandates

As at December 31 (Canadian $ in millions)	1% change in interest rates		10% decline in market values		
	Increase	Decrease	Equities	Real Estate	Other*
2006					
Wealth management	**$ (70)**	**$ 13**	**$ (59)**	**$ (27)**	**$ (7)**
Insurance	**533**	**(1,033)**	**(124)**	**(211)**	**(74)**
Shareholders' equity account	**(396)**	**451**	**(339)**	**(15)**	**(66)**
Total	**$ 67**	**$ (569)**	**$ (522)**	**$ (253)**	**$ (147)**
2005					
Wealth management	$ (36)	$ 30	$ (63)	$ (6)	$ (6)
Insurance	500	(999)	(150)	(172)	(47)
Shareholders' equity account	(304)	340	(244)	(11)	(48)
Total	$ 160	$ (629)	$ (457)	$ (189)	$ (101)

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

Within our insurance liability segments supported by target return mandates, exposure to a permanent decline in interest rates primarily arises in long-dated non-adjustable product benefit segments, due to fixed income asset portfolios with cash flow or key rate duration profiles shorter than the benefits, as well as exposure to minimum rate guarantees on adjustable benefit segments. The exposures within our insurance liability segments are partially offset by the exposures within our shareholders' equity account.

Exposures for Variable Products and Other Managed Assets The following table shows the potential impact on shareholders' economic value, arising from variable products and mutual funds, as well as institutional asset management operations, as a result of an immediate 10 per cent decline in the market value of equity funds.

Impact on Shareholders' Economic Value of a Ten Per Cent Decline in Market Values of the Equity Component of Variable Product and Other Managed Assets

As at December 31 (Canadian $ in millions)	2006	2005
Market-based fees	**$ (567)**	$ (472)
Variable product guarantees	**$ (167)**	$ (207)

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

Variable Annuity and Segregated Fund Benefit Guarantees

As at December 31 (Canadian $ in millions)	2006			2005		
	Fund value[2]	Amount at risk[2]	Expected guarantee cost[3]	Fund value[2]	Amount at risk[2]	Expected guarantee cost[3]
Maturity / income benefits	**$ 51,188**	**$ 429**		$ 36,553	$ 613	
Death benefits[1]	**12,926**	**1,133**		12,543	1,578	
Total	**$ 64,114**	**$ 1,562**	**$ (1,623)**	$ 49,096	$ 2,191	$ (1,252)

1 Death benefits include stand-alone guarantees and guarantees in excess of maturity or income guarantees where both are provided on a policy.

2 Amount at risk is the excess of guaranteed values over fund values on all policies where the guaranteed value exceeds the fund value. Fund value and amount at risk are net of amounts reinsured. This amount is not currently payable and represents a theoretical value only.

3 Expected guarantee cost is net of reinsurance and fee income allocated to support the guarantees.

Guaranteed benefits are contingent and only payable upon death, maturity, withdrawal or annuitization, if fund values remain below guaranteed values. The expected guarantee cost represents the average, across all stochastically modeled investment return scenarios, of the present values of projected future guaranteed benefit payments, net of reinsurance and fee income allocated to support the guarantees, considering future mortality, policy termination and annuitization rates. Fee income supporting guarantees is expected to exceed benefit payments, resulting in a negative expected cost. The reduction in the amount at risk and the improved expected cost of guarantees as compared to December 31, 2005 was driven by favourable equity market performance along with the sales of higher margin products.

The actuarial liabilities established for guaranteed benefit payments related to variable annuities and segregated funds must fall between the average of the present values calculated as described above, across the most adverse 40 per cent of investment scenarios and the average calculated across the most adverse 20 per cent of the investment return scenarios. As at December 31, 2006 and December 31, 2005, actuarial liabilities held for these guaranteed benefit payments were $546 million and $547 million respectively, exceeding both the minimum requirement and the expected guarantee cost. While determined based on an average of stochastic investment return scenarios, in aggregate, the actuarial liabilities held as at December 31, 2006 would adequately defease our projected

guaranteed benefit payments across all businesses as long as future fund returns, including dividends, average at least two and one half per cent per annum.

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 were to strengthen relative to non-Canadian currencies, the translated value of reported revenue, expenses and 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.

Currency risk exposure is managed to an established Value at Risk limit. The Value at Risk model is based on the industry-accepted J.P. Morgan Chase Risk Metrics methodology applied to our actual currency position relative to the policy position. We also monitor and regularly report the sensitivity of our net income and shareholders' equity to changes in foreign exchange rates to the Global Asset Liability Committee and ERC and report quarterly to the ARMC. A one per cent increase in the Canadian dollar relative to the U.S. dollar would have reduced shareholders' equity by $165 million as at December 31, 2006 and $151 million as at December 31, 2005. The same change in foreign exchange rates would have reduced 2006 and 2005 net income by $28 million and $21 million, respectively.

Liquidity Risk

Key Risk Factors Manulife Financial is exposed to liquidity risk in each operating company and in the holding company. In the operating companies, expected cash demands arise day-to-day to fund anticipated policyholder benefits, expenses and investment activities. Under stressed conditions, unexpected cash demands could arise primarily from an increase in the level of policyholders either terminating policies with material cash surrender values, or not renewing them when they mature, and from an increase in the level of borrowers renewing or extending their loans when they mature.

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

Risk Management Strategy Global liquidity management policies and procedures are designed to ensure we have adequate liquidity available in the holding company, each operating company, and our consolidated operations, 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 lessened 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. These policies generate a diversified and stable flow of recurring premium income. We design the policyholder termination features of our wealth management products and our investment strategies to support them, to mitigate the financial exposure and liquidity risk related to unexpected policyholder terminations. We establish and implement investment strategies that match the cash flow or maturity profile of the assets to the liabilities they support, taking into account the potential for unexpected policyholder terminations and resulting liquidity needs. We also maintain centralized cash pools and access to other sources of liquidity such as repurchase funding agreements. We forecast and monitor actual daily operating liquidity and cash movements in local operations as well as centrally, to ensure liquidity is available and cash is employed optimally.

Global operating and strategic liquidity levels are managed against established minimums, approved by the ARMC. 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 using an industry-accepted model under both immediate (within one month) and ongoing (within one year) stress scenarios. Under this model, adjusted liquid assets include cash and short-term investments, and marketable bonds and stocks that are discounted to reflect convertibility to cash, are net of maturing debt obligations. Under the model, policy liabilities are adjusted to reflect their potential for withdrawal. Our policy is to maintain adjusted liquid assets at a level above adjusted policy liabilities, corresponding to the highest liquidity rating issued by Standard & Poor's.

Strategic Liquidity

	2006		2005	
As at December 31 (Canadian $ in millions unless otherwise stated)	Immediate scenario	Ongoing scenario	Immediate scenario	Ongoing scenario
Adjusted liquid assets	**$ 92,142**	**$91,320**	$ 87,798	$88,638
Adjusted policy liabilities	**$ 22,507**	**$28,973**	$ 22,120	$28,485
Liquidity ratio	**409%**	**315%**	397%	311%

During the year, the Strategic Liquidity Ratio was adjusted to more accurately reflect the surrender profile of certain Annuities business. Prior year numbers have been revised to conform to the current basis of calculation.

Credit Risk

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

Key Risk Factors A pronounced and sustained economic downturn could result in borrower or counterparty defaults or downgrades, and could lead to increased provisions for impairments related to our general account invested assets and off-balance sheet 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 and intermediaries, including reinsurers and insurance providers. Our policies, approved by the Credit Committee, 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. The Credit Committee monitors compliance against all credit policies and limits. Internal Audit performs periodic internal audits of all credit-granting units to ensure compliance with credit policies and procedures.

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

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

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

An allowance for losses on invested assets is established when an asset or portfolio of assets becomes impaired as a result of deterioration in credit quality, to the extent there is no longer assurance of timely realization of the carrying value of assets and related investment income. We reduce the carrying value of an impaired asset 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 losses or that additional provisions or asset write-downs will not be required. However, we remain conservatively provisioned for credit losses overall and our level of impaired assets continues to be very low.

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 loss rates and, to a lesser extent, deterioration in credit ratings of borrowers, may result in losses if actual rates exceed expected rates. As at December 31, 2006 and December 31, 2005, credit loss rates over the next year which exceed the rates provided for in actuarial reserves by 25 per cent would reduce net income by $30 million and $39 million, respectively.

A variety of aggregate credit risk exposure measures are monitored regularly and reported to the Credit Committee and ARMC, as shown in the following table.

Credit Risk Measures

As at December 31 (Canadian $ in millions unless otherwise stated)	**2006**	2005
Net impaired assets	**$ 341**	$ 643
Net impaired assets as a per cent of total invested assets	**0.20%**	0.39%
Allowance for impairment	**$ 186**	$ 276
Provision for future credit losses included in actuarial liabilities [1]	**$ 2,547**	$ 2,906

1 Excludes allowances for pass-through credit risk pertaining to participating policies and certain other policies. The allowance for expected credit losses implicit in actuarial liabilities for these policies was estimated to be $1,289 million as at December 31, 2006 and $1,231 million as at December 31, 2005.

Insurance Risk

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

Key Risk Factors A variety of assumptions are made related to the future level of claims, policyholder behaviour, expenses and sales levels when we design and price products, and when we establish actuarial liabilities. To develop assumptions for future claims, we use both Company and industry experience. Actual claims may be materially worse 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. To develop assumptions for future policyholder behavior, we use Company experience and predictive models. Policyholder premium payment patterns, policy renewal, withdrawal and surrender activity is influenced however, by many factors including market and general economic conditions, and the availability and price of other products in the marketplace. Predictions, therefore, rely on significant judgement. Actual policyholder activity may be materially more adverse than the assumptions we make.

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 approved by the ARMC, 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 related 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 and periodic internal audits of the product development and pricing activities of all businesses, to ensure compliance with standards.

We utilize a global underwriting manual to ensure insurance underwriting practices 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 periodically review business unit practices to ensure compliance with standards.

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

We further reduce exposure to claims concentrations by applying geographical aggregate retention limits for certain covers and by purchasing catastrophe reinsurance for life, health and disability insurance worldwide. Our catastrophe reinsurance covers losses in excess of U.S. $100 million deductible up to U.S. $225 million (U.S. $50 million for Japan) over the deductible. In addition to accidents and natural catastrophes, it provides full cover for losses due to all terrorist activities in Canada, where the concentrations are highest, and restricted cover for losses due to terrorist activities in other parts of the world.

As noted above, fluctuations in claims experience may result in losses. As at December 31, 2006 and December 31, 2005 actual mortality and morbidity rates over the next year exceeding the rates provided for in actuarial reserves by five per cent would reduce net income by $123 million and $113 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, 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, poor customer service or damage to reputation. Operational risk is also embedded in all the practices we use to manage other risks. If not managed effectively, operational risk can impact our ability to manage other key risks such as credit risk, market and asset liability risk and insurance risk.

Risk Management Strategy Manulife Financial's strong corporate governance, clearly communicated 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 comprehensive risk control self-assessments to identify, document and assess inherent operational risks and effectiveness of internal controls. They regularly monitor key risk indicators that provide early warnings of emerging control issues and proactively modify procedures. Material operational risk exposures and risk management activities are reported quarterly to the ERC and the ARMC. Internal Audit independently assesses the effectiveness of risk management strategies and internal controls. External auditors review the effectiveness of internal controls to the extent necessary to conduct an audit of the Company's financial statements. Both the internal and external auditors report independently to the ARMC on the findings of their audits.

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

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

Reputation Risk Reputation risk is the risk that our corporate image may be eroded by adverse publicity, as a result of our business practices or those of our representatives and business partners, potentially causing damage to our franchise value. Representatives, among others, include independent distributors, such as broker-dealers, banks and wholesalers, 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 their 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. We have established an enterprise-wide Reputation Risk Policy, approved by the ARMC, which specifies the responsibilities of the Board and 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 clearly detailed and 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. The laws, regulations and regulatory policies are primarily intended to protect policyholders, beneficiaries and depositors, not shareholders. Failure to comply with applicable statutes or regulations could result in financial penalties or sanctions, and damage to reputation. We are also regularly involved in litigation, both as plaintiff and defendant, which could result in an unfavourable resolution.

Global Compliance oversees our regulatory compliance program, supported by designated chief compliance officers in every division. The program is designed to promote compliance with regulatory obligations worldwide and to help ensure awareness of the laws and regulations that affect us, and the risks associated with failing to comply. Divisional compliance groups monitor emerging legal and regulatory issues as well as proposed regulatory changes and take an active role in attempting to influence these where appropriate. They also prepare us to address new requirements. Global Compliance also independently assesses and monitors the effectiveness of a broad range of regulatory compliance processes and business practices against potential legal, regulatory and reputation risks, and helps to ensure significant issues are escalated and proactively mitigated, reporting to the ARMC semi-annually. 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.

As part of the Sarbanes Oxley Act of 2002, a risk assessment of our operational risks associated with enterprise-wide financial reporting was conducted. As part of this assessment, a thorough documentation and review of our controls was undertaken by the Company. This review has enabled us to further improve our overall efficiency and effectiveness around our financial reporting.

Technology 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. 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. Our executive management is committed to employee training and development, and our compensation program is designed to retain employees. We have in place a number of recruiting programs to attract the best and the brightest for every level of the organization.

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

Additional Risk Factors That May Affect Future Results

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

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

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

Capital Management and Capital Adequacy

Overview

The Company's objectives with respect to capital management are: 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.

The Company's balance sheet capital mix is:

As at December 31 (Canadian $ in millions)	2006	2005	2004
Long-term debt*	**$ 3,062**	$ 2,457	$ 2,948
Liabilities for preferred shares and capital instruments	**2,572**	1,922	1,950
Non-controlling interest in subsidiaries	**202**	187	136
Equity	**25,656**	23,787	23,101
Total	**$ 31,492**	$ 28,353	$ 28,135

* Includes $550 million notes payable to Manulife Finance (Delaware) LLC deployed as operational leverage.

Management of Capital

Operational oversight 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 management policies and plans, including capital targets and capital allocation policies, and reviews transactions that affect Manulife's subsidiaries and the Company as a whole.

Capital levels are managed centrally to achieve a cost effective capital structure. We maintain capital quality by limiting the amount of debt capital or non-permanent equity capital in the capital structure. We monitor and rebalance our capital mix through opportunistic capital issuances, capital repurchases and redemptions.

The Company uses an internal risk based economic capital framework to measure the capital requirements across the various businesses and jurisdictions where we do business. In addition, our businesses are subject to regulatory capital requirements in the various jurisdictions in which we operate. Capital is generally allocated to business lines for planning and performance management purposes based on the higher of the economic capital and the regulatory capital level.

Common Shareholder Dividend and Target Dividend Payout Ratio

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

For the years ended December 31	2006	2005	2004
Common dividends per share paid in cash	**$ 0.725**	$ 0.58	$ 0.47
Common share dividend payout ratio	**29%**	28%	27%

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

Capital Issuances

In 2006, we issued $1,989 million of capital (2005 – $536 million) and redeemed/repurchased $1,903 million of capital (2005–$1,555 million), including $1,631 million of common shares (2005 – $1,238 million).

On January 3, 2006, we took advantage of a favourable market environment by issuing 12 million Class A, Series 3 non-cumulative perpetual preferred shares for an aggregate amount of $300 million. The Series 3 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 4.50%.

On March 28, 2006, MFC issued $350 million senior medium term notes which bear interest at a fixed rate of 4.67% and mature on March 28, 2013. The proceeds from the issuance were invested in subordinated debt of The Manufacturers Life Insurance Company ("MLI") and form part of MLI's regulatory capital.

On December 14, 2006, Manulife Finance (Delaware), L.P. ("Manulife LP"), a wholly owned partnership, issued $650 million of subordinated debentures which mature December 15, 2041 and $550 million of senior debentures which mature December 15, 2026. 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 and 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. Proceeds from these debentures have been invested in MLI's U.S. based subsidiary. Accordingly we have entered into derivative contracts to swap these loans to U.S. dollars. The subordinated debentures form part of MLI's regulatory capital whereas the $550 million of senior debentures represent operational leverage.

During 2006, pursuant to the exercise of stock options and the settlement of deferred share units, eight million common shares were issued for a total consideration of $139 million (2005 – $186 million).

Debt Redemptions and Common Share Repurchase Program

On February 16, 2006, MLI redeemed all the outstanding $250 million 5.70% subordinated debentures due February 16, 2011 at par plus accrued and unpaid interest to the date of redemption. The debt formed part of MLI's regulatory capital.

During 2006 we purchased and subsequently cancelled 45 million common shares pursuant to normal course issuer bids ("NCIB") at a total cost of $1,631 million. The current NCIB expires on November 8, 2007, and allows for the repurchase of up to 75 million common shares at prevailing market prices.

As a subsequent event, on January 2, 2007, The Manufacturers Investment Corporation ("MIC") exercised its right to redeem on February 1, 2007 all the outstanding U.S. $508 million 8.25% subordinated debentures due February 1, 2007 held by MIC Financing Trust I ("MIC Trust") at par plus accrued and unpaid interest to the date of redemption. As a result of this action, on February 1, 2007, MIC Trust redeemed its total outstanding U.S. $492.5 million 8.375% Capital Trust Pass-through Securities ("TruPS") and U.S. $15.5 million 8.25% Common Securities held by MIC, at par plus accrued and unpaid distributions to the date of redemption.

Regulatory Capital

The Company monitors and manages consolidated capital for MFC in compliance with the Office of the Superintendent of Financial Institutions ("OSFI") Guideline A2 — Capital Regime for Regulated Insurance Holding Companies and Non-Operating Life Companies, issued July 5, 2005. Under this regime our consolidated available capital is measured against a required amount of risk capital determined using methods and assumptions in the guideline.

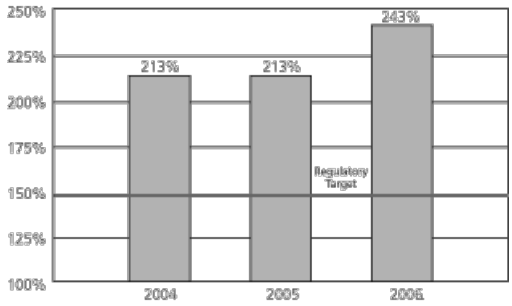
Manulife has established capital targets in excess of regulatory targets for our primary operating subsidiaries. MFC has two principal operating insurance companies: MLI and John Hancock Life Insurance Company ("JHLICO").

Our principal Canadian operating company, MLI, is regulated by OSFI and is subject to Minimum Continuing Capital and Surplus Requirements ("MCCSR"). MLI's MCCSR ratio as at December 31, 2006 was 243 per cent, well in excess of OSFI's target 150 per cent and higher than the 213 per cent ratio as at December 31, 2005. The key drivers affecting the ratio over the course of 2006 were strong earnings offset by dividends paid to MFC, business growth and asset mix changes. In addition, the ratio has temporarily increased due to the issuance of $650 million of subordinated debt which replaced the existing TruPS capital redeemed on February 1, 2007. Without the TruPS capital, MCCSR ratio would have been 234 per cent. MLI's operations and subsidiaries all maintained capital levels in excess of local requirements as at December 31, 2006. In particular Manulife Canada Ltd., an OSFI-regulated Canadian operating insurance company, had an MCCSR ratio of 234 per cent, well above the regulatory target of 150 per cent.

JHLICO is domiciled in the State of Massachusetts and is subject to the Risk-Based Capital ("RBC") requirements of the National Association of Insurance Commissioners ("NAIC"). JHLICO's RBC ratio is reported annually, as per the NAIC requirements. JHLICO's RBC ratio increased from 359 per cent as at December 31, 2005 to 370 per cent as at December 31, 2006 due to earnings and asset mix changes offsetting business growth. This ratio is well above the regulatory target of 100 per cent. JHLICO's foreign operations and subsidiaries all maintained capital levels in excess of local requirements as at December 31, 2006.

Regulatory Capital Ratios

MLI MCCSR



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

JHLICO RBC Ratio



RBC ratios are a per cent of the Company Action Level RBC. The NAIC regulatory minimum is 50%, with 100% regulatory target

Credit Ratings

The Company's credit ratings are among the highest of global financial institutions. In November 2006, S&P upgraded MFC's counter-party credit rating to AA from AA- and the insurance financial strength/claims paying ratings for our principal Canadian, U.S., Hong Kong and Japan operating subsidiaries to AAA from AA+. In addition, Moody's continues to maintain a positive outlook on a number of our insurance company credit ratings. The following table summarizes our operating company ratings as at March 14, 2007.

Primary Insurance Company Financial Strength/Claims Paying Credit Ratings

	S&P	Moody's	DBRS	Fitch	A.M. Best
The Manufacturers Life Insurance Company	AAA	Aa2 (Positive)	IC-1	AA+	A++
John Hancock Life Insurance Company	AAA	Aa2 (Positive)	Not Rated	AA+	A++
John Hancock Life Insurance Company (U.S.A.)	AAA	Aa2 (Positive)	Not Rated	AA+	A++
Manulife (International) Limited	AAA	Not Rated	Not Rated	Not Rated	Not Rated
Manulife Life Insurance Company (Japan)	AAA	Not Rated	Not Rated	Not Rated	Not Rated

Critical Accounting and Actuarial Policies

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

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

Allowance for Asset Impairment

The allowance for credit losses adjusts the value of fixed income assets that are considered other than temporarily impaired for other than interest rate changes, to their estimated realizable value. In assessing the estimated realizable value, judgment is exercised relating to matters including economic factors, developments affecting companies in particular industries and specific issues with respect to single borrowers, for which the ultimate outcome is unknown.

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

Policy Liabilities

Policy liabilities for Canadian GAAP are valued under standards established by the Canadian Institute of Actuaries. These standards are designed to ensure we establish an appropriate liability on the balance sheet to cover future obligations to all our policyholders. Under Canadian GAAP, the assumptions underlying the calculation 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 policy benefit 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 where all or part of a policy liability is transferred to another 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 ranges for the permissible level of margins for adverse deviation based on the risk profile of the business. We use assumptions at the conservative end of the permissible 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 2006 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 2006 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 2006 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 2006 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 re-investment strategies are based on our target investment policies for each segment and the re-investment returns are derived from current and projected market rates for fixed interest investments and our projected outlook for non-fixed interest assets. Investment return assumptions include expected future credit losses on fixed income investments. Credit losses are projected based on our own and industry experience, as well as specific reviews of the current investment portfolio. In 2006, credit loss experience on both bonds and mortgages continued to be favourable when compared to our assumptions. Investment return assumptions for each asset class also incorporate expected investment management expenses that are derived from internal cost studies. Overall 2006 investment management expense experience was unfavourable when compared to our assumptions.

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

Experience adjusted products: Where policies have features that allow the impact of changes in experience to be passed on to policyholders through policy dividends, experience rating refunds, credited rates or other adjustable features, the projected policyholder benefits are adjusted to reflect the projected experience.

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.

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. The future revenue deferred in the valuation due to these limitations is shown in the table below.

As at December 31

(Canadian $ in millions)	**2006**	2005
Best estimate actuarial liability	**$100,742**	$104,030
Provision for Adverse Deviation		
Insurance risks (mortality/morbidity)	**$ 5,659**	$ 4,998
Policyholder behavior (lapse/surrender/premium persistency)	**2,667**	2,586
Expenses	**850**	877
Investment risks (non-credit)	**9,169**	7,205
Investment risks (credit)	**1,581**	1,736
Segregated fund guarantees	**2,195**	1,820
Other	**553**	1,112
Total Provision for Adverse Deviation (PfAD)	**$ 22,674**	$ 20,334
Segregated funds – non-capitalized margins	**8,038**	6,197
Total of PfAD and non-capitalized segregated fund margins	**$ 30,712**	$ 26,531

Reported actuarial liabilities as at December 31, 2006 of $123,416 million (2005 – $124,364 million) are composed of $100,742 million (2005 – $104,030 million) of best estimate actuarial liability and $22,674 million (2005 – $20,334 million) of PfAD.

The increase in the PfAD for insurance risks is primarily related to increasing levels of Long Term Care business in-force.

The increase in PfAD for investment risks (non-credit) reflects an increase in PfAD levels through adoption of a new valuation interest scenario for policy liability valuation as a result of changes to valuation standards of practice, other changes to modeling of re-investment risk, and changes to asset mix and assumed re-investment asset mix assumptions.

The increase in the PfAD for segregated fundguarantees reflects increased margins in the provisions held due to strong equity markets as well as business growth. These two factors also drive the increase in the other Segregated Funds – Non-Capitalized margins.

The reduction in Other PfAD reflects a reduction in specific additional risk reserves related to policyholder dividends and asset disposition risks on John Hancock private debt assets.

Sensitivity of Policy Liabilities to Changes in Assumptions

When our assumptions are updated to reflect recent and emerging experience or change in outlook, the result is a change in the value of policy liabilities. The sensitivity of the value of policy liabilities to changes in assumptions is shown below, assuming that there is a simultaneous change in the assumption across all business units. For policy related assumptions, the adverse sensitivity assumes experience moves in the direction that generates an adverse result for each key business separately.

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 Policy Liabilities**	
	2006	2005
Policy Related Assumptions – 10% adverse change		
Future mortality rates	**$ 2,407**	$ 2,402
Future morbidity rates	**1,112**	914
Future termination rates	**810**	684
Future expense levels	**664**	670

Asset Related Assumptions – 100 basis point change	**Increase**	**Decrease**	Increase	Decrease
Level of future market interest rates	**$ (420)**	**$ 488**	$ (811)	$ 1,079
Level of future equity returns	**(1,052)**	**1,122**	(1,450)	1,597
Level of future real estate returns	**(939)**	**991**	(258)	234

- The sensitivities of policy liabilities to changes in assumptions shown in the table above are not adjusted for the related impact on income taxes.
- Changes in market interest rates reflect a change to the initial market interest rates, but assume that ultimate long-term fixed income re-investment rates ("URRs") for new investments are unchanged. If the long-term URRs were to be changed by a similar amount to the initial market interest rates, so that the valuation reflected a permanent shift in market interest rates available for all future re-investments, the policy liability increases by $3,347 million for a 100 basis point decrease in interest rates, and decreases by $2,461 million for a 100 basis point increase in interest rates.
- The sensitivities for level of future market interest rates are calculated based on adjusting the interest rates in the current valuation interest scenario used to determine policy liabilities, and do not reflect potential additional costs from full prescribed scenario testing.
- The sensitivities to future equity returns reflect the impact of an increase/decrease on both common and private equity returns.

The reduction in sensitivity to the level of future market interest rates in 2006 relative to 2005 reflects a change in the valuation interest scenario used to determine policy liabilities. Under the scenario used in 2006, market interest rates in North America are assumed to grade to the ultimate re-investment rates over five years, as opposed to 20 years in the previous year's valuation interest scenario.

The increase in sensitivity to the assumed level of future real estate returns in 2006 relative to 2005 is due to an increase in real estate assets currently supporting policy liabilities and an increased assumption of real estate used in future cash flow re-investment asset mixes. This is offset by a reduction in equity sensitivity, as the increase in real estate usage is largely offset by a reduction in equity usage.

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

Impact of 2006 Review by Category of Change

(Canadian $ in millions)

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

Total	**$ (67)**

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

The 2005 review of the actuarial methods and assumptions underlying policy liabilities produced a net reduction in the policy liabilities of $50 million. Net of the impacts on participating surplus and minority interests, this resulted in an increase in 2005 shareholders' income of pre-tax $74 million.

Impact of 2005 Review by Category of Change

(Canadian $ in millions)

Credit loss assumptions	$ (96)	Release of remaining corporate cyclical credit loss provision partially offset by impact of revisions to long-term credit loss rate assumptions.
Long-term interest rate assumptions	338	Increase in liabilities due to adoption of more conservative ultimate long-term interest rates in North America as well as an increase due to a decline in long-term interest rate assumptions in Taiwan to a level consistent with the very low current interest rate environment.
Other investment return assumption impacts	52	Comprises the following items: (i) increase from updating the investment return assumptions for 2005 investment market movements, driven by impact of lower interest rates on long duration individual life contracts in Canada, offset by strong 2005 equity markets in Japan; and (ii) release related to refinements to the asset mix and re-investment assumptions used in valuation of John Hancock segments to reflect target investment strategies being implemented (see note below).
Regular review of non- economic assumptions	(275)	Comprises the following items: (i) release from lower investment expense and general maintenance expense assumptions reflecting John Hancock acquisition synergies; (ii) release from improved mortality assumptions, primarily in Reinsurance, Canada and Singapore with some off- set in Japan; and (iii) increase from strengthening related to policy persistency, primarily on insur- ance lines in the U.S. and Canada.
Model enhancements	(69)	Includes a number of enhancements for modeling of taxes, investment risks and policy benefits.
Total	**$ (50)**	

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

Change in Policy Liabilities

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

2006 Policy Liability Movement Analysis

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

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

The increase of $8 million in acquisition results from the acquisition of a block of business from Pramerica in the Philippines in the third quarter of 2006.

The large reduction of $6,276 million for in-force movements on the U.S. Wealth Management block includes $4,534 million of net maturity benefits on institutional contracts, a product line that is intentionally being de-emphasized. The reduction of $366 million for in-force movement in Reinsurance Division is largely due to provisions set up in 2005 related to Hurricane Katrina and released to cover claims costs. The increase in the Corporate and Other segment includes a liability established in the 2006 valuation review of methods and assumptions related to implementation of quarterly CALM valuation for insurance business.

Included in the total in-force reduction of $3,310 million is a reduction of $67 million from changes in methods and assumptions, as described above. This reduction results in an increase in pre-tax earnings.

Of the $1,310 million net reduction in policy liabilities related to new business and in-force movement, $1,127 million is reported as a reduction in actuarial liabilities on the Consolidated Statement of Operations. The remaining $183 million is comprised of a $284 million decrease in other policy liabilities and a $101 million re-classification from other liabilities to policy liabilities.

2005 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, 2005	$ 42,246	$ 49,387	$30,046	$13,835	$ 1,936	$ (40)	$137,410
New business	497	1,226	351	(131)	17	—	1,960
Acquisitions	(425)	(241)	110	525	—	472	441
In-force movement	809	(5,752)	784	358	304	(229)	(3,726)
Currency impact	(1,168)	(1,362)	—	(1,421)	(26)	(59)	(4,036)
Total net changes	(287)	(6,129)	1,245	(669)	295	184	(5,361)
Balance, December 31, 2005	$ 41,959	$ 43,258	$31,291	$13,166	$ 2,231	$ 144	$132,049

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

The increase of $441 million for acquisitions relates to adjustments to our 2004 John Hancock acquisition. There is an increase in policy liabilities of $318 million that was recorded as the result of the purchase equation adjustments, as well as an increase of $518 million in Asia relating to the consolidation of the operations of Malaysia onto the balance sheet. Offsetting these increases was a reduction of $395 million in U.S. Wealth Management from a reclassification of certain institutional policy liabilities as off balance sheet.

The large reduction of in-force movements within U.S. Wealth Management includes $4,682 million of net maturity benefits on institutional contracts, a product line that is intentionally being de-emphasized. The remaining reduction of $1,070 million is consistent with the general shift in business from on balance sheet to segregated funds and other off balance sheet business. The reduction of $229 million in the Corporate and Other segment includes the release of the cyclical credit loss provision in the 2005 valuation review of methods and assumptions.

Included in the total in-force reduction of $3,726 million is a reduction of $50 million from changes in methods and assumptions, as described above. This reduction resulted in an increase to pre-tax earnings. Of the $1,766 million net reduction in policy liabilities related to new business and in-force movement, $2,376 million is reported as a reduction in actuarial liabilities on the Consolidated Statement of Operations. The remaining $610 million relates to the change in other policy liabilities.

Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15, “Consolidation of Variable Interest Entities” (“AcG15”), which was effective for the Company on January 1, 2005. AcG15 sets out the application of consolidation principles to variable interest entities (“VIEs”) that are subject to consolidation on the basis of beneficial financial interest as opposed to ownership of voting interests. Where an entity is considered a VIE, the primary beneficiary is required to consolidate the assets, liabilities and results of operations of the VIE. The primary beneficiary is the entity that is exposed, through variable interests, to a majority of the VIE’s expected losses and/or is entitled to a majority of the VIE’s expected residual returns, as defined in AcG15. The Company has determined that no variable interest entity is required to be consolidated on the general fund accounts of the Company. However, as outlined in note 17 to the consolidated financial statements, certain VIEs have been consolidated on the Segregated Funds Statements of Net Assets. Segregated funds net assets attributable to other contract holders increased by $140 million (2005 – $133 million). The Company uses a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether an entity is a VIE, and to analyze and calculate its expected losses and its expected residual returns. These processes involve estimating the future cash flows and performance of the VIE, analyzing the variability in those cash flows, and allocating the losses and returns among the identified parties holding variable interests to then determine who is the primary beneficiary. In addition, there is a significant amount of judgment exercised in interpreting the provisions of AcG15 and applying them to specific transactions. For further details on the Company’s involvement with VIEs, see note 17 to the consolidated financial statements.

Pensions and Other Post-employment Benefits

We have a number of defined benefit and defined contribution plans providing pension and other benefits to eligible employees and agents after employment. These plans include registered/qualified pension plans, supplemental pension plans and health, dental and life insurance plans. The defined benefit pension plans provide benefits based on years of service, contributions and average earnings at retirement. Due to the long-term nature of these plans and of the non-pension post-employment benefit plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on plan assets, health care cost trend rates, projected compensation increases, retirement age, mortality and termination rates. These assumptions are determined by management and are reviewed annually. Actual experience that differs from the assumed experience will affect the amounts of benefit obligation and expense. The key weighted average assumptions used, as well as the sensitivity of these assumptions, are presented in note 16 to the consolidated financial statements.

Income Taxes

The Company is subject to income tax laws in various jurisdictions. These complex tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. The provision for income taxes represents management’s interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the period. A future income tax asset or liability is determined for each timing difference based on the future tax rates that are expected to be in effect and management’s assumptions regarding the expected timing of the reversal of such temporary differences.

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are tested at least annually for impairment. The test is at the reporting unit level for goodwill and at the total company level for intangible assets with indefinite lives. Any potential impairment of goodwill is identified by comparing the estimated fair value of a reporting unit to its carrying value. Carrying value is determined as the amount of capital allocated to the reporting unit. Any potential impairment of intangible assets with indefinite lives is identified by comparing the estimated fair value of the asset to its carrying value on the balance sheet. An impairment loss would be recognized and the asset written down to the extent that the carrying value of the asset exceeds the fair value. Fair values are determined using valuation techniques such as market multiples and discounted cash flow models. The process of determining these fair values requires management to make estimates and assumptions including, but not limited to, projected future sales, earnings and capital investment, discount rates and terminal growth rates. Projected future sales, earnings and capital investment are consistent with plans presented to the Board of Directors. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies. The tests performed in 2006 demonstrated that there was no impairment of goodwill or intangible assets with indefinite lives.

Changes in Accounting Policies

Stock-based compensation

In July 2006, the Emerging Issues Committee of the CICA issued a new abstract, EIC 162, “Stock-based Compensation for Employees Eligible to Retire before the Vesting Date”. The abstract requires that stock-based compensation be recognized at the grant date, for grants to employees who are eligible to retire on the grant date, and over the period from the date of grant to the date of retirement eligibility for grants to employees who will become eligible to retire during the vesting period. This abstract was effective for the year ended December 31, 2006 and was to be applied retroactively, with restatement of prior periods.

The Company adopted the provisions of this new abstract in the fourth quarter of 2006 and reported the cumulative effect on prior years as adjustments to opening contributed surplus and opening retained earnings. Opening retained earnings decreased by $10 million, made up of $7 million related to stock options and $3 million related to restricted share units. The Company has not restated net income of any prior years as a result of adopting this accounting change as the Company has concluded that such an impact is not material to any particular year. For the year ended December 31, 2006, the effect of adopting this change in policy was a decrease in net income of $6 million (net of a provision for income taxes of $1 million).

Financial instruments – recognition and measurement, hedges, comprehensive income and equity

In January 2005, the CICA issued new accounting standards comprising CICA Handbook sections 3855 “Financial Instruments –Recognition and Measurement”, 3865 “Hedges”, 1530 “Comprehensive Income” and 3251 “Equity”, all of which became effective for the Company on January 1, 2007. The standards will increase harmonization with U.S. and international accounting standards. As well, the CICA reissued accounting standard section 4210 “Life Insurance Enterprises – Specific Items” as section 4211, which became effective for the Company on January 1, 2007, and requires life insurance enterprises to account for financial assets and liabilities (excluding policy liabilities) and freestanding and embedded derivatives in accordance with the new financial instruments section.

The standards require that all financial assets be classified as trading, available for sale, held to maturity, or loans and receivables. In addition, the standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans, receivables, and investments intended to be, and classified as, held to maturity, which should be measured at amortized cost. OSFI has imposed certain restrictions on the use of the trading classification.

Changes in the fair value of trading securities will be reported in earnings, while changes in the fair value of available-for-sale securities will be reported within other comprehensive income, until the financial asset is disposed of or becomes impaired, at which time it will be recognized in income.

Similarly, the standards require that all financial liabilities, other than actuarial liabilities, be measured at fair value when they are classified as held for trading or are derivatives. Other financial liabilities should be measured at amortized cost.

Section 3855 does not apply to insurance contracts issued to policyholders by insurance enterprises that are accounted for in accordance with section 4211. However, the determination of policy liabilities depends on the measurement of financial instruments. The standard requires the consequential impact on the policy liabilities to be recorded as an adjustment to the balance of retained earnings at the beginning of the fiscal year when section 3855 is adopted.

Derivatives will be classified as trading, unless they are specifically designated within an effective hedging relationship. The standards permit three types of hedging relationships: fair value hedges, cash flow hedges, and hedges of net investments in self-sustaining foreign operations. For fair value hedges, the effective portion of changes in the fair value of derivative instruments is offset in earnings by the changes in fair value, attributed to the risk being hedged in the underlying asset, liability or firm commitment. For cash flow hedges and hedges of net investments in self-sustaining foreign operations, the effective portion of changes in fair value of derivative instruments is offset through other comprehensive income, until the variability in cash flows being hedged is recognized in earnings in a future accounting period or upon derecognition of the net investment. Where a derivative instrument is designated as a hedge and meets the criteria for hedge effectiveness, earnings offset is available, but only to the extent that the hedge is effective. Any ineffectiveness in a hedging relationship will be recognized in current earnings.

Accumulated other comprehensive income will be included on the consolidated balance sheets as a separate component of shareholders’ equity (net of tax) and will include net unrealized gains on available-for-sale securities, net unrealized gains on derivative instruments designated within an effective cash flow hedge, and unrealized foreign currency translation gains and losses and offsetting hedges on self-sustaining foreign operations.

The impact of these accounting changes on the Company's opening balance sheet as at January 1, 2007 is:

Balance sheet item	Opening balance sheet adjustment
Bonds	Bonds will be classified as held for trading, or available for sale.
Loans	Loans will include bonds that are not traded in an active market, as well as mortgages, policy loans and bank loans.
Stocks	Stocks with a reliable fair market value will be classified as trading or available for sale. Stocks without a reliable fair market value will be carried at the lower of cost and realizable value.
Real estate	Real estate is outside the scope of section 3855 and therefore remains unchanged.
Other investments	Other investments, except where the equity method of accounting is used, will be classified as loans or private equities held at lower of cost and realizable value. Derivative transactions that do not qualify for hedge accounting will be reclassified from the other investments category to other assets and other liabilities.
Other assets and other liabilities	Derivatives with a positive fair value will be classified as other assets and derivatives with a negative fair value will be classified as other liabilities.
Deferred realized net gains	Deferred realized net gains, except those related to real estate, no longer qualify as an asset or liability and will be eliminated.
Policy liabilities	Although policy liabilities are scoped out of section 3855, their measurement depends on the measurement of financial instruments. The initial change to policy liabilities upon adoption of section 3855 resulting from changes in the other balances will be recorded in opening retained earnings.
Consumer notes	Consumer notes will be classified as held for trading.
Future income tax liability	The future income tax liability will be adjusted for the tax impact of the changes to the other balance sheet items.
Liabilities for preferred shares and capital instruments	All liabilities will be carried at amortized cost except for the subordinated debt securities payable to MIC Financing Trust I. This liability will be classified as trading as it is to be redeemed on February 1, 2007.
Opening retained earnings	Opening retained earnings at January 1, 2007 will include an adjustment for all assets and liabilities classified as trading, the elimination of non real estate deferred realized net gains, the consequential impact of the accounting policy changes to policy liabilities, and the related tax impact.
Opening accumulated other comprehensive income ("OCI")	Opening accumulated OCI at January 1, 2007 will include the unrealized gains and losses related to those assets designated as available for sale, net of a tax adjustment. It will also include an adjustment for cash flow hedges, including the closing currency translation account currently reported within retained earnings.

In addition, where an asset or liability was or is in a fair value hedge relationship, the carrying value, or if designated as available for sale the OCI, will be adjusted for the unamortized hedge adjustment attributable to the hedged risk.

Due to the complexity in classifying all of the assets and determining the impact on policy liabilities, the opening balance sheet impact has not been completed.

Accounting for leveraged leases

In September 2006, the Emerging Issues Committee of the CICA amended EIC 46, "Accounting for Leveraged Leases," to incorporate new U.S. Financial Accounting Standards Board Staff Position 13-2 guidance issued in July 2006. 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 is effective for the Company's fiscal year beginning January 1, 2007 and the transition to the new standard will result in a charge to opening retained earnings at January 1, 2007 of $157 million.

Financial instruments – disclosure and presentation

On December 1, 2006, the CICA issued new accounting standards comprising CICA Handbook sections 3862 "Financial Instruments – Disclosure" and 3863 "Financial Instruments – Presentation". Section 3862 requires extensive disclosures of financial instruments, focusing on their impact on financial position and performance, but also on risk of recognized and unrecognized financial instruments. Section 3863 carries forward unchanged the presentation requirements of Section 3861. These standards will be effective for the Company's fiscal year beginning January 1, 2008.

Capital disclosures

In December 2006, the CICA issued a new accounting standard on capital disclosures, Section 1535 "Capital Disclosures", which requires disclosure of the Company's objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. This standard is effective for the Company's fiscal year beginning January 1, 2008.

Differences between Canadian and U.S. GAAP

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

significant respects from U.S. GAAP.

The primary differences between Canadian GAAP and U.S. GAAP include accounting for premiums and deposits, invested assets, investment income and segregated funds. There are also differences in the calculation and accounting for policy liabilities and differences in reporting policy 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 their 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, stocks are carried at market value as compared to current Canadian GAAP where stocks are carried on a move to market value basis. Bonds are considered to be available for sale and are carried at market value for Hong Kong GAAP as compared to amortized cost of current Canadian 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, 2006, the Company's net assets determined in accordance with Canadian GAAP exceeded the minimum solvency margin required by Hong Kong insurance regulations.

Controls and Procedures

Disclosure controls and procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian and U.S. securities laws. Our process includes controls and procedures that are designated to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2006, 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 Audit and Risk Management Committee, the Chief Executive Officer and Chief Financial Officer.

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as at December 31, 2006.

Internal control over financial reporting

Management is responsible for establishing and maintains adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management assessed the effectiveness of our internal control over financial reporting as at December 31, 2006, and based on that assessment determined that our internal control over financial reporting was effective. See pages 46 and 47 for Management's Report on Internal Control over Financial Reporting and the Auditors' Report on Internal Controls under Standards of the Public Accounting Oversight Board (United States) prepared by Ernst & Young LLP with respect to management's assessment of internal control over financial reporting.

No changes were made in our internal control over financial reporting during the year ended December 31, 2006, 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, 2006, 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]	$ 4,504	$ 182	$ 900	$ 677	$ 2,745
Liabilities for capital instruments [1, 2]	6,249	689	200	200	5,160
Purchase obligations	549	121	211	179	38
Capital leases	9	3	5	1	—
Operating leases	544	124	189	112	119
General fund policyholder liabilities [3]	374,867	12,227	18,807	13,758	330,075
Bank deposits and consumer notes [1]	11,203	6,775	2,223	1,111	1,094
Other	359	79	135	71	74
Total contractual obligations	**$398,284**	**$20,200**	**$22,670**	**$16,109**	**$339,305**

1 The contractual payments include principal, interest and distributions. The contractual payments reflect the amounts payable from January 1, 2007 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, 2006 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, 2006, there were $2,211 million of investment commitments (2005 – $2,494 million), of which $1,712 million matures within one year (2005 – $1,933 million), and $414 million within one to three years (2005 – $489 million), $73 million matures within three to five years (2005 – $33 million) and $12 million matures after five years (2005 – $39 million).

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 National Association of Securities Dealers, Inc. 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. As with many other companies in the financial services industry, subsidiaries of MFC have been requested or required by such government and regulatory authorities to provide information with respect to market timing and late trading of mutual funds and sales compensation and broker-dealer practices, including with respect to mutual funds underlying variable life and annuity products. It is believed that these inquiries are similar to those made to many financial service companies by various agencies into practices, policies and procedures relating to trading in mutual fund shares and sales compensation and broker-dealers. The Company intends to continue to cooperate fully with government and regulatory authorities in connection with their respective inquiries. The Company does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on its consolidated financial condition or results of operations.

Quarterly Financial Information

As at and for the three months ended (Canadian $ in millions, except per share amounts)	Dec. 31, 2006	Sept. 30, 2006	June 30, 2006	Mar. 31, 2006	Dec. 31, 2005	Sept. 30, 2005	June 30, 2005	Mar. 31, 2005
Revenue								
Premium income								
Life and health insurance	$ 3,995	$ 3,629	$ 3,593	$ 3,552	$ 3,748	$ 3,803	$ 3,670	$ 3,466
Annuities and pensions	1,085	1,049	1,078	1,123	1,065	1,117	913	805
Total premium income	$ 5,080	$ 4,678	$ 4,671	$ 4,675	$ 4,813	$ 4,920	$ 4,583	$ 4,271
Investment income	2,863	2,593	2,368	2,609	2,512	2,536	2,499	2,389
Other revenue	1,247	1,140	1,150	1,120	1,070	1,029	1,011	1,056
Total revenue	$ 9,190	$ 8,411	$ 8,189	$ 8,404	$ 8,395	$ 8,485	$ 8,093	$ 7,716
Income before income taxes	$ 1,440	$ 1,330	$ 1,271	$ 1,295	$ 1,202	$ 941	$ 1,153	$ 1,026
Income taxes	(332)	(362)	(323)	(349)	(302)	(194)	(309)	(226)
Net income	$ 1,108	$ 968	$ 948	$ 946	$ 900	$ 747	$ 844	$ 800
Basic earnings per common share	$ 0.71	$ 0.62	$ 0.61	$ 0.60	$ 0.57	$ 0.47	$ 0.52	$ 0.50
Diluted earnings per common share	$ 0.70	$ 0.62	$ 0.60	$ 0.59	$ 0.56	$ 0.46	$ 0.52	$ 0.49
Segregated funds deposits	$ 7,879	$ 7,705	$ 7,997	$ 9,706	$ 8,844	$ 8,224	$ 7,285	$ 7,433
Total assets	$186,169	$177,820	$177,013	$182,934	$182,651	$180,017	$185,835	$183,868
Segregated funds net assets	$172,937	$154,606	$146,904	$151,858	$140,361	$132,124	$128,730	$120,814
Weighted average common shares	1,545	1,551	1,570	1,584	1,584	1,593	1,598	1,612
Diluted weighted average common shares	1,561	1,566	1,586	1,601	1,600	1,608	1,613	1,628

Other Disclosures
Selected Annual Financial Information

As at and for the years ended December 31 (Canadian $ in millions, except per share amounts)	2006	2005	2004
Total assets	**$186,169**	$182,651	$184,246
Long-term financial liabilities:			
Long-term debt	**$ 3,062**	$ 2,457	$ 2,948
Non-controlling interest in subsidiaries	**202**	187	136
Liabilities for preferred shares and capital instruments	**2,572**	1,922	1,950
	$ 5,836	$ 4,566	$ 5,034
Cash dividend per common share	**$ 0.725**	$ 0.58	$ 0.47
Cash dividend per Class A Share, Series 1	**$ 1.025**	$ 1.025	$ 1.025
Cash dividend per Class A Share, Series 2	**$1.16252**	$0.96554	$ —
Cash dividend per Class A Share, Series 3	**$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 14 , 2007, MFC had 1,543,483,206 common shares outstanding.

Exhibit 99.3

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. 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 19, 2007

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, 2006 and 2005 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 19, 2007

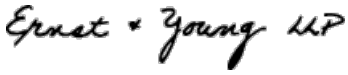
Auditors' Report to the Shareholders

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, 2006 and 2005 and the Consolidated Statements of Operations, Equity 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 audit of the aforementioned financial statements as at December 31, 2006 and for the year then ended in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Our audit of the aforementioned financial statements as at December 31, 2005 and for the year then ended was conducted in accordance with Canadian generally accepted auditing standards. 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 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, 2006 and 2005 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 also have 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, 2006, 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 19, 2007 expressed an unqualified opinion thereon.



Ernst & Young LLP
Chartered Accountants

Toronto, Canada

March 19, 2007

Management's Report on Internal Control over Financial Reporting

The management of Manulife Financial Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Manulife Financial Corporation's internal control system was designed to provide reasonable assurance to the Company's management and 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.

Manulife Financial Corporation management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 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, 2006, the Company's internal control over financial reporting is effective.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, the Company's independent registered public accounting firm, as stated in their report appearing on page 47, which expressed unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2006.



Dominic D'Alessandro
President and Chief Executive Officer



Peter H. Rubenovitch
Senior Executive Vice President and Chief Financial Officer

Toronto, Canada

March 19, 2007

Auditors' Report on Internal Controls under Standards of the Public Company Accounting Oversight Board (United States)

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting on page 46 of this Annual Report, that Manulife Financial Corporation (the "Company") maintained effective internal control over financial reporting as at December 31, 2006, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, 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, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion,the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of the Company and the Consolidated Statement of Net Assets of its Segregated Funds as at December 31, 2006 and the Consolidated Statements of Operations, Equity and Cash Flows of the Company and the Consolidated Statement of Changes in Net Assets of its Segregated Funds for the year then ended and our report dated March 19, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP
Chartered Accountants

Toronto, Canada

March 19, 2007

Consolidated Balance Sheets

As at December 31, (Canadian $ in millions)	2006	2005
Assets		
Invested assets (note 6)		
Bonds	**$103,159**	$103,315
Mortgages	**28,131**	28,008
Stocks	**11,272**	8,715
Real estate	**5,905**	5,279
Policy loans	**6,413**	6,120
Cash and short-term investments	**10,745**	8,723
Bank loans	**2,009**	1,806
Other investments	**3,530**	4,448
Total invested assets	**$171,164**	$166,414
Other assets		
Accrued investment income	**$ 1,557**	$ 1,639
Outstanding premiums	**669**	735
Goodwill (note 21)	**7,461**	7,501
Intangible assets (note 5)	**1,708**	1,742
Miscellaneous	**3,610**	4,620
Total other assets	**$ 15,005**	$ 16,237
Total assets	**$186,169**	$182,651
Segregated funds net assets	**$172,937**	$140,361
Liabilities and Equity		
Policy liabilities (note 7)	**$130,819**	$132,049
Deferred realized net gains (note 6)	**4,442**	4,295
Bank deposits	**7,845**	5,911
Consumer notes (note 10)	**2,860**	2,900
Future income tax liability, net (note 9)	**2,258**	1,337
Other liabilities	**6,453**	7,806
	$154,677	$154,298
Long-term debt (note 11)	**3,062**	2,457
Liabilities for preferred shares and capital instruments (note 12)	**2,572**	1,922
Non-controlling interest in subsidiaries (note 13)	**202**	187
Equity		
Participating policyholders' equity	**142**	157
Shareholders' equity		
Preferred shares	**638**	344
Common shares	**14,248**	14,490
Contributed surplus	**125**	93
Retained earnings and currency translation account	**10,503**	8,703
Total equity	**$ 25,656**	$ 23,787
Total liabilities and equity	**$186,169**	$182,651
Segregated funds net liabilities	**$172,937**	$140,361

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



Dominic D'Alessandro
President and Chief Executive Officer



Arthur R. Sawchuk
Chairman of the Board of Directors

Consolidated Statements of Operations

For the years ended December 31, (Canadian $ in millions except per share amounts)	**2006**	2005
Revenue		
Premium income	**$ 19,104**	$ 18,587
Investment income (note 6)	**10,433**	9,936
Other revenue	**4,657**	4,166
Total revenue	**$ 34,194**	$ 32,689
Policy benefits and expenses		
To policyholders and beneficiaries		
Death, disability and other claims	**$ 5,949**	$ 6,449
Maturity and surrender benefits	**9,814**	10,398
Annuity payments	**3,316**	3,366
Policyholder dividends and experience rating refunds	**1,528**	1,569
Net transfers to segregated funds	**432**	465
Change in actuarial liabilities	**(1,127)**	(2,376)
General expenses	**3,271**	3,378
Investment expenses (note 6)	**892**	746
Commissions	**3,546**	3,338
Interest expense	**962**	788
Premium taxes	**270**	244
Non-controlling interest in subsidiaries	**5**	2
Total policy benefits and expenses	**$ 28,858**	$ 28,367
Income before income taxes	**$ 5,336**	$ 4,322
Income taxes (note 9)	**(1,366)**	(1,031)
Net income	**$ 3,970**	$ 3,291
Loss attributed to participating policyholders	**$ 15**	$ 3
Net income attributed to shareholders	**$ 3,985**	$ 3,294
Preferred share dividends	**(30)**	(14)
Net income available to common shareholders	**$ 3,955**	$ 3,280
Weighted average number of common shares outstanding (in millions)	**1,563**	1,597
Weighted average number of diluted common shares outstanding (in millions)	**1,579**	1,612
Basic earnings per common share	**$ 2.53**	$ 2.05
Diluted earnings per common share (note 15)	**$ 2.51**	$ 2.03

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

Consolidated Statements of Equity

For the years ended December 31, (Canadian $ in millions)	Participating Policyholders	Shareholders	2006	2005
Preferred shares				
Balance, January 1	$ —	$ 344	**$ 344**	$ —
Preferred shares issued (note 14)	—	300	**300**	350
Issuance costs, net of tax	—	(6)	**(6)**	(6)
Balance, December 31	$ —	$ 638	**$ 638**	$ 344
Common shares				
Balance, January 1	$ —	$ 14,490	**$ 14,490**	$ 14,646
Issued on exercise of stock options and deferred share units (note 15)	—	171	**171**	228
Purchase and cancellation (note 14)	—	(413)	**(413)**	(384)
Balance, December 31	$ —	$ 14,248	**$ 14,248**	$ 14,490
Contributed surplus				
Balance, January 1	$ —	$ 93	**$ 93**	$ 102
Cumulative effect of adopting new accounting policy for stock-based awards (note 1(j))	—	7	**7**	—
Balance, January 1 — as restated	$ —	$ 100	**$ 100**	$ 102
Exercise of stock options	—	(32)	**(32)**	(42)
Stock option expense (note 15)	—	26	**26**	33
Tax benefit of stock options exercised	—	31	**31**	—
Balance, December 31	$ —	$ 125	**$ 125**	$ 93
Retained earnings				
Balance, January 1	$ 157	$ 11,918	**$ 12,075**	$ 10,568
Cumulative effect of adopting new accounting policy for stock-based awards (note 1(j))	—	(10)	**(10)**	—
Balance, January 1 — as restated	$ 157	$ 11,908	**$ 12,065**	$ 10,568
Net income (loss)	(15)	3,985	**3,970**	3,291
Preferred share dividends	—	(30)	**(30)**	(14)
Common share dividends	—	(1,133)	**(1,133)**	(926)
Purchase and cancellation of common shares (note 14)	—	(1,218)	**(1,218)**	(854)
Transfer of participating policyholders' retained earnings from acquisition (note 3)	—	—	**—**	10
Balance, December 31	$ 142	$ 13,512	**$ 13,654**	$ 12,075
Currency translation account				
Balance, January 1	$ —	$ (3,215)	**$ (3,215)**	$ (2,215)
Change during the year, net of tax	—	206	**206**	(1,000)
Balance, December 31	$ —	$ (3,009)	**$ (3,009)**	$ (3,215)
Total retained earnings and currency translation account	$ 142	$ 10,503	**$ 10,645**	$ 8,860
Total equity	$ 142	$ 25,514	**$ 25,656**	$ 23,787

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

Consolidated Statements of Cash Flows

For the years ended December 31, (Canadian $ in millions)	2006	2005
Operating activities		
Net income	**$ 3,970**	$ 3,291
Adjustments for non-cash items in net income:		
Increase in actuarial liabilities, excluding John Hancock Fixed institutional products	**3,737**	2,671
Amortization of net realized and unrealized gains on investments	**(1,171)**	(964)
Amortization of premium/discount and mark-to-market adjustments	**271**	397
Other amortization	**234**	215
Future income tax expense	**996**	718
Provisions on investments	**1**	140
Stock-based compensation expense	**26**	33
Non-controlling interest in subsidiaries	**1**	(3)
Net income adjusted for non-cash items	**$ 8,065**	$ 6,498
Changes in policy related and operating receivables and payables	**(19)**	900
Cash provided by operating activities	**$ 8,046**	$ 7,398
Investing activities		
Purchases and mortgage advances	**$(65,693)**	$(59,068)
Disposals and repayments	**63,757**	57,722
Net cash decrease from sales and acquisitions of subsidiaries	**(59)**	—
Cash used in investing activities	**$ (1,995)**	$ (1,346)
Financing activities		
Decrease in repurchase agreements and securities sold but not yet purchased	**$ (384)**	$ (115)
Issue of long-term debt	**901**	4
Repayment of long-term debt	**(272)**	(308)
Issue of subordinated notes	**645**	—
Repayment of subordinated debt securities	**—**	(9)
Net redemptions in John Hancock Fixed institutional products	**(4,864)**	(5,047)
Bank deposits, net	**2,373**	1,558
Capital from joint venture partner	**7**	—
Consumer notes (matured) issued, net	**(40)**	137
Preferred share dividends	**(30)**	(14)
Common share dividends	**(1,133)**	(926)
Funds repaid, net	**(69)**	(380)
Purchase and cancellation of common shares	**(1,631)**	(1,238)
Common shares issued on exercise of options	**139**	186
Tax benefit of stock options exercised	**59**	—
Preferred shares issued, net	**294**	344
Cash used in financing activities	**$ (4,005)**	$ (5,808)
Cash and short-term investments		
Increase during the year	**$ 2,046**	$ 244
Currency impact on cash and short-term investments	**23**	(208)
Balance, January 1	**8,262**	8,226
Balance, December 31	**$ 10,331**	$ 8,262
Cash and short-term investments		
Beginning of year		
Gross cash and short-term investments	**$ 8,723**	$ 8,562
Net payments in transit, included in other liabilities	**(461)**	(336)
Net cash and short-term investments, January 1	**$ 8,262**	$ 8,226
End of year		
Gross cash and short-term investments	**$ 10,745**	$ 8,723
Net payments in transit, included in other liabilities	**(414)**	(461)
Net cash and short-term investments, December 31	**$ 10,331**	$ 8,262

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

Segregated Funds Consolidated Statements of Net Assets

As at December 31, (Canadian $ in millions)	2006	2005
Investments, at market value		
Cash and short-term investments	**$ 3,410**	$ 2,661
Bonds	**11,524**	11,651
Stocks and mutual funds	**155,858**	123,060
Other investments	**4,078**	3,816
Accrued investment income	**86**	96
Other liabilities, net (note 1(f))	**(2,019)**	(923)
Total segregated funds net assets	**$172,937**	$140,361
Composition of segregated funds net assets:		
Held by policyholders	**$172,048**	$139,695
Held by the Company	**571**	361
Held by other contract holders (note 1(f))	**318**	305
Total segregated funds net assets	**$172,937**	$140,361

Segregated Funds Consolidated Statements of Changes in Net Assets

For the years ended December 31, (Canadian $ in millions)	2006	2005
Additions		
Deposits from policyholders	**$ 33,287**	$ 31,786
Net realized and unrealized investment gains	**11,863**	6,708
Interest and dividends	**6,552**	4,241
Net transfers from general fund	**432**	465
Currency revaluation	**523**	(4,539)
Other contracts consolidated with segregated funds (note 1(f))	**—**	305
Funds assumed on acquisition of a subsidiary (note 3)	**—**	395
Total additions	**$ 52,657**	$ 39,361
Deductions		
Payments to policyholders	**$ 17,674**	$ 14,885
Management and administrative fees	**2,407**	2,005
Total deductions	**$ 20,081**	$ 16,890
Net additions for the year	**$ 32,576**	$ 22,471
Segregated funds net assets, January 1	**140,361**	117,890
Segregated funds net assets, December 31	**$172,937**	$140,361

The accompanying notes to these consolidated financial statements are an integral part of these 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 stock life insurance company and the holding company of The Manufacturers Life Insurance Company ("MLI"), a Canadian life insurance company, and John Hancock Financial Services, Inc. ("JHF"), the holding company of a United States financial services group. MFC and its subsidiaries (collectively, "Manulife Financial" or the "Company") provide a wide range of financial products and services, including individual life insurance, group life and health insurance, long-term care insurance, pension products, annuities and mutual funds, to individual and group customers in the United States, Canada and Asia. The Company also offers reinsurance services, primarily life and property and casualty retrocession, and provides investment management services with respect to the Company's general fund assets, segregated fund assets and mutual funds, and to 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, the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. The most significant estimation processes relate to the provisioning for asset impairment, determination of policy liabilities, assessment of variable interest entities, determination of pension and other post-employment benefit obligations and expenses, income taxes and impairment testing of goodwill and intangible assets. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below:

a) Basis of consolidation

MFC consolidates the financial statements of all subsidiary companies with the exception of those that are determined to be variable interest entities ("VIEs") where MFC is not the primary beneficiary. The Company has determined that no VIE is subject to consolidation in the general fund accounts of the Company. However, as outlined in note 17(a), certain VIEs are consolidated in the segregated fund accounts. 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 is used to account for investments over which the Company exerts significant influence. Gains and losses on sales of these investments are included in income when realized, while expected losses on other than temporary impairments are recognized immediately.

b) Invested assets

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

	Carrying value	Recognition of realized gains and losses on normal business activities	Recognition of impairment
Bonds	At amortized cost less an allowance for specific losses. No recognition of unrealized gains and losses unless there is impairment.	Deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the bond sold.	Impairment is recognized on a specific bond when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. In such cases, the bond is written down to its net realizable value and the charge is recorded in income in the period the impairment is recognized.
Mortgages	At amortized cost less repayments and an allowance for specific losses. No recognition of unrealized gains and losses unless there is impairment.	Deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the mortgage sold.	Impairment is recognized on a specific mortgage when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Such impaired mortgages are carried at their estimated realizable value, estimated at the fair value of any security underlying the mortgage, net of expected costs of realization and any amounts legally required to be paid to borrowers. The impairment charge is recorded in income in the period the impairment is recognized.

	Carrying value	Recognition of realized gains and losses on normal business activities	Recognition of impairment
Mortgages (continued)			Mortgages are classified as impaired whenever payments are three months or more in arrears or if there is a provision against the mortgage. At the time of foreclosure, mortgages are written down to net realizable value. Declines in the net realizable value of foreclosed properties are charged to income immediately.
Stocks	Recognition of unrealized gains and losses is on a moving average market basis whereby carrying values are adjusted towards market value at 5% per quarter.	Deferred and brought into income at the rate of 5% of the unamortized deferred realized gains and losses each quarter.	Specific stocks are written down to market value through a charge to income, if an impairment in the value of the entire stock portfolio (determined net of deferred realized gains) is considered to be other than temporary.
Real estate	Recognition of unrealized gains and losses is on a moving average market basis whereby carrying values are adjusted towards market value at 3% per quarter.	Deferred and brought into income at the rate of 3% of the unamortized deferred realized gains and losses each quarter.	Specific properties are written down to market value through a charge to income, if an impairment in the value of the entire real estate portfolio (determined net of deferred realized gains) is considered to be other than temporary.
Policy loans	At their unpaid balance.	Not applicable. Fully secured by the cash surrender values of the policies on which the loans are made.	Not applicable. Fully secured by the cash surrender values of the policies on which the loans are made.

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

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

Income recognition for fixed maturity investments is on the accrual basis, with amortization of premiums and discounts over the life of the investment using the effective yield method.

Other investments include investments in unconsolidated joint ventures, partnerships, funds, limited liability corporations, oil and gas holdings, leases, subordinated debt of life insurance companies and derivatives.

c) Cash and short-term investments

Cash and short-term investments 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 investments are carried at amortized cost. Net payments in transit and overdraft bank balances are included in other liabilities.

d) Goodwill and other intangible assets

Goodwill represents the excess of the cost of businesses acquired over estimated fair values of the net assets acquired. Intangible assets include indefinite life and finite life intangible assets. Goodwill and intangible assets with indefinite lives are tested at least annually for impairment. The test is at the reporting unit level for goodwill and at the total company level for intangible assets with indefinite lives. Any potential impairment of goodwill is identified by comparing the estimated fair value of a reporting unit to its carrying value. Carrying value is determined as the amount of capital allocated to the reporting unit. Any potential impairment of intangible assets with indefinite lives is identified by comparing the estimated fair value of the asset to its carrying value on the balance sheet. An impairment loss would be recognized and the asset written down to the extent that the carrying value exceeds the fair value. Finite life intangible assets are amortized over their estimated useful lives and tested for impairment whenever changing circumstances suggest impairment may have occurred.

e) Miscellaneous assets

Included in miscellaneous assets are amounts due from reinsurers, capital assets and prepaid pension benefit costs. 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.

f) Segregated funds

The Company manages a number of segregated funds on behalf of policyholders. The investment returns on these funds accrue directly to the policyholders. Consequently, these funds are segregated and presented separately from the general fund of the Company. Income earned from fund management fees is included in other revenue in the general fund. Investments held in segregated funds are carried at market value.

Where the Company's general and segregated funds share a controlling financial interest in partnership interests, the partnership is consolidated into the accounts of the segregated funds if the segregated funds own a greater share than the general account. In this case

the share of partnership net assets not owned by the Company or the segregated funds policyholders is reported as net assets held by other contract holders.

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

g) 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 that must be set aside each year to ensure that sufficient funds will be available in the future to meet these obligations. The valuation methods employed by the Appointed Actuary are based on standards established by the Canadian Institute of Actuaries. In accordance with Canadian generally accepted actuarial practices, liabilities have been determined using the Canadian Asset Liability Method ("CALM").

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

i) Translation of foreign currencies

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

j) Stock-based compensation

The Company provides compensation to certain employees and directors in the form of stock options, deferred share units and restricted share units. The Company uses the fair value method for stock-based compensation awarded to non-employees, for direct awards of stock and for awards that call for settlement in cash or other assets awarded to employees after January 1, 2002. The Company's accounting policy for stock options granted to employees is to use the fair value method for awards granted on or after January 1, 2002. The intrinsic value method is used to account for awards granted prior to January 1, 2002.

In July 2006, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants ("CICA") issued a new abstract, EIC 162, "Stock-based Compensation for Employees Eligible to Retire before the Vesting Date". The abstract requires that stock-based compensation be recognized at the grant date for grants to employees who are eligible to retire on the grant date and over the period from the date of grant to the date of retirement eligibility for grants to employees who will become eligible to retire during the vesting period. This abstract was effective for the year ended December 31, 2006 and was to be applied retroactively, with restatement of prior periods.

The Company adopted the provisions of this new abstract in the fourth quarter of 2006 and reported the cumulative effect on prior years as adjustments to opening contributed surplus and opening retained earnings. Opening retained earnings decreased by $10, made up of $7 related to stock options and $3 related to restricted share units. The Company has not restated net income of any prior years as a result of adopting this accounting change as the Company has concluded that such an impact is not material to any particular year. For the year ended December 31, 2006, the effect of adopting this change in policy was a decrease in net income of $6 (net of a provision for income taxes of $1).

The 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 over the vesting period. The compensation cost, attributable to stock options and restricted share units granted to employees who are eligible to retire on the grant date, is recognized on the grant date and the compensation cost, attributable to stock options and restricted share units granted to employees who will become eligible to retire during the vesting period, is recognized over the period from the grant date to the date of retirement eligibility. For stock options, the obligation is reported as an increase in contributed surplus. For restricted share units, a liability is accrued based on the market value of the Company's shares over the applicable period. The change in the value of restricted share units applicable to the portion of units expensed is recognized in the Consolidated Statements of Operations.

k) Employee future benefits

The Company maintains a number of pension and benefit plans, both defined benefit and defined contribution, for its eligible employees and agents. These plans include broad-based pension plans for employees that are primarily funded, supplemental pension plans for executives that are primarily not funded, and other non-pension post-employment benefit plans that are also primarily not funded.

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

The traditional defined benefit pension plans provide pension benefits based on the length of the employees' service and the employees'final average earnings. The other defined benefit pension plans consist of cash balance plans in the United States that provide benefits based on accumulated contributions and interest credits. The cost of all defined benefit pension plans is recognized using the projected benefit method, pro-rated on service, and estimates of expected return on plan assets, and, where applicable, 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 and any past service costs are amortized to income on a straight-line basis over the estimated average remaining service life of the plan members. The expected return on plan assets is based on the Company's best estimate of the long-term expected rate of return on plan assets and a market-related value of plan assets. The market-related value of plan assets is determined using a methodology where the difference between the actual and expected market value of plan assets is recognized over five years.

The Company also provides health, dental and, in some instances, life insurance benefits to qualifying employees upon retirement. The estimated present value of these benefits is charged to income over the employees' years of service to their dates of full entitlement. Actuarial gains and losses that exceed 10% of the accrued benefit obligation are amortized to income on a straight-line basis over the estimated average remaining service life of the plan members.

In Canada and the United States, health and dental benefits are also provided to employees who are absent from work due to disability (or other approved leave) for the duration of their leave. The estimated present value of these benefits is charged to income in the year of disability.

Prepaid benefit costs are included in other assets and accrued benefit liabilities are included in other liabilities.

l) Derivatives

The Company uses derivatives to manage exposures to foreign currency, interest rate and other market risks arising from its on-balance sheet financial instruments as well as anticipated transactions. Realized and unrealized gains and losses on derivatives which are designated and effective as hedges are accounted for on the same basis as the underlying assets and liabilities. Realized and unrealized gains and losses on derivative transactions that do not qualify for the accounting definition of a hedge, are accounted for as a portfolio investment whereby carrying values are adjusted toward market values at 5% per quarter. Hedge effectiveness is assessed quarterly.

Derivative income and expenses related to invested assets and financial liabilities are included in investment income and interest expense, respectively, in the Consolidated Statements of Operations. Cash flows relating to derivatives associated with invested assets and financial liabilities are included in the Consolidated Statements of Cash Flows on a basis consistent with the cash flows from the underlying invested assets and financial liabilities. Derivative assets and liabilities are included in other investments and other liabilities, respectively, and deferred realized net gains are presented as such in the Consolidated Balance Sheets.

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.

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

Note 2 § Future Accounting and Reporting Changes

a) Financial instruments – recognition and measurement, hedges, comprehensive income and equity

In January 2005, the CICA issued new accounting standards comprising CICA Handbook sections 3855 "Financial Instruments –Recognition and Measurement", 3865 "Hedges", 1530 "Comprehensive Income", and 3251 "Equity", all of which became effective for the Company on January 1, 2007. The standards will increase harmonization with U.S. and international accounting standards. As well, the CICA reissued accounting standard section 4210 "Life Insurance Enterprises – Specific Items" as section 4211, which became effective for the Company on January 1, 2007, and requires life insurance enterprises to account for financial assets and liabilities (excluding policy liabilities) and freestanding and embedded derivatives in accordance with the new financial instruments section.

The standards require that all financial assets be classified as trading, available for sale, held to maturity, or loans and receivables. In addition, the standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans, receivables, and investments intended to be, and classified as, held to maturity, which should be measured at amortized cost. OSFI has imposed certain restrictions on the use of the trading classification.

Changes in the fair value of trading securities will be reported in earnings, while changes in the fair value of available-for-sale securities will be reported within other comprehensive income, net of tax, until the financial asset is disposed of or becomes impaired, at which time it will be recognized in income.

Similarly, the standards require that all financial liabilities, other than actuarial liabilities, be measured at fair value when they are classified as held for trading or are derivatives. Other financial liabilities should be measured at amortized cost.

Section 3855 does not apply to insurance contracts issued to policyholders by insurance enterprises that are accounted for in accordance with section 4211. However, the determination of policy liabilities depends on the measurement of financial instruments. The standard requires the consequential impact on the policy liabilities to be recorded as an adjustment to the balance of retained earnings at the beginning of the fiscal year when section 3855 is adopted.

Derivatives will be classified as trading, unless they are specifically designated within an effective hedging relationship. The standards permit three types of hedging relationships: fair value hedges, cash flow hedges, and hedges of net investments in self-sustaining foreign operations. For fair value hedges, the effective portion of changes in the fair value of derivative instruments is offset in earnings by the changes in fair value attributed to the risk being hedged in the underlying asset, liability or firm commitment. For cash flow

hedges and hedges of net investments in self-sustaining foreign operations, the effective portion of changes in fair value of derivative instruments is offset through other comprehensive income, until the variability in cash flows being hedged is recognized in earnings in a future accounting period or upon derecognition of the net investment. Where a derivative instrument is designated as a hedge and meets the criteria for hedge effectiveness, earnings offset is available, but only to the extent that the hedge is effective. Any ineffectiveness in a hedging relationship will be recognized in current earnings.

Accumulated other comprehensive income will be included on the Consolidated Balance Sheets as a separate component of shareholders' equity (net of tax) and will include net unrealized gains on available-for-sale securities, net unrealized gains on derivative instruments designated within an effective cash flow hedge, and unrealized foreign currency translation gains and losses and offsetting hedges on self-sustaining foreign operations.

The impact of these accounting changes on the Company's opening balance sheet as at January 1, 2007 is:

Balance sheet item	Opening balance sheet adjustment
Bonds	Bonds will be classified as held for trading, or available for sale.
Loans	Loans will include bonds that are not traded in an active market, as well as mortgages, policy loans and bank loans.
Stocks	Stocks with a reliable fair market value will be classified as trading or available for sale. Stocks without a reliable fair market value will be carried at the lower of cost and realizable value.
Real estate	Real estate is outside the scope of section 3855 and therefore remains unchanged.
Other investments	Other investments, except where the equity method of accounting is used, will be classified as loans or private equities held at lower of cost and realizable value. Derivative transactions that do not qualify for hedge accounting will be reclassified from the other investments category to other assets and other liabilities.
Other assets and other liabilities	Derivatives with a positive fair value will be classified as other assets and derivatives with a negative fair value will be classified as other liabilities.
Deferred realized net gains	Deferred realized net gains, except those related to real estate, no longer qualify as an asset or liability and will be eliminated.
Policy liabilities	Although policy liabilities are scoped out of section 3855, their measurement depends on the measurement of financial instruments. The initial change to policy liabilities upon the adoption of section 3855 resulting from changes in the other balances will be recorded in opening retained earnings.
Consumer notes	Consumer notes will be classified as held for trading.
Future income tax liability	The future income tax liability will be adjusted for the tax impact of the changes to the other balance sheet items.
Liabilities for preferred shares and capital instruments	All liabilities will be carried at amortized cost except for the subordinated debt securities payable to MIC Financing Trust I. This liability will be classified as trading as it is to be redeemed on February 1, 2007.
Opening retained earnings	Opening retained earnings as at January 1, 2007 will include an adjustment for all assets and liabilities classified as trading, the elimination of non real estate deferred realized net gains, the consequential impact of the accounting policy changes to policy liabilities, and the related tax impact.
Opening accumulated other comprehensive income ("OCI")	Opening accumulated OCI as at January 1, 2007 will include the unrealized gains and losses related to those assets designated as available for sale, net of a tax adjustment. It will also include an adjustment for cash flow hedges, including the closing currency translation account currently reported within retained earnings.

In addition, where an asset or liability was or is in a fair value hedge relationship, the carrying value, or if designated as available for sale the OCI, will be adjusted for the unamortized hedge adjustment attributable to the hedged risk.

Due to the complexity in classifying all of the assets and determining the impact on policy liabilities, the opening balance sheet impact has not been completed.

b) Accounting for leveraged leases

In September 2006, the Emerging Issues Committee of the CICA amended EIC 46, "Accounting for Leveraged Leases", to incorporate new U.S. Financial Accounting Standards Board Staff Position 13-2 guidance issued in July 2006. 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 is effective for the Company's fiscal year beginning January 1, 2007 and the transition to the new standard will result in a charge to opening retained earnings at January 1, 2007 of $157.

c) Financial instruments – disclosure and presentation

On December 1, 2006, the CICA issued new accounting standards comprising CICA Handbook sections 3862 “Financial Instruments – Disclosure” and 3863 “Financial Instruments – Presentation”. Section 3862 requires extensive disclosures of financial instruments, focusing on their impact on financial position and performance, but also on risk of recognized and unrecognized financial instruments. Section 3863 carries forward unchanged the presentation requirements of section 3861. These standards will be effective for the Company’s fiscal year beginning January 1, 2008.

d) Capital disclosures

In December 2006, the CICA issued a new accounting standard on capital disclosures, section 1535 “Capital Disclosures”, which requires disclosure of the Company’s objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. This standard is effective for the Company’s fiscal year beginning January 1, 2008.

Note 3 § Business Combination with John Hancock Financial Services, Inc.

Effective April 28, 2004, the Company completed a merger with JHF under which MFC became the beneficial owner of all of the outstanding common shares of JHF that were not already beneficially owned by the Company as general fund assets, and JHF became a wholly owned subsidiary of MFC.

During the second quarter of 2005, the purchase equation with respect to the JHF acquisition was adjusted and finalized and, as a result, goodwill was increased by $407.

Note 4 § Restructuring Costs

Following the merger with JHF on April 28, 2004, the Company developed a plan to restructure and integrate the operations of JHF with its consolidated subsidiaries. During the year ended December 31, 2006, the Company incurred restructuring costs of $42 (2005–$228). Of this amount, $38 (2005 – $83) was applied to the restructuring accrual established in the purchase equation and $4 ($2 after tax) was recorded in general expenses (2005 – $145, $94 after tax). The balance of the restructuring accrual at December 31, 2006 was $30 (2005 – $70).

Note 5 § Intangible Assets

The acquired intangible assets include the JHF brand name, distribution networks, fund management contracts, and contractual rights. Of the total intangible assets, a portion was identified as the value of intangible assets that have finite lives and will be amortized over their estimated useful lives (generally between 20 to 30 years) in relation to the associated gross margins from the related businesses. Additions in 2005 are investments in fund management contracts with finite lives.

For the year ended December 31, 2006	Balance January 1, 2006	Additions	Disposals	Amortization	Change in foreign exchange rates	Balance December 31, 2006
Indefinite life						
Brand	**$ 700**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 700**
Fund management contracts	**342**	**—**	**—**	**—**	**—**	**342**
	$ 1,042	**$ —**	**$ —**	**$ —**	**$ —**	**$ 1,042**
Finite life						
Distribution networks	**$ 535**	**$ —**	**$ —**	**$ (11)**	**$ —**	**$ 524**
Other intangible assets	**165**	**—**	**(9)**	**(13)**	**(1)**	**142**
	$ 700	**$ —**	**$ (9)**	**$ (24)**	**$ (1)**	**$ 666**
Total	**$ 1,742**	**$ —**	**$ (9)**	**$ (24)**	**$ (1)**	**$ 1,708**

For the year ended December 31, 2005	Balance January 1, 2005	Additions	Disposals	Amortization	Change in foreign exchange rates	Balance December 31, 2005
Indefinite life						
Brand	$ 725	$ —	$ —	$ —	$ (25)	$ 700
Fund management contracts	353	—	—	—	(11)	342
	$ 1,078	$ —	$ —	$ —	$ (36)	$ 1,042
Finite life						
Distribution networks	$ 557	$ —	$ —	$ (10)	$ (12)	$ 535
Other intangible assets	171	10	—	(16)	—	165
	$ 728	$ 10	$ —	$ (26)	$ (12)	$ 700
Total	$ 1,806	$ 10	$ —	$ (26)	$ (48)	$ 1,742

Note 6 § Invested Assets and Investment Income

a) Invested assets

As at December 31, 2006	Carrying value	Fair value	Unrealized gains	Unrealized losses	Deferred realized net gains	Total realized and unrealized net gains (losses)
Bonds (fixed maturity)						
Canadian government and agency	**$ 10,255**	**$ 11,559**	**$ 1,319**	**$ (15)**	**$ 254**	**$ 1,558**
U.S. government and agency	**9,861**	**9,841**	**78**	**(98)**	**245**	**225**
Other government and agency	**6,933**	**7,171**	**248**	**(10)**	**172**	**410**
Corporate	**64,133**	**65,110**	**1,730**	**(753)**	**1,591**	**2,568**
Mortgage/asset-backed securities	**11,977**	**11,903**	**79**	**(153)**	**297**	**223**
Mortgages	**28,131**	**28,403**	**557**	**(285)**	**92**	**364**
Stocks	**11,272**	**13,240**	**2,169**	**(201)**	**1,253**	**3,221**
Real estate	**5,905**	**7,212**	**1,354**	**(47)**	**125**	**1,432**
Policy loans	**6,413**	**6,413**	**—**	**—**	**—**	**—**
Cash and short-term investments	**10,745**	**10,742**	**—**	**(3)**	**—**	**(3)**
Bank loans	**2,009**	**2,094**	**85**	**—**	**—**	**85**
Other investments	**3,530**	**4,122**	**864**	**(272)**	**413**	**1,005**
Total invested assets	**$ 171,164**	**$ 177,810**	**$ 8,483**	**$ (1,837)**	**$ 4,442**	**$ 11,088**

As at December 31, 2005	Carrying value	Fair value	Unrealized gains	Unrealized losses	Deferred realized net gains	Total realized and unrealized net gains (losses)
Bonds (fixed maturity)						
Canadian government and agency	$ 10,750	$ 12,374	$ 1,641	$ (17)	$ 530	$ 2,154
U.S. government and agency	10,643	10,716	192	(119)	431	504
Other government and agency	5,807	5,887	93	(13)	178	258
Corporate	63,763	65,211	2,229	(781)	1,464	2,912
Mortgage/asset-backed securities	12,352	12,242	69	(179)	104	(6)
Mortgages	28,008	28,338	639	(309)	101	431
Stocks	8,715	10,115	1,653	(253)	1,113	2,513
Real estate	5,279	6,080	869	(68)	113	914
Policy loans	6,120	6,120	—	—	—	—
Cash and short-term investments	8,723	8,799	79	(3)	—	76
Bank loans	1,806	1,841	35	—	—	35
Other investments	4,448	4,714	436	(170)	261	527
Total invested assets	$ 166,414	$ 172,437	$ 7,935	$ (1,912)	$ 4,295	$ 10,318

Fair values are determined with reference to quoted market prices where available. Fair values of mortgages, private placement bonds and bank loans reflect changes in interest rates, which have occurred since the investments were originated, and changes in the creditworthiness of individual borrowers. For fixed-rate mortgages, fair value is determined by discounting the expected future cash flows at market interest rates for mortgages with similar credit risks. Fair values of real estate are determined by a combination of internal and external appraisals utilizing expected net cash flows discounted at market interest rates. Foreclosed properties of $5 are included in real estate as at December 31, 2006 (2005 — $14). Carrying values of policy loans and cash and short-term investments approximate their fair values. Other investments include investments in unconsolidated joint ventures, partnerships, funds, limited liability corporations, oil and gas holdings, leases, subordinated debt of life insurance companies and derivatives. Carrying values for these investments also approximate their fair values, with the exception of oil and gas holdings and derivatives. Fair value of oil and gas holdings is determined by external appraisals. Fair values of interest rate and foreign exchange derivative contracts are determined by discounting expected future cash flows using current market interest and exchange rates for similar instruments. Fair values of options, financial futures and common stock index swaps are based on the quoted market prices or the value of the underlying securities or indices.

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

Bonds	**2006**		2005	
As at December 31,	Carrying value	Fair value	Carrying value	Fair value
Maturity				
Due in one year or less	**$ 4,073**	**$ 4,086**	$ 4,107	$ 4,127
Due after one year through five years	**23,052**	**23,001**	21,093	21,086
Due after five years through 10 years	**24,547**	**24,652**	27,515	27,609
Due after 10 years	**39,510**	**41,942**	38,248	41,366
Mortgage/asset-backed securities	**11,977**	**11,903**	12,352	12,242
Total	**$ 103,159**	**$ 105,584**	$ 103,315	$ 106,430

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

Mortgages	**2006**		2005	
As at December 31,	Carrying value	Fair value	Carrying value	Fair value
Residential	**$ 8,020**	**$ 8,093**	$ 6,868	$ 6,930
Office	**4,788**	**4,856**	5,217	5,324
Retail	**6,688**	**6,761**	6,888	7,008
Industrial	**3,574**	**3,649**	3,678	3,798
Other	**5,061**	**5,044**	5,357	5,278
Total	**$ 28,131**	**$ 28,403**	$ 28,008	$ 28,338

The carrying value of government-insured mortgages was 17% of the total carrying value of the mortgage portfolio as at December 31, 2006 (2005 — 12%) and the carrying value of privately-insured mortgages was 1.3% of the total carrying value of the mortgage portfolio as at December 31, 2006 (2005 — 1.1 %).

b) Investment income

For the year ended December 31, 2006	Gross investment income	Recovery (provision) for impairment, net (note 6(e))	Amortization of net realized and unrealized gains	Investment income	Yield (%)
Bonds-	**$ 5,536**	**$ 53**	**$ 363**	**$ 5,952**	**6.11**
Mortgages	**1,597**	**12**	**43**	**1,652**	**6.19**
Stocks	**493**	**—**	**580**	**1,073**	**13.10**
Real estate	**369**	**—**	**157**	**526**	**10.84**
Policy loans	**397**	**—**	**—**	**397**	**6.51**
Cash and short-term investments	**385**	**—**	**—**	**385**	**n/a**
Bank loans	**135**	**—**	**—**	**135**	**7.20**
Other investments	**351**	**(66)**	**28**	**313**	**n/a**
Total	**$ 9,263**	**$ (1)**	**$ 1,171**	**$ 10,433**	**6.67**

For the year ended December 31, 2005	Gross investment income	(Provision) for impairment, net (note 6(e))	Amortization of net realized and unrealized gains (losses)	Investment income	Yield (%)
Bonds	$ 5,654	$ (92)	$ 378	$ 5,940	5.81
Mortgages	1,616	(27)	28	1,617	5.76
Stocks	403	—	445	848	11.88
Real estate	334	—	104	438	9.82
Policy loans	460	—	—	460	6.88
Cash and short-term investments	219	—	(1)	218	n/a
Bank loans	92	—	—	92	5.80
Other investments	334	(21)	10	323	n/a
Total	$ 9,112	$ (140)	$ 964	$ 9,936	6.15

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

c) Investment expenses

For the years ended December 31,	**2006**	2005
Related to invested assets	**$ 336**	$313
Related to segregated, mutual and other funds	**556**	433
Total	**$ 892**	$746

d) Securities lending

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for periods of time. Collateral, which exceeds the market value of the loaned securities, is lodged by the borrower with the Company and retained by the Company until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value fluctuates. As at December 31, 2006, the Company had loaned securities (which are included in invested assets) with a carrying value and market value of approximately $3,713 and $3,798, respectively (2005 — $5,827 and $5,928, respectively).

e) Credit risk

Credit risk is the risk that a party to a financial instrument, such as a mortgage borrower, will fail to fully honour its financial obligations to the Company. Credit risks are primarily associated with investment, derivative and reinsurance counterparties (see reinsurance risk in note 8(b)).

The Company has provided for credit risk by establishing allowances against the carrying value of impaired assets in the Consolidated Balance Sheets. In addition to these allowances, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of policy liabilities (note 7(d)).

The carrying value of impaired assets was as follows:

As at December 31, 2006	Gross amount	Allowance	Carrying value
Bonds	**$ 241**	**$ 73**	**$ 168**
Mortgages	**185**	**53**	**132**
Other	**101**	**60**	**41**
Total	**$ 527**	**$ 186**	**$ 341**

As at December 31, 2005	Gross amount	Allowance	Carrying value
Bonds	$ 482	$ 143	$ 339
Mortgages	343	91	252
Other	94	42	52
Total	$ 919	$ 276	$ 643

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

Allowance for impairment	**2006**	2005
Balance, January 1	**$ 276**	$ 214
Net provisions during the year	**1**	140
Write-offs, disposals and currency translation	**(91)**	(78)
Balance, December 31	**$ 186**	$ 276

Concentrations of credit risk

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

As at December 31, 2006, 96% of bonds (2005 — 94%) were rated at investment grade "BBB" or higher, and 71 % (2005 — 68%) were rated "A" or higher. Government bonds represented 26% (2005 — 27%) of the bond portfolio. The Company's highest exposure to a single non-government issuer was $513 (2005 — $464). Mortgages and real estate are diversified geographically and by property type. The Company's largest concentration of mortgages and real estate was in Ontario, Canada, with $8,038 (2005 — $7,636) of the total portfolio. Income-producing commercial office properties were the largest concentration in the real estate portfolio with $4,167 (2005 — $3,607). As at December 31, 2006, 92% (2005 — 92%) of the stock portfolio was comprised of publicly listed corporations. The largest single issuer represented 2% (2005 — 2%) of the portfolio.

The Company's exposure to loss on derivatives is limited to the extent that default by counterparties to these contracts results in the loss of any gains that may have accrued. All contracts are held with counterparties rated "A" or higher. As at December 31, 2006, 87% (2005 — 79%) of the exposed amount was with counterparties rated "AA" or higher. The largest single counterparty exposure as at December 31, 2006 was $137 (2005 — $175).

Note 7 § Policy Liabilities

a) Policy liabilities

Policy liabilities are reported in the consolidated financial statements net of reinsurance ceded. The policy liabilities, before and after reinsurance ceded, are shown below.

As at December 31,	**2006**	2005
Gross policy liabilities	**$ 139,607**	$ 139,359
Impact of reinsurance ceded	**(8,788)**	(7,310)
Policy liabilities	**$ 130,819**	$ 132,049

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

As at December 31,	**2006**	2005
Actuarial liabilities	**$ 123,416**	$ 124,364
Benefits payable and provision for unreported claims	**2,430**	3,012
Policyholder amounts on deposit	**4,973**	4,673
Policy liabilities	**$ 130,819**	$ 132,049

Policy liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends and experience rating refunds, taxes (other than income taxes) and expenses on policies in-force. Under Canadian GAAP, the determination of actuarial liabilities is based on an explicit projection of cash flows using

current best estimate assumptions for each material cash flow item and contingency. Investment returns are based on projected investment income using the current asset portfolios and projected reinvestment 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 and for long-term care products. For other assumptions, this margin is established by directly adjusting the best estimate assumption.

The cash flows used in the actuarial valuation adjust the gross policy cash flows to reflect the projected cash flows from ceded reinsurance. The cash flow impact of reinsurance ceded varies depending upon the amount of reinsurance, the structure of the reinsurance treaties, the expected economic benefit from the treaty cash flows and the impact of margins for adverse deviation.

The period used for the projection of cash flows is the policy lifetime for most individual insurance contracts. For other types of contracts a shorter projection period may be used, limiting the period to the term of the liability over which the Company is exposed to material insurance risk without the ability to adjust premiums or policy charges. Where the projection period is less than the policy lifetime, actuarial liabilities may be reduced by an allowance for acquisition expenses expected to be recovered from policy cash flows beyond the projection period used for the liabilities. Such allowances are tested for recovery using assumptions, including margin for adverse deviation, as used in other components of the actuarial valuation.

b) Composition

The composition of policy liabilities, on a net of reinsurance ceded basis, by line of business and reporting segment is shown in the table below. Policy liability totals before the impact of reinsurance ceded are also shown. The net of reinsurance ceded numbers are used throughout the consolidated financial statements.

As at December 31, 2006	Individual life insurance		Annuities and pensions	Other Policy liabilities[1]	Total, net of reinsurance ceded	Total before reinsurance ceded
	Participating	Non-participating				
U.S. Insurance	**$ 23,095**	**$ 12,545**	**$ 30**	**$ 8,562**	**$ 44,232**	$ 47,686
U.S. Wealth Management	**—**	**—**	**38,166**	**56**	**38,222**	39,491
Canadian Division	**5,557**	**9,451**	**12,078**	**5,468**	**32,554**	35,596
Asia and Japan Division	**10,782**	**1,920**	**768**	**203**	**13,673**	13,687
Reinsurance Division	**—**	**1,066**	**—**	**818**	**1,884**	2,055
Corporate and Other	**26**	**114**	**—**	**114**	**254**	1,092
Total, net of reinsurance ceded	**$ 39,460**	**$ 25,096**	**$ 51,042**	**$ 15,221**	**$ 130,819**	$139,607
Total, before reinsurance ceded	$ 39,898	30,065	$ 52,366	$ 17,278	$ 139,607	

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

As at December 31, 2005	Individual life insurance		Annuities and pensions	Other policy liabilities[1]	Total, net of reinsurance ceded	Total before reinsurance ceded
	Participating	Non-participating				
U.S. Insurance	$ 23,863	$ 10,229	$ 34	$ 7,831	$ 41,957	$ 44,197
U.S. Wealth Management	—	—	43,202	57	43,259	44,242
Canadian Division	5,098	8,468	12,495	5,230	31,291	33,958
Asia and Japan Division	10,261	1,645	1,060	200	13,166	13,486
Reinsurance Division	—	1,025	—	1,206	2,231	2,413
Corporate and Other	—	—	—	145	145	1,063
Total, net of reinsurance ceded	$ 39,222	$ 21,367	$ 56,791	$ 14,669	$ 132,049	$ 139,359
Total, before reinsurance ceded	$ 39,952	$ 24,699	$ 57,774	$ 16,934	$ 139,359	

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

For participating policies in-force at demutualization, separate sub-accounts were established within the participating account. These sub-accounts permit this participating business to be operated as separate “closed blocks” of business. As at December 31, 2006, $26,904 (2005 — $26,156) of both assets and policy liabilities related to the participating policyholders’ account were included in the closed blocks.

c) Assets backing policy liabilities, other liabilities and capital

Assets are segmented and matched to liabilities with similar underlying characteristics by product line and major currency. The Company has established target investment strategies and asset mixes for each asset segment supporting policy liabilities, which take into account the risk attributes of the liabilities supported by the assets and expectations of market performance. Liabilities with rate and term guarantees, such as annuities and pensions, are predominantly backed by fixed-rate instruments such as bonds, commercial and mortgage loans. Insurance products, such as participating whole life insurance, are backed by a broader range of asset classes. The Company’s equity is invested in a range of debt and equity investments, both public and private.

Changes in the fair value of assets backing policy liabilities would have a limited impact on the Company’s equity wherever there is an effective matching of the assets and liabilities, as it would be substantially offset by a corresponding change in the fair value of the actuarial liabilities. The fair value of assets backing policy liabilities as at December 31, 2006 was estimated at $135,066 (2005 — $136,467).

The fair value of assets backing capital and other liabilities as at December 31, 2006 was estimated at $57,749 (2005 — $52,207).

The deferred realized net gains taken into account in the computation of policy liabilities as at December 31, 2006 were $3,123 (2005 — $2,942).

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

	Individual life insurance						
As at December 31, 2006	Participating	Non-participating	Annuities and pensions	Other policy liabilities[1]	Other liabilities[2]	Capital[3]	Total
Assets							
Bonds	**$ 23,347**	**$ 14,440**	**$ 35,615**	**$ 8,393**	**$ 10,041**	**$ 11,323**	**$ 103,159**
Mortgages	**4,364**	**3,428**	**10,549**	**3,119**	**6,227**	**444**	**28,131**
Stocks	**3,417**	**2,136**	**613**	**437**	**602**	**4,067**	**11,272**
Real estate	**1,989**	**1,575**	**464**	**1,222**	**436**	**219**	**5,905**
Other	**6,343**	**3,517**	**3,801**	**2,050**	**6,552**	**15,439**	**37,702**
Total	**$ 39,460**	**$ 25,096**	**$ 51,042**	**$ 15,221**	**$ 23,858**	**$ 31,492**	**$ 186,169**

	Individual life insurance						
As at December 31, 2005	Participating	Non-participating	Annuities and pensions	Other policy liabilities[1]	Other liabilities[2]	Capital[3]	Total
Assets							
Bonds	$ 23,284	$ 12,866	$ 39,097	$ 7,771	$ 11,584	$ 8,713	$ 103,315
Mortgages	4,645	3,036	12,099	2,664	3,892	1,672	28,008
Stocks	2,996	1,563	458	266	141	3,291	8,715
Real estate	2,077	1,308	217	1,017	312	348	5,279
Other	6,220	2,594	4,920	2,951	6,320	14,329	37,334
Total	$ 39,222	$ 21,367	$ 56,791	$ 14,669	$ 22,249	$ 28,353	$ 182,651

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 represents total equity, long-term debt, liabilities for preferred shares and capital instruments and non-controlling interest in subsidiaries.

d) Significant policy liability valuation assumptions

The determination of policy liabilities involves the use of estimates and assumptions. Actual results could differ from those estimates.

Policy liabilities have two major components: a best estimate amount and a provision for adverse deviation. In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions are designed to minimize the extent to which the Company is financially exposed to measurement uncertainty.

Best estimate assumptions

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

	Nature of factor and assumption methodology	Risk management
Mortality and morbidity	Mortality relates to the occurrence of death. Mortality assumptions are based on the Company's internal as well as industry past and emerging experience. Assumptions are differentiated by sex, underwriting class, policy type and geographic market. Morbidity relates to the occurrence of accidents and sickness for insured risks. Morbidity assumptions are based on the Company's internal as well as industry past and emerging experience and are established for each type of morbidity risk and geographic market.	The Company establishes appropriate underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. Exposure to large claims is managed by establishing policy retention limits, which vary by market and geographic location. Policies in excess of the limits are reinsured with other companies. Mortality is monitored monthly and the overall 2006 experience was favourable when compared to the Company's assumptions. Morbidity is also monitored monthly and the overall 2006 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 cash flows of the assets with those of the corresponding liabilities reduces the Company's exposure to future changes in interest rates. The interest rate risk positions in business segments are monitored on an ongoing basis. Under the Canadian Asset Liability Method ("CALM"), the re-investment rate is quantified by using interest rate scenario testing. The exposure to asset credit losses is managed by policies and procedures which limit concentrations by issuer, corporate connections, ratings, sectors and geographic regions. On participating policies and some non-participating policies asset credit loss experience is passed back to policyholders through the investment return crediting formula. For other policies, the premiums and benefits reflect the Company's assumed level of future credit losses at contract inception or most recent contract adjustment date. The Company holds explicit provisions in actuarial liabilities for asset credit risk which, including provisions for adverse deviation, totaled $2,547 as at December 31, 2006 (2005 — $2,906). In 2006, default experience on both bonds and mortgages continued to be favourable 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. A limited amount of stocks and real estate are also used to support long-dated obligations in the Company's annuity and pensions businesses and for long-dated insurance obligations on contracts where the investment return risk is borne by the Company. In 2006, investment expense experience was unfavourable when compared to the Company's assumptions.

	Nature of factor and assumption methodology	Risk management
Policy terminations	Policy termination includes lapses and surrenders, where lapses represent the termination of policies due to non-payment of premiums and surrenders represent the voluntary termination of policies by policyholders. Premium persistency represents the level of ongoing deposits on contracts where there is policyholder discretion as to the amount and timing of deposits. Policy termination and premium persistency assumptions are primarily based on the Company's recent experience adjusted for expected future conditions. Assumptions reflect differences by type of contract within each geographic market.	The Company designs its products in order to minimize financial exposure to lapse and surrender risk, in addition, the Company monitors lapse and surrender experience monthly. In aggregate, 2006 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 2006 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.
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 are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these best estimate assumptions, to allow for possible deterioration in experience and to provide greater comfort that the policy liabilities are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

The impact of these margins is to increase policy liabilities and decrease the income that would be recognized at inception of the policy. Minimum conditions are prescribed by the Canadian Institute of Actuaries for determining margins related to interest rate risk. For other risks, which are not specifically addressed by the Canadian Institute of Actuaries, a range is defined as 5% to 20% of the expected experience assumption, taking into account the risk profiles of the business. The Company uses assumptions at the conservative end of the permissible ranges, 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, 2006	Change in actuarial liabilities	Change in other policy liabilities[1]	Change in policy liabilities
Balance, January 1	**$ 124,364**	**$ 7,685**	**$ 132,049**
New policies	**2,000**	**—**	**2,000**
Normal in-force movement	**(3,001)**	**(242)**	**(3,243)**
Changes in methods and assumptions	**(25)**	**(42)**	**(67)**
Changes due to acquisition and assumption transactions	**8**	**—**	**8**
Currency impact	**70**	**2**	**72**
Balance, December 31	**$ 123,416**	**$ 7,403**	**$ 130,819**

For the year ended December 31, 2005	Change in actuarial liabilities	Change in other policy liabilities [1]	Change in policy liabilities
Balance, January 1	$ 130,608	$ 6,802	$ 137,410
New policies	1,960	—	1,960
Normal in-force movement	(4,246)	570	(3,676)
Changes in methods and assumptions	(90)	40	(50)
Changes due to acquisition and assumption transactions	(198)	639	441
Currency impact	(3,670)	(366)	(4,036)
Balance, December 31	$ 124,364	$ 7,685	$ 132,049

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 2006, changes in methods and assumptions used in the determination of policy liabilities resulted in a net reduction of $67 (2005 — $50) in policy liabilities. The net reduction includes an increase of $17 (2005 — $19) to policy liabilities impacting non-controlling interest in subsidiaries, a reduction of $2 (2005 — increase of $5) to participating policyholders' reserves, and a net reduction of $82 (2005 — $74) to reserves that impact the shareholders' account. As a result of the actuarial changes in methods and assumptions, shareholders' pre-tax income increased by $82 (2005 — $74) and is reported in the Corporate and Other segment.

The changes in methods and assumptions in 2006 include a reduction of $404 reflecting the impact of market movement on insurance segment reserves, and a reduction of $146 related to asset disposition risks on fixed interest assets supporting liabilities, offset by a $261 increase related to the adoption of a new scenario for determining the margin for adverse deviations required for re-investment risk related to future interest rates. Other refinements to policy liability modeling resulted in a $222 increase in policy liabilities, as a $284 reduction from model refinements was offset by a $506 increase from revisions to explicit valuation assumptions for insurance risks, policyholder behaviour and expenses.

The changes in methods and assumptions in 2005 include a net reduction of $96 from review of credit loss assumptions and methodology, a net reduction of $275 from regular review of non-economic assumptions, consisting of releases from favourable changes in expense and mortality/morbidity offset by strengthening from unfavourable changes in policy persistency, and a net reduction of $69 from other refinements to cash flow models and methods. Offsetting these reductions was a $338 increase related to adoption of more conservative investment scenario assumptions, primarily related to assumed levels of long-term interest rates in North America and adopting a more conservative investment return outlook in Taiwan, and a $52 increase from other investment return assumption updates.

Note 8 § Risk Management

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

a) Interest rate risk

Investment return risk relates to potential losses arising from asset returns insufficient to support product liabilities. The uncertainty related to returns achievable on both fixed income and non-fixed income investments to be made in the future as recurring premiums are received, and the impact of mismatches between the timing and amount of current assets and the liabilities they support are the principal components of investment return risk within the Company's general fund. Interest rate risk exposures are measured using a variety of techniques, including cash flow gaps, durations, key rate durations, convexity, and earnings and shareholders' economic value at risk. Shareholders' economic value is calculated as the net present value of cash flows related to current assets, recurring premiums to be received and liabilities, discounted at market yields and adjusted for tax.

The Company's general fund wealth management business may be exposed to interest rate risk as a result of mismatches between the timing and amount of its assets and liabilities. The impact on shareholders' economic value of an immediate and permanent parallel shift of 1 % in interest rates at all maturities across all markets arising from general fund wealth management business is as follows:

For the years ended December 31,	2006	2005
1 % increase in interest rates	**$ (48)**	$ (47)
1 % decrease in interest rates	**$ (I1)**	$ 46

The Company's general fund insurance business is supported by a portfolio of assets invested in a blend of medium to long maturity bonds and a material component of non-fixed income assets, with the investment allocations between fixed income and non-fixed income assets managed proactively. As a result, the interest rate risk related to this business is not easily identified separately from the price volatility related to non-fixed income assets.

b) Reinsurance risk

In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently,

allowances are established for amounts deemed uncollectible. In order to minimize losses from reinsurer insolvency, the Company monitors the concentration of credit risk both geographically and with any one reinsurer. In addition, the Company selects reinsurers with high credit ratings.

The effect of reinsurance on premium income was as follows:

For the years ended December 31,	2006	2005
Direct premium income	**$ 19,469**	$ 18,881
Reinsurance assumed	**1,393**	1,364
Reinsurance ceded	**(1,758)**	(1,658)
Total premium income	**$ 19,104**	$ 18,587

Note 9 § Income Taxes

The effective income tax rate for the provision for income taxes reported in the Consolidated Statements of Operations varies from the income taxes computed at the Canadian statutory tax rate of 35% for the year ended December 31, 2006 (2005 – 34%) for the following reasons:

Reconciliation of income tax expense For the years ended December 31,	2006	2005
Income tax expense at Canadian statutory tax rate	**$ 1,868**	$ 1,470
Increase (decrease) in income taxes due to:		
Tax-exempt investment income	**(139)**	(117)
Differences in tax rates on income not subject to tax in Canada	**(325)**	(149)
Recognition of tax benefit from prior years	**(10)**	(19)
Creation (release) of valuation allowance	**50**	(105)
General business tax credits	**(70)**	(73)
Other	**(8)**	24
Income tax expense	**$ 1,366**	$ 1,031

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

For the years ended December 31,	2006	2005
Canadian income tax expense:		
Current	**$ 197**	$ 198
Future	**(42)**	53
	$ 155	$ 251
Foreign income tax expense:		
Current	**$ 173**	$ 115
Future	**1,038**	665
	$ 1,211	$ 780
Income tax expense	**$ 1,366**	$ 1,031

The amount of income taxes paid in cash during the year ended December 31, 2006 was $208 (2005 – $327).

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

For the years ended December 31,	2006	2005
Consolidated Statements of Operations		
Income taxes	**$ 1,366**	$ 1,031
Consolidated Balance Sheets		
Goodwill — tax benefit of stock options exercised	**(16)**	–
Consolidated Statements of Equity		
Opening retained earnings relating to change in accounting policy	**(2)**	–
Tax benefit of stock options exercised	**(31)**	–
Preferred shares	**(4)**	(4)
Currency translation account	**(14)**	44
Income taxes	**$ 1,299**	$ 1,071

Undistributed earnings of non-Canadian subsidiaries may be taxed upon repatriation to Canada. The Company has recognied a future income tax liability on these undistributed earnings to the extent that management expects it will be incurred on earnings repatriated in the foreseeable future. If all undistributed earnings were repatriated, incremental taxes that would be charged against earnings as at December 31, 2006 are estimated to be $384 (2005 – $267).

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

As at December 31,	2006	2005
Future income tax asset:		
Actuarial liabilities	**$ —**	$ 716
Gain on sale of invested assets	**413**	377
Other	**1,415**	1,782
	$ 1,828	$ 2,875
Valuation allowance	**(91)**	(41)
Future income tax asset	**$ 1,737**	$ 2,834
Future income tax liability:		
Actuarial liabilities	**$ (60)**	$ —
Real estate	**(449)**	(331)
Securities and other investments	**(2,894)**	(3,232)
Intangible assets	**(592)**	(608)
Future income tax liability	**$ (3,995)**	$ (4,171)
Net future income tax liability	**$ (2,258)**	$ (1,337)

As at December 31, 2006, the Company has approximately $2,185 (2005 – $2,458) of tax loss carry forwards available, of which $2,090 expire between the years 2007 and 2026 while $95 have no expiry date. A tax benefit has been recognized in the amount of $663 (2005 – $824) in future income taxes. A tax benefit in the amount of $91 (2005 – $38) has not been recognized.

As at December 31, 2006, the Company has approximately $232 (2005 – $162) of general business tax credit carry forwards available which expire between the years 2022 and 2026.

Note 10 § Consumer Notes

A subsidiary of JHF issues consumer notes through its *Signature*Notes program. *Signature*Notes is an investment product sold through a broker-dealer network to retail customers in the form of publicly traded fixed and/or floating rate securities. *Signature*Notes are issued weekly with a variety of maturities, interest rates and call provisions. *Signature*Notes may be redeemed upon the death of the holder, subject to an overall program redemption limit of 1% of the aggregate securities outstanding or an individual redemption limit of U.S. $0.2 of aggregate principal. As at December 31, 2006, interest rates ranged from 1.85% to 6.25% (2005 – from 1.75% to 6.45%) with maturities until 2036. The fair value of consumer notes as at December 31, 2006 was $2,770 (2005 – $2,814). Fair values are determined by projecting cash flows and discounting at current rates.

Note 11 § Long-Term Debt

As at December 31,	2006	2005
Senior debt		
5.625% Notes payable U.S. dollar	**$ 597**	$ 607
4.67% Medium term notes	**350**	—
Notes payable to Manulife Finance (Delaware) LLC	**550**	—
Other notes payable	**437**	471
Subordinated notes		
5.70% Canadian dollar	**—**	250
6.24% Canadian dollar	**550**	550
Surplus notes U.S. dollar	**578**	579
Total long-term debt	**$ 3,062**	$ 2,457
Fair value	**$ 3,141**	$ 2,561

The fair value of long-term debt is determined using quoted market prices where available. For debt instruments that do not have quoted prices available, the fair value is determined with reference to quoted prices of a debt instrument with similar characteristics or utilizing a model to discount cash flows based on current market interest rates.

The carrying value of the senior debt and surplus notes reflects an unamortized fair value increment of U.S. $78, which arose as a result of the acquisition of JHF (note 3). 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, 2006 was $148 (2005 – $170). Issue costs are amortized over the term of the debt. Unamortized costs of $5 at December 31, 2006 (2005 – nil) have been included in miscellaneous assets.

a) 5.625% U.S. dollar notes payable

On December 6, 2001, JHF issued U.S. $500 ($796) in 5.625% senior notes maturing on December 1, 2008 pursuant to a U.S. $1,000 effective shelf registration statement. The notes are redeemable, in whole or in part, at the option of JHF at any time at a redemption price equal to the greater of par or the fair value of the notes based on the U.S. treasury rate plus 20 basis points, in each case together with accrued and unpaid interest.

b) 4.67% Medium term notes

On March 28, 2006, MFC issued $350 in 4.67% notes, which mature March 28, 2013 and are redeemable in whole or in part by MFC at any time at the greater of par or the fair value of the debt based on the yield on Government of Canada bonds plus 11 basis points, in each case together with accrued and unpaid interest.

c) Notes payable to Manulife Finance (Delaware) LLC

On December 14, 2006, Manulife Holdings (Delaware) LLC ("MHD"), a wholly owned subsidiary of MLI, issued $550 in senior notes to Manulife Finance (Delaware) LLC ("MFLLC"), a subsidiary of Manulife Finance (Delaware), L.P. ("MFLP") (see note 17(b)). MFLP and its subsidiaries are related parties to the Company. The notes mature on December 15, 2016 with interest payable semi-annually at the 90-day Bankers Acceptance rate plus 0.302%. MHD may redeem the notes, in whole or in part, at any time for the amount of principal and unpaid interest.

MFLP is a wholly owned subsidiary; however, the senior debentures issued by MFLP and the senior notes receivable by MFLLC are not consolidated (see note 17(b)).

d) Other notes payable

The notes payable bear interest rates ranging from 6.496% to 12.1% and mature in varying amounts to 2015. The notes were issued by various subsidiaries of JHF.

e) Canadian dollar subordinated debt

On February 16, 2001, MLI issued, in two tranches, $800 in unsecured subordinated debentures. Debentures with principal of $250, maturing on February 16, 2011, bearing interest at a fixed rate of 5.70% for five years and thereafter at a rate of 1% plus the 90-day Bankers Acceptance rate were redeemed at par plus accrued interest to the date of redemption on February 16, 2006. In addition, debentures with principal of $550, maturing on February 16, 2016, bear interest at a fixed rate of 6.24% for 10 years and thereafter at a rate of 1% plus the 90-day Bankers Acceptance rate (adjusted quarterly). The debentures are redeemable in whole or in part by MLI, subject to regulatory approval, at any time prior to February 16, 2011, at the greater of par or the fair value of the debt based on the yield on Government of Canada bonds plus 21.25 basis points; thereafter at par; in each case together with accrued and unpaid interest.

f) U.S. dollar surplus notes

On February 25, 1994, JHF issued U.S. $450 in 7.375% surplus notes maturing on February 15, 2024. Any payment of interest or principal on the surplus notes requires the prior approval of the Massachusetts Commissioner of Insurance.

Aggregate maturities of long-term debt are as follows:

As at December 31,	2006	2005
Less than one year	**$ 3**	$ 23
One to two years	**606**	13
Two to three years	**1**	609
Three to four years	**1**	1
Four to five years	**416**	2
Greater than five years	**2,035**	1,809
Total	**$ 3,062**	$ 2,457

Note 12 § Liabilities for Preferred Shares and Capital Instruments

As at December 31,	2006	2005
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
Subordinated notes payable to Manulife Finance (Delaware) LLC	**650**	–
Subordinated debt securities payable to MIC Financing Trust I	**578**	578
Total	**$ 2,572**	$ 1,922
Fair value	**$ 2,703**	$ 2,085

The fair value of liability instruments is determined using quoted market prices where available. For liability instruments that do not have quoted prices available, the fair value is determined with reference to the quoted prices of a liability instrument with similar characteristics or utilizing a model to discount cash flows based on current market interest rates.

Preferred shares

On June 19, 2003, MFC issued 14 million Class A Shares, Series 1 ("Series 1 Preferred Shares") at a price of $25.00 per share, for an aggregate amount of $350. The Series 1 Preferred Shares are non-voting and are entitled to non-cumulative preferential cash dividends payable quarterly, if and when declared, at a per annum rate of 4.10% per Series 1 Preferred Share. With regulatory approval, the Series 1 Preferred Shares may be redeemed by MFC on or after June 19, 2010, in whole or in part, at declining premiums that range from $1.25 to nil per Series 1 Preferred Share, by either payment of cash or the issuance of MFC common shares. On or after December 19, 2015, the Series 1 Preferred Shares will be convertible at the option of the holder into MFC common shares, the amount of which

is determined by a prescribed formula, and is subject to the right of MFC prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares.

Senior debentures issued to Manulife Financial Capital Trust

On December 10, 2001, MLI issued senior debentures to Manulife Financial Capital Trust (the "Trust"). The debentures mature on December 31, 2051 and interest is payable semi-annually on June 30 and December 31. With regulatory approval, upon certain tax or regulatory capital changes, or on any interest payment date after December 31, 2006 but prior to June 30, 2012, MLI may redeem the debentures at the greater of par or the fair value of the debt based on the yield on Government of Canada bonds plus 40 basis points in the case of the 7.0% debentures and 32 basis points in the case of the 6.7% debentures, on or after June 30, 2012 at par, in each case together with accrued and unpaid interest.

At the option of the Trust, the 7.0% debentures are convertible into MLI Class A Shares Series 2 and the 6.7% debentures are convertible into MLI Class A Shares Series 4. Under certain circumstances, the 7.0% debentures will be automatically converted into MLI Class A Shares Series 3 and the 6.7% debentures will be automatically converted into MLI Class A Shares Series 5.

The Trust, a wholly owned open-end trust, is deemed to be a VIE; however, because the Company is not the primary beneficiary, the Trust is not consolidated (see note 17(b)).

Subordinated notes payable to Manulife Finance (Delaware) LLC

On December 14, 2006, Manulife Holdings (Delaware) LLC ("MHD"), a wholly owned subsidiary of MLI, issued $650 in subordinated notes to Manulife Finance (Delaware) LLC ("MFLLC"), a subsidiary of Manulife Finance (Delaware), L.P. ("MFLP"). The notes mature on December 15, 2036 and bear interest payable semi-annually at the 90-day Bankers Acceptance rate plus 0.72%. With regulatory approval, MHD may redeem the notes, in whole or in part, at any time for the amount of principal and unpaid interest. Issue costs for the subordinated notes payable are amortized over the term of the debt. Unamortized costs of $5 at December 31, 2006 (2005 – nil) have been included in miscellaneous assets.

MFLP is a wholly owned subsidiary; however, the subordinated debentures issued by MFLP and the subordinated notes receivable by MFLLC are not consolidated (see note 17(b)).

Subordinated debt securities payable to MIC Financing Trust I

In January 1997, The Manufacturers Investment Corporation ("MIC") issued U.S. $485 subordinated debt securities to MIC Financing Trust I ("MIC Trust") established by MIC. These securities mature on February 1, 2027 and bear interest at 8.25% per annum, payable semi-annually on February 1 and August 1. With regulatory approval, MIC may redeem the subordinated debt securities for the amount of principal plus any accrued and unpaid interest at any time on or after February 1, 2007.

MIC Trust is a wholly owned trust of MIC; however, the trust preferred securities issued by MIC Trust and the U.S. $485 subordinated notes receivable by MIC Trust are not consolidated (see note 17(b)).

Note 13 § Non-Controlling Interest in Subsidiaries

As at December 31,	2006	2005
Non-controlling interest in common equity of subsidiaries	**$ 109**	$ 94
Preferred shares issued by MLI – MLI Class A, Series 6	**93**	93
Total	**$ 202**	$ 187

MLI's Class A, Series 6 Preferred Shares ("Series 6 Shares") are non-voting, bear non-cumulative dividends and are redeemable at the election of MLI at $26.00 per share during the 12 months commencing December 31, 2007, or $25.75 per share during the 12 months commencing December 31, 2008, or $25.50 per share during the 12 months commencing December 31, 2009, or $25.25 per share during the 12 months commencing December 31, 2010, or $25.00 per share during the 12 months commencing December 31, 2011.

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

On January 3, 2006, MFC issued 12 million Class A Shares, Series 3 ("Series 3 Preferred Shares") at a price of $25.00 per share, for an aggregate amount of $300. The Series 3 Preferred Shares are non-voting and entitled to non-cumulative preferential cash dividends payable quarterly, if and when declared, at a per annum rate of 4.50% per Series 3 Preferred Share. With regulatory approval, the Series 3 Preferred Shares may be redeemed by MFC on or after March 19, 2011, in whole or in part, at declining premiums that range from $1.00 to nil per Series 3 Preferred Share, by payment of cash.

Common shares

On November 3, 2005, the Toronto Stock Exchange (the "Exchange") accepted MFC's filing of notice to make a normal course issuer bid during the 12-month period commencing November 9, 2005 to repurchase up to 100 million of its common shares, representing approximately 6.3% of common shares then outstanding. During the year ended December 31, 2006, MFC purchased and subsequently cancelled 45 million (2005 – 1 million) of its common shares pursuant to this normal course issuer bid at a cost of $1,631 (2005 – $49). A previous normal course issuer bid program terminated on November 8, 2005.

On November 7, 2006, the Exchange accepted MFC's filing of notice to make a normal course issuer bid during the 12-month period commencing November 9, 2006. Under this bid, MFC may repurchase up to 75 million of its common shares, representing approximately 4.9% of common shares outstanding. MFC is also limited to purchasing up to 2% of its common shares in any 30-day period under this bid. During the year ended December 31, 2006, MFC did not purchase or cancel any of its common shares pursuant to this normal course issuer bid.

All transactions under the normal course issuer bids were and will be executed on the Exchange at prevailing market prices (or, with the Exchange's approval, off the Exchange) in amounts and at times determined by MFC, subject to compliance with applicable law and regulations. Any common shares purchased as part of the bid will be cancelled.

In total, during the year ended December 31, 2006, MFC purchased and subsequently cancelled 45 million (2005 – 42 million) of its common shares pursuant to the normal course issuer bids at a total cost of $1,631 (2005 – $1,238).

On June 2, 2006, MFC paid a stock dividend of one common share on each of its issued and outstanding common shares. The effect is the same as a two-for-one split of MFC's common shares. All common share numbers and per common share amounts have been restated to reflect the stock dividend.

	2006		2005	
For the years ended December 31,	Number of Shares (in millions)	Amount	Number of Shares (in millions)	Amount
Common shares				
Balance, January 1	**1,584**	**$14,490**	1,616	$14,646
Issued on exercise of stock options and deferred share units	**8**	**171**	10	228
Normal course issuer bids – purchased for cancellation	**(45)**	**(413)**	(42)	(384)
Balance, December 31	**1,547**	**$14,248**	1,584	$14,490

Note 15 § Stock-Based Awards

Under MFC's Executive Stock Option Plan ("ESOP"), stock options are granted to selected individuals. Options provide the holder with the right to purchase common shares at an exercise price equal to the closing market price of MFC's common shares on the Exchange on the business day immediately preceding the date the options were granted. The options vest over a period not exceeding four years and expire not more than 10 years from the grant date. A total of 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 MFC's 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 3.3 million as at December 31, 2006 (2005 – 3.6 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 2006, 181,000 DSUs (2005 – 182,000) were issued to certain employees who elected to defer receipt of all or part of their annual bonus. Also in 2006, 720,000 DSUs (2005 – nil) were issued to certain employees who elected to defer payment of all or part of their 2004 restricted share units ("RSUs"). The DSUs issued in 2005 and 2006 vested immediately upon grant.

Effective January 1, 2001, MFC established the Global Share Ownership Plan ("GSOP") for its eligible employees and the Stock Plan for Non-Employee Directors. Under the GSOP, qualifying employees can choose to have up to 5% of their annual base earnings applied toward the purchase of common shares of MFC. Subject to certain conditions, MFC will match a percentage of the employee's eligible contributions to certain maximums. MFC's contributions vest immediately. All contributions are used by the plan's trustee 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 of MFC have been reserved for issuance under the Stock Plan for Non-Employee Directors.

MFC previously granted stock options to directors under the Director Equity Incentive Plan ("DEIP"). There were no stock options granted under this plan in 2005 and 2006, as a result of a decision made by the Board of Directors in 2004 to permanently discontinue stock option grants to directors. A total of 500,000 common shares of MFC have been reserved for issuance under the DEIP.

In 2003, MFC established the Restricted Share Unit Plan. For the year ended December 31, 2006, 1.6 million (2005 – 1.8 million) RSUs were granted to certain eligible employees under this plan. RSUs represent phantom common shares of MFC that entitle a participant to receive payment equal to the market value of the same number of common shares, plus credited dividends, at the time the RSUs vest. RSUs vest within three years of the grant date, subject to performance conditions, and the related compensation expense is rec-

organized 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 $79 for the year ended December 31, 2006 (2005 – $99).

For the years ended December 31,	2006	2005
	Number of DSUs (in thousands)	
Outstanding, January 1	**4,100**	4,182
Issued	**935**	230
Reinvested	**80**	80
Redeemed	**(394)**	(392)
Outstanding, December 31	**4,721**	4,100

Of the DSUs outstanding at December 31, 2006, 3,331,000 (2005 – 3,618,000) entitle the holder to receive common shares, 1,130,000 (2005 – 236,000) entitle the holder to receive payment in cash and 260,000 (2005 – 246,000) entitle the holder to receive payment in cash or common shares, at the option of the holder.

Prior to the merger of the Company with JHF in 2004, stock options were awarded on a discretionary basis under the JHF Long-Term Stock Incentive Plan and Non-Employee Directors' Long-Term Incentive Plan (the "John Hancock Plans"). These stock options vested 50 per cent each year over two years with a five year maximum term. On April 28, 2004, all outstanding JHF mid-term and long-term incentives were converted to Company incentives at a rate of one JHF unit to 1.1853 units of the Company. The John Hancock Plans are now closed to new grants, but will continue to operate until all outstanding awards have been exercised or terminated.

For the years ended December 31,	2006		2005	
	Number of options (in millions)	Weighted average exercise price	Number of options (in millions)	Weighted average exercise price
Outstanding, January 1	**34**	**$ 20.64**	41	$ 19.48
Granted	**3**	**$ 36.96**	4	$ 29.00
Exercised	**(7)**	**$ 19.00**	(10)	$ 18.85
Forfeited	**—**	**$ 27.78**	(1)	$ 22.65
Outstanding, December 31	**30**	**$ 22.68**	34	$ 20.64
Exercisable, December 31	**22**	**$ 19.88**	24	$ 18.95

Options outstanding

As at December 31, 2006	Options outstanding			Options exercisable	
Exercise price	Number of options (in millions)	Weighted average exercise price	Weighted average contractual remaining life	Number of options (in millions)	Weighted average exercise price
$13.22 – $19.52	**8**	**$ 16.29**	**3.85 years**	**8**	**$ 16.15**
$19.53 – $25.45	**15**	**$ 21.59**	**4.52 years**	**13**	**$ 21.30**
$25.46 – $36.98	**7**	**$ 32.51**	**8.56 years**	**1**	**$ 28.92**
Total	**30**	**$ 22.68**	**5.27 years**	**22**	**$ 19.88**

The weighted average fair value of each option granted in 2006 has been estimated at $8.43 (2005 – $6.11) using the Black-Scholes option-pricing model. The pricing model uses the following weighted average assumptions for these options: risk-free interest rate of 4.2% (2005 – 3.7%), dividend yield of 1.9% (2005 – 1.9%), expected volatility of 20% (2005 – 20%) and expected life of 6.5 (2005 – six) years.

The Company recorded compensation expense for stock options granted after January 1, 2002, with an offsetting increase to contributed surplus, of $26 during the year ended December 31, 2006 (2005 – $33).

In aggregate, the Company recorded stock-based compensation expense of $105 for the year ended December 31, 2006 (2005 – $132).

Diluted earnings per share

For the years ended December 31,	2006	2005
Diluted earnings per common share	**$ 2.51**	$ 2.03
Net income available to common shareholders	**$ 3,955**	$ 3,280
Weighted average number of common shares(in millions)	**1,563**	1,597
Stock-based awards[1](in millions)	**16**	15
Weighted average number of diluted common shares(in millions)	**1,579**	1,612

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 three million (2005 – four million) anti-dilutive stock-based awards.

Note 16 § Employee Future Benefits

The Company maintains a number of pension and benefit plans, both defined benefit and defined contribution, for its eligible employees and agents. These plans include broad-based pension plans for employees that are primarily funded, supplemental pension plans for executives that are primarily not funded, and other non-pension post-employment benefit plans that are also primarily not funded.

The Company's funding policy for all applicable plans is to make at least the minimum annual contributions required by regulations of the countries in which the plans are offered. Different assumptions and methods are prescribed for regulatory funding purposes compared to accounting purposes.

The Company measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations to determine employer required annual contributions for Canadian based pension plans are 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, 2005. The date of the next required actuarial valuation of the Canadian staff pension plan for funding purposes is December 31, 2008. Pension plans based in the United States require annual valuations, with the most recent valuations performed as at January 1, 2006.

Pension and Non-Pension Post-Employment Benefit Plans

	Pension benefits		Post-employment benefits	
For the years ended December 31,	**2006**	2005	**2006**	2005
Changes in plan assets:				
Fair value of plan assets, January 1	**$ 3,440**	$ 3,468	**$ 314**	$ 312
Actual return on plan assets	**528**	290	**39**	12
Employer contributions	**79**	131	**69**	72
Plan participants' contributions	**1**	1	**4**	8
Benefits paid	**(324)**	(352)	**(73)**	(79)
Currency impact	**17**	(98)	**1**	(11)
Fair value of plan assets, December 31 [1]	**$ 3,741**	$ 3,440	**$ 354**	$ 314

1 As part of the acquisition of JHF in April 2004, non-qualified retirement plans funded through a rabbi trust were acquired. These plans cover various executives. The rabbi trust assets in respect of these plans are not included herein. In the event of insolvency of the Company, the rabbi trust assets can be used to satisfy claims of general creditors. At December 31, 2006, assets in the rabbi trust were $474 (2005 – $460) and the plan obligations were $401 (2005 – $391). The measurement date of these plans was December 31, 2006.

	Pension benefits		Post-employment benefits	
For the years ended December 31,	**2006**	2005	**2006**	2005
Changes in accrued benefit obligation:				
Balance, January 1	**$ 3,955**	$ 3,850	**$ 1,007**	$ 995
Service cost	**65**	66	**19**	13
Interest cost	**197**	213	**50**	56
Plan participants' contributions	**1**	1	**4**	8
Amendments	**(2)**	–	**–**	4
Actuarial (gains) losses	**(91)**	292	**(75)**	35
Benefits paid	**(324)**	(352)	**(73)**	(79)
Currency impact	**9**	(115)	**(3)**	(25)
Balance, December 31	**$ 3,810**	$ 3,955	**$ 929**	$ 1,007

	Pension benefits		Post-employment benefits	
As at December 31,	**2006**	2005	**2006**	2005
Excess of plan liabilities over fair value of plan assets, end of year	**$ (69)**	$ (515)	**$ (575)**	$ (693)
Unrecognized net actuarial (gain) loss	**(50)**	347	**(42)**	52
Unrecognized prior service cost	**12**	24	**(7)**	(10)
Net accrued benefit liability, December 31	**$ (107)**	$ (144)	**$ (624)**	$ (651)

Amounts recognized in the Consolidated Balance Sheets:

	Pension benefits		Post-employment benefits	
As at December 31,	**2006**	2005	**2006**	2005
Prepaid benefit cost	**$ 524**	$ 473	**$ —**	$ —
Accrued benefit liability	**(631)**	(617)	**(624)**	(651)
Net accrued benefit liability, December 31	**$ (107)**	$ (144)	**$ (624)**	$ (651)

As at December 31, 2006, the Company's broad-based funded pension plans consisted of assets of $3,722 (2005 – $3,415) and pension benefit obligations of $3,053 (2005 – $3,213), which results in a pension benefit surplus of $669 (2005 – $202). These plans are subject to regulatory required contributions. For other broad-based but unfunded pension plans, the pension benefit deficit amounted to $49 as at December 31, 2006 (2005 – $46) of which $47 (2005 – $44) has been charged to earnings or otherwise accrued for in the Company's accounts.

The Company's executive supplemental pension plans are primarily not funded and, as at December 31, 2006, consisted of assets of $19 (2005 – $25) and pension benefit obligations of $708 (2005 – $696), which results in a pension benefit deficit of $689 (2005 – $671). Of this deficit, $540 (2005 – $534) has been charged to earnings to date. Further, the rabbi trust assets that support a portion of these executive pension obligations amounted to $474 as at December 31, 2006 (2005 – $460). 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,	**2006**	2005
Broad-based funded pension plans		
Fair value of plan assets	**$ 3,722**	$ 3,415
Accrued benefit obligation	**3,053**	3,213
Excess of fair value of plan assets over plan liabilities	**$ 669**	$ 202
Broad-based unfunded pension plans		
Fair value of plan assets	**$ —**	$ —
Accrued benefit obligation	**49**	46
Shortfall of fair value of plan assets over plan liabilities	**$ (49)**	$ (46)
Executive unfunded pension plans		
Fair value of plan assets	**$ 19**	$ 25
Accrued benefit obligation	**708**	696
Shortfall of fair value of plan assets over plan liabilities	**$ (689)**	$ (671)
Other		
Rabbi trust assets	**$ 474**	$ 460
Total		
Fair value of assets	**$ 4,215**	$ 3,900
Accrued benefit obligation	**3,810**	3,955
Excess (shortfall) of fair value of assets over plan liabilities	**$ 405**	$ (55)

The assets that support the portion of the non-pension post-employment benefit plans that are not funded similarly form part of the general fund assets of the Company and are not separately segregated.

The weighted average asset allocation by asset category for the Company's pension plans that are funded was as follows:

	Actual allocation	
As at December 31,	**2006**	2005
Equity securities[1]	**59%**	59%
Debt securities	**30%**	30%
Real estate	**3%**	5%
Other	**8%**	6%
Total	**100%**	100%

1 Pension benefit plans include investments in MFC common shares of $3 (2005 – $3).

Components of the net benefit expense for the pension plans and other non-pension post-employment benefit plans were as follows:

For the years ended December 31,	Pension benefits 2006	Pension benefits 2005	Post-employment benefits 2006	Post-employment benefits 2005
Defined benefit service cost	**$ 65**	$ 66	**$ 19**	$ 13
Defined contribution service cost	**56**	56	**—**	—
Interest cost	**197**	213	**50**	56
Actual positive return on plan assets	**(528)**	(290)	**(39)**	(12)
Actuarial (gains) losses	**(91)**	292	**(75)**	35
Plan amendments	**3**	—	**—**	4
Pension costs incurred before adjustments	**$ (298)**	$ 337	**$ (45)**	$ 96
Difference between costs arising in the year and cost recognized in respect of:				
Return on plan assets[1]	**277**	23	**13**	(14)
Actuarial (gains) losses[2]	**111**	(278)	**78**	(34)
Plan amendments[3]	**8**	6	**(2)**	(8)
Net benefit expense	**$ 98**	$ 88	**$ 44**	$ 40

1 Expected return on plan assets of $277 for the year ended December 31, 2006 (2005 – $293) less deferral of actual return on plan assets of $567 (2005 – $302).

2 Actuarial (gains) losses amortized in 2006 of $23 (2005 – $15) less actual actuarial gains incurred of $166 (2005 – $327 losses).

3 Amortization of plan amendments in 2006 of $9 (2005 – $2) less actual cost of plan amendments of $3 (2005 – $4).

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:

For the years ended December 31,	Pension benefits 2006	Pension benefits 2005	Post-employment benefits 2006	Post-employment benefits 2005
To determine the accrued benefit obligation at end of year:				
Discount rate	**5.6%**	5.3%	**5.7%**	5.4%
Rate of compensation increase	**3.9%**	3.9%	**3.6%**	3.6%
Initial health care cost trend rate[1]	**n/a**	n/a	**9.2%**	9.7%
To determine the net benefit expense for the year:				
Discount rate	**5.3%**	5.7%	**5.4%**	5.8%
Expected return on plan assets[2]	**7.9%**	8.1%	**8.3%**	8.5%
Rate of compensation increase	**3.9%**	3.9%	**3.6%**	3.6%
Initial health care cost trend rate[1]	**n/a**	n/a	**9.7%**	10.1%

1 The health care cost trend rate used to measure the U.S. based non-pension post-employment obligation was 9.5% grading to 5.0% for 2016 and years thereafter (2005 – 10.0% grading to 5.0% for 2016) and to measure the expense was 10.0% grading to 5.0% for 2016 and years thereafter (2005 – 10.5% grading to 5.0% for 2016). In Canada, the rate used to measure the non-pension post-employment benefit obligation was 8.0% grading to 5.0% for 2013 and years thereafter (2005 – 8.5% grading to 5.0% for 2013) and to measure the expense was 8.5% grading to 5.0% for 2013 and years thereafter (2005 – 8.5% grading to 5.5% for 2008).

2 The expected return on pension plan assets for U.S.-based plans was 8.25% (2005 – ranged from 8.25% to 8.5%). Plans based in Canada had an expected return on plan assets of 6.9% (2005 – 6.9%). Other pension plans had an expected return of 4.7% (2005 – 4.4%).

To develop the expected long-term rate of return on plan assets assumptions, the Company considers the historical returns and the future expectations for each asset class, as well as the target asset allocation of the pension portfolio.

Sensitivity of Key Assumptions

Assumptions adopted can have a significant effect on the obligations and expenses reported for pension plans and for the non-pension post-employment benefit plans. The sensitivity of the obligations and expenses to changes in the key assumptions are set out in the following table.

As at and for the year ended December 31, 2006	Pension benefits Obligation	Pension benefits Expense	Post-employment benefits Obligation	Post-employment benefits Expense
Discount Rate:				
Impact of a 1% increase	**$ (394)**	**$ (7)**	**$ (88)**	**$ (4)**
Impact of a 1% decrease	**$ 483**	**$ 10**	**$ 107**	**$ 3**
Expected return on plan assets:				
Impact of a 1% increase	**n/a**	**$ (32)**	**n/a**	**$ (3)**
Impact of a 1% decrease	**n/a**	**$ 32**	**n/a**	**$ 3**
Rate of compensation increase:				
Impact of a 0.25% increase	**$ 11**	**$ 2**	**$ —**	**$ —**
Impact of a 0.25% decrease	**$ (11)**	**$ (2)**	**$ —**	**$ —**
Health care cost trend rate:				
Impact of a 1% increase	**n/a**	**n/a**	**$ 56**	**$ 7**
Impact of a 1% decrease	**n/a**	**n/a**	**$ (49)**	**$ (6)**

Cash Flows – Contributions

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

	Pension benefits		Post-employment benefits	
For the years ended December 31,	**2006**	2005	**2006**	2005
Defined benefit	**$ 79**	$ 131	**$ 69**	$ 72
Defined contribution	**56**	56	**—**	—
Total	**$ 135**	$ 187	**$ 69**	$ 72

Cash Flows – Estimated Benefit Payments

The future benefit payments under the defined benefit pension plans and non-pension post-employment benefit plans are estimated to be as follows:

For the years ended December 31,	Pension benefits	Post-employment benefits
2007	**$ 294**	**$ 71**
2008	**286**	**72**
2009	**290**	**73**
2010	**301**	**74**
2011	**296**	**74**
2012 - 2016	**1,544**	**372**

During the year, the John Hancock Pension Committee approved and executed the implementation of a single 401(k) pension investment platform in the United States. The Company's own Retirement Pension Plan 401(k) platform was the one selected. As a result of this transfer, the Company reported deposits from policyholders in the Segregated Funds Consolidated Statements of Changes in Net Assets of $622 for the year ended December 31, 2006 (2005 – nil).

Note 17 § Variable Interest Entities

a) Investments that are Variable Interest Entities

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

In its capacities as an investor and as an investment manager, the Company has relationships with various types of entities, some of which are VIEs. The Company's segregated funds are considered the primary beneficiary of certain timberland VIEs. The consolidation of these VIEs in the segregated funds as at December 31, 2006 resulted in an increase in segregated fund assets of $213 (2005 – $206), an increase in segregated fund liabilities of $73 (2005 – $73) and an increase in net assets held by other contract holders of $140 (2005 – $ 133).

Variable interest entities that are not consolidated

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

The following is a discussion of the entities the Company has significant relationships with and certain summarized financial information for them.

Collateralized debt obligation funds

The Company acts as an investment manager to certain asset-backed investment vehicles, commonly known as collateralized debt obligation funds ("CDOs"). The Company has determined that most of the CDOs it manages are VIEs. The Company also invests in the debt and/or equity of these CDOs, and in the debt and/or equity of CDOs managed by others. Any net losses in excess of the CDO equity are borne by the debt owners. Owners of securities issued by CDOs that are managed by the Company have no recourse to the Company's assets in the event of default by the CDO. The Company's risk of loss from any CDO that it manages, or in which it invests, is limited to its investment in the CDO.

The maximum exposure to losses from CDOs managed by the Company is $90 (2005 – $198). This consists of $54 (2005 – $150) of investments in tranches rated Aa1 or better, $18 (2005 – $20) in tranches rated below BBB and $18 (2005 – $28) in equity tranches.

Total size of Company-managed CDOs **As at December 31,**	**2006**	2005
Total assets	**$ 9,382**	$ 6,227
Total debt	**$ 9,137**	$ 6,100
Total other liabilities	**65**	29
Total liabilities	**$ 9,202**	$ 6,129
Total equity	**180**	98
Total liabilities and equity[1]	**$ 9,382**	$ 6,227

1 Includes the Company's investment in the debt and equity of Company-managed VIE and non-VIE CDOs.

Low-income housing partnerships

The Company has investments that qualify for low-income housing and/or historic tax credits ("LIH Partnerships"). These investments are primarily through real estate limited partnerships. The Company is usually the sole limited partner or an investor member and it is not the general partner or managing member in any of the LIH Partnerships.

The Company's maximum exposure to losses from its investments in LIH Partnerships is $604 (2005 – $551). This consists of $479 (2005 – $415) of equity investments, $77 (2005 – $77) of mortgages, and outstanding equity capital and mortgage commitments to the partnerships of $48 (2005 – $58) and nil (2005 – $1), respectively.

Total size of the LIH Partnerships[1]

As at December 31,	2006	2005
Total assets	**$ 1,435**	$ 1,442
Total debt	**$ 873**	$ 869
Total other liabilities	**98**	115
Total liabilities	**$ 971**	$ 984
Total equity	**464**	458
Total liabilities and equity[2]	**$ 1,435**	$ 1,442

1 Certain data above is reported with a three-month lag due to the delayed availability of financial statements of the LIH Partnerships.

2 Includes the Company's investment in the debt and equity of these LIH Partnerships.

Timberland investments

The Company acts as an investment manager of timberland properties with total assets of $7.7 billion, of which $4.0 billion relates to funds that the general fund and institutional segregated funds invest in (the "Timber Funds"). In its capacity as investment advisor to the Timber Funds, the Company earns investment advisory fees, and in the majority of cases earns forestry management fees and is eligible for performance advisory fees. The Company has determined that most of the Timber Funds are VIEs.

The Company's maximum exposure to losses from the Timber Funds is $430 (2005 – $140). This consists of $141 (2005 – $91) of equity investments, $278 (2005 – $33) of debt investments, and $11 (2005 – $16) of outstanding equity commitments to these funds.

Total size of Timber Funds

As at December 31,	2006	2005
Total assets	**$ 3,968**	$ 2,512
Total debt	**$ 1,970**	$ 832
Total other liabilities	**133**	65
Total liabilities	**$ 2,103**	$ 897
Total equity	**1,865**	1,615
Total liabilities and equity[1]	**$ 3,968**	$ 2,512

1 Includes the Company's investment in the debt and equity of the Timber Funds.

Other entities

The Company has investment relationships with a variety of other entities ("Other Entities"), which result from its direct investment in their debt and/or equity. This category includes energy investment partnerships, investment funds organized as limited partnerships, and businesses that have undergone debt restructurings and reorganizations. With the exception of its involvement with the entities described in the following paragraphs, the Company believes that its relationships with these Other Entities are not significant, and accordingly, does not provide any summary financial data for them. The Company's maximum exposure to losses as a result of its involvement with Other Entities is generally limited to amounts invested, which are included on the Company's Consolidated Balance Sheets in the appropriate investment categories. To the extent that non-consolidated Other Entities are used to access capital markets, the Company's borrowings from the Other Entities are included on the Company's Consolidated Balance Sheets in the appropriate liability categories.

ArcLight Energy Partners Fund I, L.P. ("ArcLight"), a private equity fund, invests in the electric power, utility and energy industry sectors. The Company is a limited partner investor – owning approximately 55% of ArcLight's partners' capital as at December 31, 2006 and 2005. As at September 30, 2006, ArcLight had total assets of $917, liabilities of $64, and partners' capital of $853. As at December 31, 2005, ArcLight had total assets of $972, liabilities of $50, and partners' capital of $922.

b) Subsidiaries that are Variable Interest Entities

Manulife Financial Capital Trust

Manulife Financial Capital Trust (the "Trust"), a wholly owned open-end trust, is deemed to be a VIE; however, because the Company is not the primary beneficiary, the Trust is not consolidated. Manulife Financial Capital Securities ("MaCS") issued by the Trust are, at the option of their holders, exchangeable into newly issued Class A Shares Series 2 or Class A Shares Series 4 of MLI. Under certain circumstances and without the consent of the holders, the MaCS will be automatically exchanged into MLI Class A Shares Series 3 or MLI Class A Shares Series 5. The exchange of the MaCS will be effected through the conversion by the Trust of the corresponding principal amount of debentures issued by the Company, which corresponds to the series of the MaCS being exchanged, into Class A Shares of MLI. The MaCS form part of the Company's Tier 1 regulatory capital.

MIC Financing Trust I

MIC Financing Trust I ("MIC Trust"), a wholly owned trust, is bifurcated into a silo and a host entity in accordance with VIE accounting guidelines and both of these are classified as VIEs. The silo is comprised of the trust preferred securities described below. The host entity is comprised of the amounts the Company has invested, plus accumulated interest thereon. The Company owns only 1.5% (U.S. $7.5) of the trust preferred securities. The Company does not own, and is not the primary beneficiary of, the remaining U.S. $485 trust preferred securities; therefore, the Company does not consolidate the U.S. $485 trust preferred securities. The Company owns 100% of the host entity and consolidates it as a wholly owned subsidiary. Capital Trust Pass-Through Securities Units were issued by MIC Trust and The Manufacturers Investment Corporation ("MIC"), a wholly owned subsidiary of the Company, in January 1997, maturing February 1, 2027. Each unit consists of one 8.25% trust preferred security, issued by MIC Trust, and one 0.125% preferred purchase contract, issued by MIC. Holders of each purchase contract may be required to purchase 20 non-cumulative perpetual preferred shares, Series A ("Series A Preferred Shares") of MIC, at U.S. $50 per share. Holders may satisfy this purchase by delivering the trust preferred securities to MIC in exchange for the Series A Preferred Shares. MIC has the right to redeem the Series A Preferred Shares at any time on or after the later of February 1, 2007 or the date of issue, at a redemption price of U.S. $50 per share plus accrued and unpaid dividends to the date of redemption. The Securities Units were issued as a private placement under Rule 144A of the Securities Act (United States). The securities form part of the Company's Tier 2A regulatory capital.

Manulife Finance (Delaware), L.P.

Manulife Finance (Delaware), L.P. ("MFLP"), a wholly owned partnership, is bifurcated into two silos and one host entity in accordance with VIE accounting guidelines. The largest silo is comprised of the debt instruments and the interest rate swaps mentioned below. The smaller silo and the host entity are comprised of the amounts the Company has invested, plus accumulated interest thereon. The Company owns none of, and is not the primary beneficiary of, the largest silo; therefore, the Company does not consolidate the largest silo. The Company owns 100% of the smaller silo and the host entity and consolidates both as wholly owned subsidiaries. MFLP has issued $550 of senior debentures which mature December 15, 2026 and $650 of subordinated debentures which mature December 15, 2041. The senior debentures bear interest at the rate of 4.448% per annum, payable semi-annually until December 15, 2016 and thereafter at the 90-day Bankers Acceptance rate plus 1.5%, payable quarterly. The subordinated debentures bear interest at the rate of 5.059% per annum, payable semi-annually until December 15, 2036 and thereafter at the 90-day Bankers Acceptance rate plus 1%, payable quarterly. MFLP may redeem the senior debentures, upon certain tax changes or at any time prior to December 15, 2016, for the amount of principal, unpaid interest and, if applicable, a premium calculated with reference to the Government of Canada yield. MFLP may redeem the senior debentures on December 15, 2016 and on any interest payment date thereafter for the amount of principal and unpaid interest. With regulatory approval, MFLP may redeem the subordinated debentures, upon certain tax changes or at any time prior to December 15, 2036, for the amount of principal, unpaid interest and, if applicable, a premium calculated with reference to the Government of Canada yield. With regulatory approval, MFLP may redeem the subordinated debentures on December 15, 2036 and on any interest payment date thereafter for the amount of principal and unpaid interest. The subordinated debentures form part of the Company's Tier 2B regulatory capital.

In order for MFLP to manage its exposure to the interest rate difference between the debentures issued and the senior and subordinated notes receivable by its subsidiary, Manulife Finance (Delaware) LLC, from Manulife Holdings (Delaware) LLC (see notes 11 and 12), MFLP has entered into interest rate swaps.

Note 18 § Commitments and Contingencies

a) Legal proceedings

The Company is regularly involved in legal actions, both as a defendant and as a plaintiff. The legal actions naming the Company as a defendant ordinarily involve its activities as a provider of insurance protection and wealth management products, as well as an investment adviser, employer and taxpayer. In addition, government and regulatory bodies in Canada, the United States and Asia regularly make inquiries and, from time to time, require the production of information or conduct examinations concerning the Company's compliance with, among other things, insurance laws, securities laws, and laws governing the activities of broker-dealers. The Company does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on its consolidated financial position or results of its operations.

b) Proceeds

Pursuant to agreements with the administrators of Daihyaku Mutual Life Insurance Company ("Daihyaku") with respect to the April 2, 2001 purchase of a closed block of business in Japan, the Company was entitled to a contingent receivable related to the proceeds from the wind-up of the insolvent estate of Daihyaku. On March 29, 2005, the Company received the contingent receivable of $89 ($ 57 after tax). This amount has been recorded in other revenue in the Corporate and Other segment.

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 $2,211 of outstanding investment commitments as at December 31, 2006, of which $320 mature in 30 days, $1,392 mature in 31 to 365 days and $499 mature in 2008 or later. There were $2,494 of outstanding investment commitments as at December 31, 2005, of which $402 matured in 30 days, $1,531 matured in 31 to 365 days and $561 mature in 2007 or later.

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, 2006, letters of credit, for which third parties are beneficiary, in the amount of $727 (2005 – $910) were outstanding. There were no assets pledged against these outstanding letters of credit as at December 31, 2006 and 2005.

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

MFC has unconditionally and irrevocably guaranteed the payment of amounts on the $550 senior debentures due December 15, 2026 and $650 subordinated debentures due December 15, 2041 issued by Manulife Finance (Delaware), L.P., a wholly owned partnership. The Company does not consolidate these debentures (see note 17(b)). The senior debentures pay a fixed interest rate of 4.448% per annum, payable semi-annually, until December 15, 2016 and thereafter will pay a floating rate of interest equal to the 90-day Bankers Acceptance rate plus 1.5%, payable quarterly. The subordinated debentures pay a fixed interest rate of 5.059% per annum, payable semi-annually, until December 15, 2036 and thereafter will pay a floating rate of interest equal to the 90-day Bankers Acceptance rate plus 1%, payable quarterly. MFC's guarantee of the senior debentures is a direct unsecured obligation of MFC and ranks equally with all other unsecured indebtedness of MFC which is not subordinated, and MFC's guarantee of the subordinated debentures is a direct unsecured obligation of MFC and ranks equally with all other subordinated indebtedness of MFC except for other guarantees or obligations of MFC which by their terms are designated as ranking equally in right of payment with or subordinate to the subordinated indebtedness of MFC.

The following tables set forth certain consolidating summary financial information for MFC and Manulife Finance (Delaware), L.P.:

As at and for the year ended December 31, 2006	MFC (Guarantor)	Manulife Finance (Delaware), L.P.	Other Subsidiaries of MFC on a Combined Basis	Consolidating Adjustments	Total Consolidated Amounts
Total revenue	**$ 60**	**$ 2**	**$ 34,193**	**$ (61)**	**$ 34,194**
Net income available to shareholders	**3,985**	**—**	**3,989**	**(3,989)**	**3,985**
Invested assets	**2**	**—**	**171,162**	**—**	**171,164**
Total other assets	**26,684**	**1,368**	**15,226**	**(28,273)**	**15,005**
Policy liabilities	**—**	**—**	**130,819**	**—**	**130,819**
Total other liabilities	**1,030**	**1,210**	**29,440**	**(1,986)**	**29,694**

As at and for the year ended December 31, 2005	MFC (Guarantor)	Manulife Finance (Delaware), L.P.	Other Subsidiaries of MFC on a Combined Basis	Consolidating Adjustments	Total Consolidated Amounts
Total revenue	$ 67	$ —	$ 32,726	$ (104)	$ 32,689
Net income available to shareholders	3,294	—	3,308	(3,308)	3,294
Invested assets	12	—	166,402	—	166,414
Total other assets	26,286	—	18,291	(28,340)	16,237
Policy liabilities	—	—	132,049	—	132,049
Total other liabilities	2,511	—	26,930	(2,626)	26,815

g) Pledged assets

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

	2006		2005	
As at December 31,	Bonds	Other	Bonds	Other
In respect of:				
Derivatives	**$ 119**	**$ 72**	$ 122	$ 77
Regulatory requirements	**109**	**1**	112	4
Real estate	**—**	**71**	—	75
Other	**—**	**8**	—	96
Total	**$ 228**	**$ 152**	$ 234	$ 252

h) Lease obligations

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

	Capital leases	Operating leases	Total
2007	$ 3	$ 124	$ 127
2008	3	104	107
2009	2	85	87
2010	1	60	61
2011	—	52	52
Thereafter	—	119	119
Total minimum lease payments	**$ 9**	**$ 544**	**$ 553**

i) Capital requirements

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. 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 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 well in excess of the minimum required in all foreign jurisdictions in which the Company does business.

There are additional restrictions on distributions in foreign jurisdictions in relation to shareholder dividends. In the U.S., MFC's principal insurance subsidiaries are domiciled in Michigan and Massachusetts. Michigan regulatory approval is required if a shareholder dividend distribution from a Michigan insurance subsidiary to the parent company would exceed that subsidiary's earned surplus. Regulatory approval is also required if the distribution (together with other distributions during the previous 12 months) exceeds the greater of the subsidiary's statutory net operating income for the previous year or 10% of its surplus determined at the end of the previous year. The determination must be made in accordance with statutory accounting principles. Under the Massachusetts insurance law, no insurer may pay any shareholder dividend from any source other than statutory unassigned funds without the prior approval of the Massachusetts Commissioner of Insurance (the "MCI"). The Massachusetts insurance holding company act provides that no extraordinary dividend may be paid without 30 days prior written notice to the MCI, and only if the MCI has not disapproved, or has approved, the payment within the 30-day notice period. An extraordinary dividend is any dividend or distribution of cash or other property whose fair market value, together with other dividends or distributions made within the preceding 12 months, exceeds the greater of (i) 10% of an insurance company's surplus as regards to policyholders as of the preceding December 31, or (ii) a life insurance company's statutory net gain from operations for the 12 months ending on the preceding December 31. In addition, both Michigan and Massachusetts require that notification be given to the domiciliary insurance commissioner no later than five days following declaration, and at least 10 days prior to payment, of any dividend or distribution by a Michigan or Massachusetts insurance company.

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 19 § Fair Value of Financial Instruments

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

Both the fair values and the basis for determining the fair value of invested assets, consumer notes, long-term debt, liabilities for preferred shares and capital instruments and derivative financial instruments are disclosed in notes 6, 10, 11, 12 and 20, 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 $7,847 as at December 31, 2006 (2005 – $5,888) compared to a carrying value of $7,845 as at December 31, 2006 (2005 – $5,911). 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 20 § Derivative Financial Instruments

Derivative financial instruments are financial contracts, the values of which are derived from underlying assets or interest or foreign exchange rates. Derivatives such as interest rate and cross currency swaps, forward contracts, total return swaps, futures agreements and options are used to hedge and manage current and anticipated exposures to changes in interest rate levels, foreign exchange rates, commodity prices, credit risk and equity market prices, and to replicate permissible investments.

Swaps are contractual agreements between the Company and a third party to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating interest rate payments based on a notional value in a single currency. Cross currency swaps involve an initial and final exchange of principal amounts between parties as well as the exchange of fixed or floating interest payments in one currency for the receipt of fixed or floating interest payments in another currency. Equity contracts involve the exchange of floating rate interest payments for the receipt of returns from an equity market index.

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

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

Hedge effectiveness is assessed quarterly using a variety of techniques including regression analysis and cumulative dollar offset. When it is determined that a derivative is not effective as a hedge, the Company discontinues hedge accounting. In certain cases, there is no hedge ineffectiveness because the derivative instrument was constructed such that all the terms of the derivative match the hedged risk in the hedged item.

Credit risk equivalent is the sum of replacement cost and the potential future credit exposure. Replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value. The amounts take into consideration legal contracts that permit offsetting of positions. The potential future credit exposure represents the potential for future changes in value based upon a formula prescribed by OSFI.

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

Fair value is summarized by derivative type and represents the unrealized net gain or loss and accrued interest receivable or payable. Substantially all derivative financial instruments wholly or partially offset the change in fair values of related on-balance sheet assets and liabilities.

The Company had the following amounts outstanding:

	Remaining term to maturity (notional amounts)				Fair value				
As at December 31, 2006	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Net	Credit risk equivalent	Risk-weighted amount
Interest rate contracts:									
Swap contracts	**$ 4,195**	**$ 9,879**	**$ 26,172**	**$ 40,246**	**$ 1,148**	**$ (626)**	**$ 522**	**$ 759**	**$ 234**
Options purchased	**245**	**654**	**211**	**1,110**	**4**	**—**	**4**	**12**	**4**
Options written	**13**	**—**	**—**	**13**	**—**	**—**	**—**	**—**	**—**
Sub-total	**$ 4,453**	**$ 10,533**	**$ 26,383**	**$ 41,369**	**$ 1,152**	**$ (626)**	**$ 526**	**$ 771**	**$ 238**
Foreign exchange:									
Swap contracts	**966**	**6,736**	**3,286**	**10,988**	**833**	**(1,116)**	**(283)**	**982**	**300**
Forward contracts	**4,428**	**87**	**15**	**4,530**	**12**	**(71)**	**(59)**	**62**	**20**
Other	**486**	**395**	**361**	**1,242**	**10**	**(37)**	**(27)**	**159**	**49**
Total	**$ 10,333**	**$ 17,751**	**$ 30,045**	**$ 58,129**	**$ 2,007**	**$ (1,850)**	**$ 157**	**$ 1,974**	**$ 607**

As at December 31, 2005									
Interest rate contracts:									
Swap contracts	$ 5,406	$ 11,702	$ 23,924	$ 41,032	$ 1,338	$ (843)	$ 495	$ 714	$ 233
Futures contracts	246	—	—	246	—	—	—	—	—
Options purchased	173	2,816	211	3,200	48	—	48	36	14
Options written	—	13	—	13	—	—	—	—	—
Sub-total	$ 5,825	$ 14,531	$ 24,135	$ 44,491	$ 1,386	$ (843)	$ 543	$ 750	$ 247
Foreign exchange:									
Swap contracts	3,391	6,465	2,405	12,261	811	(956)	(145)	1,002	326
Forward contracts	3,409	—	15	3,424	17	(14)	3	81	26
Other	693	506	6	1,205	10	(4)	6	141	46
Total	$ 13,318	$ 21,502	$ 26,561	$ 61,381	$ 2,224	$ (1,817)	$ 407	$ 1,974	$ 645

Note 21 § Segmented Information

The Company provides a wide range of financial products and services, including individual life insurance, long-term care insurance, group life and health insurance, pension products, annuities and mutual funds. These services are provided to individual and group customers in the United States, Canada, Asia and Japan. Manulife Financial also provides investment management services with respect to the general fund assets of the Company, segregated and mutual funds as well as to institutional customers. The Company also offers reinsurance services specializing in retrocession and offering products in life, property and casualty.

The Company's reporting segments are U.S. Insurance and U.S. Wealth Management, which combine to form the U.S. Division, as well as the Canadian, Asia and Japan and Reinsurance Divisions and the Corporate and Other segment. Each division has profit and loss responsibility and develops products, services and distribution strategies based on the profile of its business and the needs of its market. In the first quarter of 2006, the Company's U.S. Protection, U.S. Wealth Management and Guaranteed & Structured Financial Products businesses were reorganized to become the U.S. Insurance and U.S. Wealth Management reporting segments. Information for prior periods has been restated accordingly.

Certain allocation methodologies are employed in the preparation of segmented financial information. Indirect expenses are allocated to business segments using allocation formulas applied on a consistent basis, while capital is apportioned to the Company's business segments on a risk-based methodology. The income statement impact of changes in actuarial methods and assumptions (note 7(f)) is reported in the Corporate and Other segment.

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

By Segment For the year ended December 31, 2006	U.S. Insurance	U.S. Wealth Mgmt	Canadian Division	Asia and Japan Division	Reinsurance Division	Corporate and Other	Total
Revenue							
Premium income							
Life and health insurance	$ 5,488	$ —	$ 5,411	$ 2,861	$ 1,010	$ —	$ 14,770
Annuities and pensions	—	3,741	521	72	—	—	4,334
Total premium income	$ 5,488	$ 3,741	$ 5,932	$ 2,933	$ 1,010	$ —	$ 19,104
Investment income	2,982	2,858	3,164	863	208	358	10,433
Other revenue	614	2,412	798	515	19	299	4,657
Total revenue	$ 9,084	$ 9,011	$ 9,894	$ 4,311	$ 1,237	$ 657	$ 34,194
Interest expense	$ 35	$ 159	$ 298	$ 50	$ 3	$ 417	$ 962
Income before income taxes	$ 935	$ 1,580	$ 1,170	$ 970	$ 403	$ 278	$ 5,336
Income taxes	(313)	(444)	(250)	(190)	(109)	(60)	(1,366)
Net income	$ 622	$ 1,136	$ 920	$ 780	$ 294	$ 218	$ 3,970
Segregated funds deposits	$ 1,225	$ 22,645	$ 4,619	$ 4,747	$ —	$ 51	$ 33,287
Goodwill							
Balance, January 1	$ 2,704	$ 2,053	$ 2,051	$ 499	$ 78	$ 116	$ 7,501
Sale of a subsidiary	—	—	—	—	—	(20)	(20)
Tax benefit of stock options exercised[1]	—	—	—	—	—	(16)	(16)
Change in foreign exchange rates	(2)	(1)	—	—	—	(1)	(4)
Balance, December 31	$ 2,702	$ 2,052	$ 2,051	$ 499	$ 78	$ 79	$ 7,461
As at December 31, 2006							
Policy liabilities	$44,232	$ 38,222	$32,554	$ 13,673	$ 1,884	$ 254	$130,819
Total assets	$52,820	$ 48,277	$49,533	$ 18,061	$ 3,379	$14,099	$186,169
Segregated funds net assets held by policyholders	$12,583	$112,269	$27,448	$ 17,232	$ —	$ 2,516	$172,048

1 Tax benefit to the Company relating to exercise of stock options that were issued at the time of the merger with JHF in exchange for JHF stock options.

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

By geographic location For the year ended December 31, 2006	United States	Canada	Asia and Japan	Other	Total
Revenue					
Premium income					
Life and health insurance	$ 5,965	$ 5,476	$ 2,903	$ 426	$14,770
Annuities and pensions	3,741	521	72	—	4,334
Total premium income	$ 9,706	$ 5,997	$ 2,975	$ 426	$19,104
Investment income	5,973	3,534	864	62	10,433
Other revenue	3,220	897	526	14	4,657
Total revenue	$ 18,899	$10,428	$ 4,365	$ 502	$34,194

By Segment For the year ended December 31, 2005	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	$ 5,382	$ —	$ 5,193	$ 2,895	$ 1,217	$ —	$ 14,687
Annuities and pensions	—	3,265	568	67	—	—	3,900
Total premium income	$ 5,382	$ 3,265	$ 5,761	$ 2,962	$ 1,217	$ —	$ 18,587
Investment income	2,868	3,020	2,771	716	185	376	9,936
Other revenue	620	2,052	734	354	27	379	4,166
Total revenue	$ 8,870	$ 8,337	$ 9,266	$ 4,032	$ 1,429	$ 755	$ 32,689
Interest expense	$ 26	$ 175	$ 175	$ 44	$ 1	$ 367	$ 788
Income (loss) before income taxes	$ 927	$ 1,211	$ 1,045	$ 810	$ (89)	$ 418	$ 4,322
Income taxes	(313)	(343)	(248)	(69)	(19)	(39)	(1,031)
Net income (loss)	$ 614	$ 868	$ 797	$ 741	$ (108)	$ 379	$ 3,291
Segregated funds deposits	$ 1,284	$20,208	$ 4,514	$ 5,226	$ —	$ 554	$ 31,786
Goodwill							
Balance, January 1	$ 2,756	$ 1,934	$ 1,888	$ 563	$ 78	$ 113	$ 7,332
Purchase equation adjustment (note 3)	35	208	163	(2)	3	—	407
Change in foreign exchange rates	(87)	(89)	—	(62)	(3)	3	(238)
Balance, December 31	$ 2,704	$ 2,053	$ 2,051	$ 499	$ 78	$ 116	$ 7,501
As at December 31, 2005							
Policy liabilities	$41,957	$43,259	$31,291	$ 13,166	$ 2,231	$ 145	$132,049
Total assets	$51,009	$55,531	$45,388	$ 17,022	$ 3,146	$ 9,533	$181,629
Segregated funds net assets held by policyholders	$11,374	$89,996	$23,443	$ 12,282	$ —	$ 2,600	$139,695

By geographic location For the year ended December 31, 2005	United States	Canada	Asia and Japan	Other	Total
Revenue					
Premium income					
Life and health insurance	$ 5,759	$ 5,259	$ 2,954	$ 715	$14,687
Annuities and pensions	3,265	568	67	—	3,900
Total premium income	$ 9,024	$ 5,827	$ 3,021	$ 715	$18,587
Investment income	6,016	3,167	716	37	9,936
Other revenue	2,882	803	453	28	4,166
Total revenue	$ 17,922	$ 9,797	$ 4,190	$ 780	$32,689

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"). The material differences between U.S. GAAP and Canadian GAAP for a life insurance company relate to the treatment of invested assets, deferred acquisition costs and actuarial liabilities. Generally, these differences will result in materially different earnings emergence patterns between statements of operations prepared in accordance with U.S. GAAP as compared to statements of operations prepared in accordance with Canadian GAAP.

a) Condensed Consolidated Balance Sheets

As at December 31,		2006		2005	
	Note 22 Reference	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
Invested assets					
Bonds	g (i), h (iv)	**$109,460**	**$103,159**	$108,966	$103,315
Mortgages	g (ii)	**28,079**	**28,131**	27,968	28,008
Stocks	g (iii), h (iv)	**17,731**	**11,272**	13,114	8,715
Real estate	g (iv)	**4,563**	**5,905**	4,148	5,279
Policy loans		**6,413**	**6,413**	6,120	6,120
Cash and short-term investments		**10,798**	**10,745**	8,765	8,723
Bank loans		**2,009**	**2,009**	1,806	1,806
Other investments	g (x), h (iv)	**3,661**	**3,530**	4,280	4,448
Total invested assets		**$182,714**	**$171,164**	$175,167	$166,414
Other assets					
Accrued investment income	h (iv)	**$ 1,561**	**$ 1,557**	$ 1,640	$ 1,639
Outstanding premiums		**669**	**669**	735	735
Deferred acquisition costs	g (vi)	**12,054**	**—**	10,187	—
Reinsurance deposits and amounts recoverable		**4,966**	**—**	4,875	—
Goodwill		**6,415**	**7,461**	6,472	7,501
Intangible assets		**1,708**	**1,708**	1,742	1,742
Value of business acquired	g (vii)	**4,101**	**—**	4,283	—
Miscellaneous	h (iv)	**5,418**	**3,610**	6,695	4,620
Total other assets		**$ 36,892**	**$ 15,005**	$ 36,629	$ 16,237
		$219,606	**$186,169**	$211,796	$182,651
Segregated funds net assets[1]	h (iv)	**163,483**	**—**	133,662	—
Total assets		**$383,089**	**$186,169**	$345,458	$182,651
Segregated funds net assets[1]	h (iv)	**$ —**	**$172,937**	$ —	$140,361
Liabilities and equity					
Policy liabilities	g (v), h (iv)	**$161,799**	**$130,819**	$158,122	$132,049
Deferred realized net gains	g (i) - (iv)	**—**	**4,442**	—	4,295
Bank deposits		**7,845**	**7,845**	5,911	5,911
Consumer notes		**2,860**	**2,860**	2,900	2,900
Future income tax liability[2]	h (iv)	**2,707**	**2,258**	2,392	1,337
Other liabilities	g (x), h (iv)	**8,805**	**6,453**	9,635	7,806
		$184,016	**$154,677**	$178,960	$154,298
Long-term debt		**3,040**	**3,062**	2,480	2,457
Liabilities for preferred shares and capital instruments		**2,572**	**2,572**	1,922	1,922
Non-controlling interest in subsidiaries		**400**	**202**	217	187
Segregated funds net liabilities[1]	h (iv)	**163,483**	**—**	133,662	—
Common shares, preferred shares, retained earnings, contributed surplus and currency translation account		**26,214**	**25,656**	25,206	23,787
Accumulated effect of comprehensive income on equity		**3,364**	**—**	3,011	—
Total liabilities and equity		**$383,089**	**$186,169**	$345,458	$182,651
Segregated funds net liabilities[1]	h (iv)	**$ —**	**$172,937**	$ —	$140,361

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,	2006		2005	
	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
Revenue				
Premium income	**$ 12,495**	**$ 19,104**	$ 11,867	$ 18,587
Net investment income (investment income)	**9,975**	**10,433**	11,245	9,936
Fee income and other revenue	**6,241**	**4,657**	5,424	4,166
Total revenue	**$ 28,711**	**$ 34,194**	$ 28,536	$ 32,689
Policy benefits and expenses				
Policyholder benefits	**$ 17,917**	**$ 19,912**	$ 17,287	$ 19,871
Commissions, investment and general expenses	**4,277**	**7,709**	4,203	7,462
Amortization of deferred acquisition costs and value of business acquired	**1,168**	**—**	1,169	—
Other	**1,253**	**1,237**	1,043	1,034
Total policy benefits and expenses	**$ 24,615**	**$ 28,858**	$ 23,702	$ 28,367
Income before income taxes	**$ 4,096**	**$ 5,336**	$ 4,834	$ 4,322
Income taxes	**(926)**	**(1,366)**	(1,390)	(1,031)
Net income	**$ 3,170**	**$ 3,970**	$ 3,444	$ 3,291
Weighted average number of common shares outstanding (in millions):				
Basic	**1,563**	**1,563**	1,597	1,597
Diluted	**1,579**	**1,579**	1,612	1,612
Earnings per share:				
Basic	**$ 2.03**	**$ 2.53**	$ 2.16	$ 2.05
Diluted	**$ 2.01**	**$ 2.51**	$ 2.14	$ 2.03

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

For the years ended December 31,		Net Income		Equity	
	Note 22 Reference	**2006**	2005	**2006**	2005
Net income and equity determined in accordance with Canadian GAAP		**$ 3,970**	$ 3,291	**$ 25,656**	$ 23,787
Bonds	g(i)	**(377)**	593	**4,061**	4,438
Mortgages	g (ii)	**20**	51	**152**	132
Stocks	g (iii)	**(108)**	13	**1,875**	1,983
Real estate	g (iv)	**(197)**	(142)	**(1,228)**	(1,031)
Other investments	g (ix)	**8**	265	**593**	585
Policy liabilities	g(v)	**(2,945)**	(2,360)	**(16,672)**	(13,724)
Value of business acquired	g (vii)	**(179)**	(339)	**(1,060)**	(881)
Deferred acquisition costs[1]	g (vi)	**2,162**	2,179	**12,958**	10,796
Deferred revenue	g (viii)	**356**	146	**(24)**	(380)
Other reconciling items		**(13)**	3	**(101)**	(20)
Future income taxes on the above noted items[2]		**473**	(256)	**(36)**	(509)
Change in accounting policy, net of income taxes		**—**	—	**40**	30
Net income and equity determined in accordance with U.S. GAAP		**$ 3,170**	$ 3,444	**$ 26,214**	$ 25,206
Effect of unrealized gains and losses on available-for-sale bonds and stocks:					
Bonds	g(i)	**(362)**	(909)	**2,853**	3,215
Stocks	g (iii)	**827**	618	**2,820**	1,993
Actuarial liabilities	g(v)	**(30)**	(127)	**(1,588)**	(1,558)
Deferred acquisition costs	g (vi)	**(213)**	141	**(494)**	(281)
Deferred revenue	g (viii)	**6**	(19)	**10**	4
Value of business acquired	g (vii)	**1**	96	**44**	43
Pensions and other post-retirement plans	g (xi)	**281**	(141)	**90**	(191)
SFAS 133 adjustments		**(133)**	425	**702**	835
Future income taxes on the above noted items[2]		**(24)**	84	**(1,073)**	(1,049)
Foreign currency translation[3]		**121**	(1,047)	**—**	—
Comprehensive income and equity determined in accordance with U.S. GAAP[4]		**$ 3,644**	$ 2,565	**$ 29,578**	$ 28,217

1 Deferred acquisition costs consist of $ 3,152 (2005 – $3,009) of capitalized expenditures less $990 (2005 – $830) of amortization charged to income.

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

3 Included a gain of $174 (2005 – gain of $206), net of tax, arising from hedges of foreign currency exposure of a net investment in a foreign operation.

4 Included in comprehensive equity was gross unrealized investment gains and gross unrealized investment losses of $6,644 and $971 (2005 – $6,398 and $1,190), respectively.

d) Business combination with John Hancock Financial Services, Inc.

Effective April 28, 2004, the Company completed a merger with JHF under which MFC became the beneficial owner of all of the outstanding common shares of JHF that were not already beneficially owned by the Company as general fund assets, and JHF became a wholly owned subsidiary of MFC.

During the second quarter of 2005, the purchase equation with respect to the JHF acquisition was adjusted and finalized and, as a result, U.S. GAAP goodwill was increased by $624.

e) Information Provided in Connection with the Fixed Investment Option of the Deferred Annuity Contracts Issued by John Hancock Variable Life Insurance Company and the *Signature*Notes Issued by John Hancock Life Insurance Company

The following condensed consolidating financial information, presented in accordance with U.S. GAAP, and the related disclosure have been included in these consolidated financial statements in compliance with Regulation S-X of the United States Securities and Exchange Commission (the "Commission") and in accordance with Rule 12h-5 of the Commission, as these financial statements are incorporated by reference in the registration statements of MFC and its subsidiaries that are described below and which relate to MFC's guarantee of certain securities issued and to be issued by its subsidiaries.

Effective April 28, 2004, a newly formed wholly owned subsidiary of MFC merged with JHF with the result that MFC became the beneficial owner of all of the outstanding common stock of JHF, and JHF became a wholly owned subsidiary of MFC (see note 3). As a result of the merger, John Hancock Variable Life Insurance Company (the "Variable Company") and John Hancock Life Insurance Company (the "Life Company"), two wholly owned subsidiaries of JHF, became indirect wholly owned subsidiaries of MFC. The results of JHF's operations have not been included in these condensed consolidating financial statements for periods prior to the merger.

The Variable Company sells deferred annuity contracts that feature a market value adjustment and are registered with the Commission. The deferred annuity contracts contain variable investment options and fixed investment period options. The fixed investment period options enable the participant to invest fixed amounts of money for fixed terms at fixed interest rates, subject to a market value adjustment if the participant desires to terminate a fixed investment period before its maturity date. The annuity contract provides for the market value adjustment to keep the parties whole with respect to the fixed interest bargain for the entire fixed investment period. The Variable Company refers to these fixed investment period options that contain a market value adjustment feature as "MVAs."

On December 30, 2002, JHF fully and unconditionally guaranteed the Variable Company's obligation to pay amounts due under any MVA that was outstanding on or following such date on transfer, withdrawal, surrender, maturity or annuitization of such MVA. On June 29, 2005, the Commission declared effective a joint registration statement filed by MFC and the Variable Company relating to MVAs to be sold on or after June 29, 2005, the payment of which will be fully and unconditionally guaranteed by MFC. MFC also guaranteed the payment obligations of the Variable Company under then outstanding MVAs. JHF will continue to guarantee MVAs that were outstanding before June 29, 2005, and JHF and MFC will be jointly and severally liable under such guarantees. However, JHF will not guarantee MVAs issued on or after June 29, 2005.

The Life Company sells medium-term notes to retail investors under its *Signature*Notes program. The *Signature*Notes are also registered with the Commission. On July 8, 2005, the Commission declared effective a joint registration statement filed by MFC and the Life Company relating to *Signature*Notes to be issued by the Life Company on or after July 8, 2005, the payment of which will be fully and unconditionally guaranteed by MFC. MFC also guaranteed the payment obligations of the Life Company under then outstanding *Signature*Notes.

MFC's guarantees of the *Signature*Notes and MVAs are unsecured obligations of MFC, and are subordinated in right of payment to the prior payment in full of all other obligations of MFC, except for other guarantees or obligations of MFC which by their terms are designated as ranking equally in right of payment with or subordinate to MFC's guarantees of the *Signature*Notes and MVAs.

The laws of the State of New York and the Commonwealth of Massachusetts govern MFC's guarantees of the *Signature*Notes and MVAs, respectively, and MFC has consented to the jurisdiction of the courts of such jurisdictions. However, because a substantial portion of MFC's assets are located outside the United States, the assets of MFC located in the United States may not be sufficient to satisfy a judgment given by a federal or state court in the United States to enforce the subordinate guarantees. In general, the federal laws of Canada and the laws of the Province of Ontario, where MFC's principal executive offices are located, permit an action to be brought in Ontario to enforce such a judgment provided that such judgment is subsisting and unsatisfied for a fixed sum of money and not void or voidable in the United States and a Canadian court will render a judgment against MFC in a certain dollar amount, expressed in Canadian dollars, subject to customary qualifications regarding fraud, violations of public policy, laws limiting the enforcement of creditor's rights and applicable statutes of limitations on judgments. There is currently no public policy in effect in the Province of Ontario that would support avoiding the recognition and enforcement in Ontario of a judgment of a New York or Massachusetts court on MFC's guarantees of the *Signature*Notes and MVAs, respectively.

Both MFC and JHF are insurance and bank holding companies. The assets of MFC and JHF consist primarily of the outstanding capital stock of their subsidiaries and investments in other international subsidiaries. Each company's cash flows primarily consist of dividends from its operating subsidiaries, offset by expenses and shareholder dividends and stock repurchases for MFC, and dividends to MFC and operating expenses for JHF. As a holding company, each company's ability to meet its cash requirements, including, but not limited to, paying any amounts due under its guarantees, substantially depends upon dividends from its operating subsidiaries.

These subsidiaries are subject to certain regulatory restrictions under laws in Canada, the United States and certain other countries, which may limit their ability to pay dividends or make contributions or loans to MFC or JHF, as applicable. For example, some of MFC's subsidiaries are subject to restrictions prescribed by the ICA on their ability to declare and pay dividends. The ICA prohibits the declaration or payment of any dividend on shares of an insurance company if there are reasonable grounds for believing the company is, or the payment of the dividend would cause the company to be, in contravention of any regulation under the ICA regarding the maintenance by life insurance companies of adequate capital and adequate and appropriate forms of liquidity or any direction to the company made by the Superintendent of Financial Institutions (Canada) (the "Superintendent") pursuant to subsection 515(3) of the ICA regarding its capital or liquidity. Dividends exceeding retained net income for the two preceding financial years plus net income for the

year to the day of declaration of the dividend require approval of the Superintendent. There is currently no direction against paying a dividend that is applicable to any of MFC's subsidiaries that are subject to the ICA. The ICA also requires an insurance company to notify the Superintendent of the declaration of a dividend at least 10 days prior to the date fixed for its payment.

In the United States, insurance laws in Michigan, Delaware, New York, Massachusetts and Vermont, the jurisdictions in which certain U.S. insurance company subsidiaries of MFC and JHF are domiciled, impose general limitations on the payment of dividends and other upstream distributions or loans by these insurance subsidiaries. These laws prohibit the payment of dividends or other distributions or loans to shareholders which may result in the failure to maintain adequate capital and liquidity levels, either by imposing specific financial tests that must be met in order for dividends or other distributions to be paid without regulatory consent or by giving the state insurance regulator broad discretion to disapprove any proposal to pay a dividend or other distribution.

In Asia, the insurance laws of the jurisdictions in which MFC and JHF operate either provide for specific restrictions on the payment of dividends or other distributions or loans by subsidiaries or impose solvency or other financial tests, which could affect the ability of subsidiaries to pay dividends in certain circumstances.

Generally, there can be no assurance that any current or future regulatory restrictions in Canada, the United States or Asia will not impair each of MFC's or JHF's ability to meet its cash requirements, including, but not limited to, paying any amounts due under its guarantee.

The following condensed consolidating financial information, presented in accordance with U.S. GAAP, is provided in compliance with Regulation S-X of the Commission and in accordance with Rule 12h-5 of the Commission.

Condensed Consolidating Balance Sheet

As at December 31, 2006	Manulife Financial Corporation (Guarantor)	John Hancock Financial Services, Inc.	John Hancock Life Insurance Company (Issuer)	John Hancock Variable Life Insurance Company (Issuer)	Other Subsidiaries	Consolidation Adjustments	Consolidated Manulife Financial Corporation
Assets							
Invested assets	**$ 2**	**$ 121**	**$ 64,468**	**$ 7,446**	**$ 110,677**	**$ —**	**$ 182,714**
Investments in unconsolidated subsidiaries	**30,050**	**12,896**	**3,744**	**163**	**—**	**(46,853)**	**—**
Other assets	**557**	**1,022**	**13,736**	**3,328**	**29,692**	**(11,443)**	**36,892**
Separate account assets	**—**	**—**	**13,018**	**9,235**	**141,230**	**—**	**163,483**
Total assets	**$ 30,609**	**$ 14,039**	**$ 94,966**	**$ 20,172**	**$ 281,599**	**$ (58,296)**	**$ 383,089**
Liabilities and equity							
Policy liabilities	**$ —**	**$ —**	**$ 60,649**	**$ 7,456**	**$ 96,735**	**$ (3,041)**	**$ 161,799**
Consumer notes	**—**	**—**	**2,860**	**—**	**—**	**—**	**2,860**
Other liabilities	**337**	**86**	**5,139**	**995**	**17,809**	**(5,009)**	**19,357**
Long-term debt	**350**	**1,360**	**1,112**	**—**	**2,620**	**(2,402)**	**3,040**
Liabilities for preferred shares and capital instruments	**344**	**—**	**—**	**—**	**2,228**	**—**	**2,572**
Non-controlling interest in subsidiaries	**—**	**—**	**—**	**—**	**420**	**(20)**	**400**
Separate account liabilities	**—**	**—**	**13,018**	**9,235**	**141,230**	**—**	**163,483**
Shareholders' equity	**29,578**	**12,593**	**12,188**	**2,486**	**20,557**	**(47,824)**	**29,578**
Total liabilities and equity	**$ 30,609**	**$ 14,039**	**$ 94,966**	**$ 20,172**	**$ 281,599**	**$ (58,296)**	**$ 383,089**

As at December 31, 2005							
Assets							
Invested assets	$ 12	$ 142	$ 67,651	$ 6,935	$ 100,449	$ (22)	$ 175,167
Investments in unconsolidated subsidiaries	30,111	14,895	3,756	163	—	(48,925)	—
Other assets	605	319	13,998	3,306	28,889	(10,488)	36,629
Separate account assets	—	—	13,018	8,741	111,903	—	133,662
Total assets	$ 30,728	$ 15,356	$ 98,423	$ 19,145	$ 241,241	$ (59,435)	$ 345,458
Liabilities and equity							
Policy liabilities	$ —	$ —	$ 64,473	$ 6,993	$ 89,717	$ (3,061)	$ 158,122
Consumer notes	—	—	2,900	—	—	—	2,900
Other liabilities	2,167	103	5,336	982	15,500	(6,150)	17,938
Long-term debt	—	1,335	602	—	1,976	(1,433)	2,480
Liabilities for preferred shares and capital instruments	344	—	—	—	1,578	—	1,922
Non-controlling interest in subsidiaries	—	—	—	—	211	6	217
Separate account liabilities	—	—	13,018	8,741	111,903	—	133,662
Shareholders' equity	28,217	13,918	12,094	2,429	20,356	(48,797)	28,217
Total liabilities and equity	$ 30,728	$ 15,356	$ 98,423	$ 19,145	$ 241,241	$ (59,435)	$ 345,458

Condensed Consolidating Statements of Operations

For the year ended December 31, 2006	Manulife Financial Corporation (Guarantor)	John Hancock Financial Services, Inc.	John Hancock Life Insurance Company (Issuer)	John Hancock Variable Life Insurance Company (Issuer)	Other Subsidiaries	Consolidation Adjustments	Consolidated Manulife Financial Corporation
Revenue							
Premium income	$ —	$ —	$ 2,949	$ 94	$ 9,458	$ (6)	$ 12,495
Net investment income	5	30	3,556	367	6,072	(55)	9,975
Fee income and other revenue	74	3	367	489	5,700	(392)	6,241
Total revenue	$ 79	$ 33	$ 6,872	$ 950	$ 21,230	$ (453)	$ 28,711
Policy benefits and expenses							
Policyholder benefits	$ —	$ —	$ 4,923	$ 492	$ 12,493	$ 9	$ 17,917
Commissions, investment and general expenses	49	(1)	646	130	3,794	(341)	4,277
Amortization of deferred acquisition costs and value of business acquired	—	—	270	69	834	(5)	1,168
Other	27	58	371	33	832	(68)	1,253
Total policy benefits and expenses	$ 76	$ 57	$ 6,210	$ 724	$ 17,953	$ (405)	$ 24,615
Income (loss) before income taxes	$ 3	$ (24)	$ 662	$ 226	$ 3,277	$ (48)	$ 4,096
Income tax (expense) recovery	(7)	15	(208)	(75)	(629)	(22)	(926)
Income (loss) after income taxes	$ (4)	$ (9)	$ 454	$ 151	$ 2,648	$ (70)	$ 3,170
Equity in net income of unconsolidated subsidiaries	3,174	721	255	4	—	(4,154)	—
Net income	$ 3,170	$ 712	$ 709	$ 155	$ 2,648	$ (4,224)	$ 3,170

For the year ended December 31, 2005							
Revenue							
Premium income	$ —	$ —	$ 2,296	$ 97	$ 9,513	$ (39)	$ 11,867
Net investment income	5	4	4,383	395	6,544	(86)	11,245
Fee income and other revenue	22	—	410	480	4,991	(479)	5,424
Total revenue	$ 27	$ 4	$ 7,089	$ 972	$ 21,048	$ (604)	$ 28,536
Policy benefits and expenses							
Policyholder benefits	$ —	$ —	$ 4,755	$ 506	$ 12,571	$ (545)	$ 17,287
Commissions, investment and general expenses	18	44	769	110	3,825	(563)	4,203
Amortization of deferred acquisition costs and value of business acquired	—	—	158	52	954	5	1,169
Other	14	49	303	34	681	(38)	1,043
Total policy benefits and expenses	$ 32	$ 93	$ 5,985	$ 702	$ 18,031	$ (1,141)	$ 23,702
Income (loss) before income taxes	$ (5)	$ (89)	$ 1,104	$ 270	$ 3,017	$ 537	$ 4,834
Income tax (expense) recovery	(4)	38	(372)	(87)	(775)	(190)	(1,390)
Income (loss) after income taxes	$ (9)	$ (51)	$ 732	$ 183	$ 2,242	$ 347	$ 3,444
Equity in net income of unconsolidated subsidiaries	3,453	1,077	241	5	—	(4,776)	—
Net income	$ 3,444	$ 1,026	$ 973	$ 188	$ 2,242	$ (4,429)	$ 3,444

Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2006	Manulife Financial Corporation (Guarantor)	John Hancock Financial Services, Inc.	John Hancock Life Insurance Company (Issuer)	John Hancock Variable Life Insurance Company (Issuer)	Other Subsidiaries	Consolidation Adjustments	Consolidated Manulife Financial Corporation
Operating activities							
Net income	$ 3,170	$ 712	$ 709	$ 155	$ 2,648	$ (4,224)	$ 3,170
Adjustments for non-cash items in net income:							
Equity in net income of unconsolidated subsidiaries	(3,174)	(721)	(255)	(4)	—	4,154	—
Increase in policy-related liabilities	—	—	915	132	6,149	—	7,196
Net realized investment gains and other investment items	—	—	(12)	7	(1,367)	—	(1,372)
Amortization of deferred acquisition costs and value of business acquired, net of capitalized amounts	—	—	17	(134)	(1,866)	—	(1,983)
Amortization of premium/discount	—	—	464	39	(232)	—	271
Other amortization	—	(9)	45	6	260	—	302
Future income tax expense	1	57	133	52	285	27	555
Stock-based compensation expense	—	—	2	—	24	—	26
Non-controlling interest in subsidiaries	—	—	—	—	10	11	21
Net income (loss) adjusted for non-cash items	$ (3)	$ 39	$ 2,018	$ 253	$ 5,911	$ (32)	$ 8,186
Change in other operating assets and liabilities	(9)	(40)	(151)	66	72	32	(30)
Cash provided by (used in) operating activities	$ (12)	$ (1)	$ 1,867	$ 319	$ 5,983	$ —	$ 8,156
Investing activities							
Purchase and mortgage advances	$ —	$ —	$ (13,424)	$ (1,988)	$ (50,809)	$ 528	$ (65,693)
Disposals and repayments	—	—	15,215	1,463	47,607	(528)	63,757
Subscription of preferred shares issued by a subsidiary	(28)	—	—	—	—	28	—
Net cash decrease from sales and acquisitions of subsidiaries	—	—	—	—	(59)	—	(59)
Cash paid for related party real estate	—	—	(175)	—	175	—	—
Capital contribution to unconsolidated subsidiaries	—	—	(80)	—	—	80	—
Dividends from unconsolidated subsidiary	1,755	645	182	—	—	(2,582)	—
Investment in common shares of related company	—	—	—	—	(1,100)	1,100	—
Cash provided by (used in) investing activities	$ 1,727	$ 645	$ 1,718	$ (525)	$ (4,186)	$ (1,374)	$ (1,995)

Condensed Consolidating Statement of Cash Flows (continued)

For the year ended December 31, 2006	Manulife Financial Corporation (Guarantor)	John Hancock Financial Services, Inc.	John Hancock Life Insurance Company (Issuer)	John Hancock Variable Life Insurance Company (Issuer)	Other Subsidiaries	Consolidation Adjustments	Consolidated Manulife Financial Corporation
Financing activities							
Decrease in repurchase agreements and securities sold but not yet purchased	$ —	$ —	$ —	$ —	$ (384)	$ —	$ (384)
Issue of long-term debt	350	—	—	—	551	—	901
Capital contributions received from parent	—	—	—	—	80	(80)	—
Repayment of Interco long–term debt	—	33	555	—	(588)	—	—
Repayment of long–term debt	—	—	—	—	(272)	—	(272)
Issue of subordinated notes	—	—	—	—	645	—	645
Net redemptions in John Hancock Fixed institutional products	—	—	(4,493)	308	(778)	—	(4,963)
Bank deposits, net	—	—	—	—	2,296	77	2,373
Capital from joint venture partner	—	—	—	—	7	—	7
Consumer notes matured, net	—	—	(40)	—	—	—	(40)
Preferred share dividends	(30)	—	—	—	(5)	5	(30)
Common share dividends	(1,133)	—	(645)	(111)	(1,821)	2,577	(1,133)
Notes payable to subsidiary	314	—	—	—	350	(664)	—
Notes receivable from parent	—	—	—	—	(664)	664	—
Increase in notes receivable from affiliates	(27)	(701)	(131)	—	(11)	870	—
Increase (decrease) in notes payable to affiliates	(1)	—	—	—	871	(870)	—
Funds repaid, net	—	—	—	—	(69)	—	(69)
Tax benefit of stock options exercised	—	—	49	—	10	—	59
Purchase and cancellation of common shares	(1,631)	—	—	—	—	—	(1,631)
Common shares issued on exercise of options	139	—	—	—	—	—	139
Preferred shares issued (redeemed) by a subsidiary	—	—	—	—	28	(28)	—
Preferred shares issued, net	294	—	—	—	—	—	294
Common shares issued	—	—	—	—	1,100	(1,100)	—
Cash (used in) provided by financing activities	$ (1,725)	$ (668)	$ (4,705)	$ 197	$ 1,346	$ 1,451	$ (4,104)
Cash and short-term investments							
Increase (decrease) during the year	$ (10)	$ (24)	$ (1,120)	$ (9)	$ 3,143	$ 77	$ 2,057
Currency impact on cash and short-term investments	—	2	20	—	1	—	23
Balance, January 1	12	143	1,751	226	6,249	(77)	8,304
Balance, December 31, 2006	$ 2	$ 121	$ 651	$ 217	$ 9,393	$ —	$ 10,384
Cash and short-term investments January 1							
Gross cash and short-term investments	$ 12	$ 143	$ 1,751	$ 226	$ 6,710	$ (77)	$ 8,765
Net payments in transit, included in other liabilities	—	—	—	—	(461)	—	(461)
Net cash and short-term investments, January 1	$ 12	$ 143	$ 1,751	$ 226	$ 6,249	$ (77)	$ 8,304
End of year							
Gross cash and short-term investments	$ 2	$ 121	$ 651	$ 217	$ 9,807	$ —	$ 10,798
Net payments in transit, included in other liabilities	—	—	—	—	(414)	—	(414)
Net cash and short-term investments, December 31, 2006	$ 2	$ 121	$ 651	$ 217	$ 9,393	$ —	$ 10,384

Condensed Consolidating Statement of Cash Flows (continued)

For the year ended December 31, 2005	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	$ 3,444	$ 1,026	$ 973	$ 188	$ 2,242	$ (4,429)	$ 3,444
Adjustments for non-cash items in net income:							
Equity in net income of unconsolidated subsidiaries	(3,453)	(1,077)	(241)	(5)	—	4,776	—
Increase in policy-related liabilities	—	—	648	219	3,902	(429)	4,340
Net realized investment gains and other investment items	—	—	(565)	(41)	(1,946)	—	(2,552)
Amortization of deferred acquisition costs and value of business acquired, net of capitalized amounts	—	—	(71)	(216)	(1,553)	—	(1,840)
Amortization of premium/discount	—	—	650	58	87	—	795
Other amortization	—	(6)	29	3	189	—	215
Future income tax expense (recovery)	4	(34)	401	96	422	189	1,078
Stock-based compensation expense	—	—	6	—	27	—	33
Non-controlling interest in subsidiaries	—	—	6	—	6	(5)	7
Net income (loss) adjusted for non-cash items	$ (5)	$ (91)	$ 1,836	$ 302	$ 3,376	$ 102	$ 5,520
Change in other operating assets and liabilities	26	128	382	39	390	(107)	858
Cash provided by (used in) operating activities	$ 21	$ 37	$ 2,218	$ 341	$ 3,766	$ (5)	$ 6,378
Investing activities							
Purchase and mortgage advances	$ —	$ —	$ (16,164)	$ (1,863)	$ (41,041)	$ —	$ (59,068)
Disposals and repayments	—	21	18,763	1,351	37,587	—	57,722
Capital contribution to unconsolidated subsidiaries	—	(387)	—	—	—	387	—
Subscription of affiliate subordinated debt	(31)	(156)	—	—	187	—	—
Redemption of preferred shares issued by a subsidiary	1,100	—	—	—	—	(1,100)	—
Dividends from unconsolidated subsidiary	1,000	832	239	—	—	(2,071)	—
Cash provided by (used in) investing activities	$ 2,069	$ 310	$ 2,838	$ (512)	$ (3,267)	$ (2,784)	$ (1,346)

Condensed Consolidating Statement of Cash Flows (continued)

For the year ended December 31, 2005	Manulife Financial Corporation (Guarantor)	John Hancock Financial Services, Inc.	John Hancock Life Insurance Company (Issuer)	John Hancock Variable Life Insurance Company (Issuer)	Other Subsidiaries	Consolidation Adjustments	Consolidated Manulife Financial Corporation
Financing activities							
Decrease in repurchase agreements and securities sold but not yet purchased	$ —	$ —	$ —	$ —	$ (115)	$ —	$ (115)
Dividends paid to parent	—	—	(832)	(204)	(1,035)	2,071	—
Capital contributions received from parent	—	—	387	—	—	(387)	—
Repayment of long-term debt	—	—	(4)	—	(300)	—	(304)
Net redemptions in John Hancock Fixed institutional products	—	—	(3,885)	500	(642)	—	(4,027)
Bank deposits, net	—	—	—	—	1,635	(77)	1,558
Consumer notes issued, net	—	—	137	—	—	—	137
Preferred share dividends	(14)	—	—	—	(5)	5	(14)
Common share dividends	(926)	—	—	—	—	—	(926)
Increase in notes receivable from subsidiaries	(430)	—	—	—	—	430	—
Increase in notes payable to parent	—	—	—	—	430	(430)	—
Increase in notes receivable from affiliates	—	(319)	—	—	—	319	—
Increase (decrease) in notes payable to affiliates	—	387	—	—	(68)	(319)	—
Funds repaid, net	—	(281)	—	—	(99)	—	(380)
Purchase and cancellation of common shares	(1,238)	—	—	—	—	—	(1,238)
Common shares issued on exercise of options	186	—	—	—	—	—	186
Preferred shares redeemed by a subsidiary	—	—	—	—	(1,100)	1,100	—
Repayment of subordinated debt securities	—	—	—	—	(9)	—	(9)
Preferred shares issued, net	344	—	—	—	—	—	344
Cash (used in) provided by financing activities	$ (2,078)	$ (213)	$ (4,197)	$ 296	$ (1,308)	$ 2,712	$ (4,788)
Cash and short-term investments							
Increase (decrease) during the year	$ 12	$ 134	$ 859	$ 125	$ (809)	$ (77)	$ 244
Currency impact on cash and short-term investments	—	—	(31)	(3)	(174)	—	(208)
Balance, January 1	—	9	923	104	7,232	—	8,268
Balance, December 31, 2005	$ 12	$ 143	$ 1,751	$ 226	$ 6,249	$ (77)	$ 8,304
Cash and short-term investments, January 1							
Gross cash and short-term investments	$ —	$ 9	$ 923	$ 104	$ 7,568	$ —	$ 8,604
Net payments in transit, included in other liabilities	—	—	—	—	(336)	—	(336)
Net cash and short-term investments, January 1	$ —	$ 9	$ 923	$ 104	$ 7,232	$ —	$ 8,268
End of year							
Gross cash and short-term investments	$ 12	$ 143	$ 1,751	$ 226	$ 6,710	$ (77)	$ 8,765
Net payments in transit, included in other liabilities	—	—	—	—	(461)	—	(461)
Net cash and short-term investments, December 31, 2005	$ 12	$ 143	$ 1,751	$ 226	$ 6,249	$ (77)	$ 8,304

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

Derivative instruments and hedging activities

For fair value hedges, the Company is hedging changes in the fair value of assets, liabilities or firm commitments with changes in fair values of the derivative instruments recorded in income. For cash flow hedges, the Company is hedging the variability of cash flows related to variable rate assets, liabilities or forecasted transactions. For cash flow hedges, the effective portion of changes in fair values of derivative instruments is recorded in other comprehensive income and reclassified into income in the same period or periods during which the hedged transaction affects earnings. The Company estimates that deferred net loss of $4, included in other comprehensive income as at December 31, 2006 (2005 – $10), 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) Valuation and income recognition differences between Canadian GAAP and U.S. GAAP

	Canadian GAAP	U.S. GAAP
(i) Bonds	Bonds are carried at amortized cost, less an allowance for specific losses. Allowances are provided on a specific bond whenever a decline in the value of the bond is considered to be other than temporary. Realized gains and losses on sale are deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the bond sold.	Bonds may be classified as “available-for-sale,” “held-to-maturity” or “trading” securities. “Available-for-sale” and “trading” bonds are carried at fair value, while “held-to-maturity” bonds are carried at amortized cost in the Consolidated Balance Sheets. A decline in the value of a specific “available-for-sale” or “held-to-maturity” bond that is considered to be other than temporary results in a write-down in the cost basis of the bond and a charge to income in the period of recognition. Realized gains and losses on sale are recognized in income immediately. Unrealized gains and losses on “available-for-sale” bonds, other than losses considered to be other than temporary, are excluded from income and reported net of tax in other comprehensive income, a component of equity, while unrealized gains and losses on “trading” bonds are included in income immediately.
(ii) Mortgages	Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses are deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the mortgage sold.	Mortgages are carried at amortized cost less repayments and an allowance for losses. Realized gains and losses are recognized in income immediately.
(iii) Stocks	Stocks are carried at a moving average market basis whereby carrying values are adjusted towards market value at 5% per quarter. Specific stocks are written down to fair value if an impairment in the value of the entire stock portfolio (determined net of deferred realized gains) is considered to be other than temporary. Realized gains and losses are deferred and brought into income at the rate of 5% of the unamortized deferred realized gains and losses each quarter.	Stocks may be classified as “available-for-sale” or “trading” securities and are carried at fair value in the Consolidated Balance Sheets. Other-than-temporary declines in the value of “available-for-sale” stocks result in a write-down in the cost basis of the stocks and a charge to income in the period of recognition. Realized gains and losses and other-than-temporary unrealized gains and losses on “available-for-sale” stocks are recognized in income immediately. Unrealized gains and losses on “available-for-sale” stocks, other than losses considered to be other than temporary, are excluded from income and reported net of tax in other comprehensive income, a component of equity, while unrealized gains and losses on “trading” stocks are included in income immediately.
(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, taking into account discounted cash flows, if the carrying amount of the real estate is not recoverable and exceeds its fair value. Realized gains and losses are recognized in income immediately.

	Canadian GAAP	U.S. GAAP
(v) Policy liabilities	Actuarial liabilities for all types of policies are calculated using the Canadian Asset Liability Method ("CALM") and represent the current amount of balance sheet assets which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends, tax (other than income taxes) and expenses on policies in-force. Actuarial liabilities are comprised of a best estimate reserve and a provision for adverse deviation. Best estimate reserve assumptions are made for the term of the liabilities and include assumptions with respect to mortality and morbidity trends, investment returns, rates of premium persistency, rates of policy termination, policyholder dividend payments, operating expenses and certain taxes. To recognize the uncertainty in the assumptions underlying the calculation of best estimate reserves, to allow for possible deterioration in experience and to provide greater comfort that actuarial liabilities are adequate to pay future benefits, the Appointed Actuary is required to add a margin to each assumption. These margins result in the calculation of a provision for adverse deviation, the impact of which is to increase actuarial liabilities and decrease the income that would otherwise be recognized at the time new policies are sold. Assumptions are updated regularly and the effects of any changes in assumptions, whether positive or negative, are recognized in income immediately. The margins for adverse deviations are recognized in income over the term of the liabilities as the risk of deviation from estimates declines. 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 Non-traditional Long-Duration Contracts and for Separate Accounts" ("SOP 03-1"), requires the recognition of additional actuarial liabilities for insurance benefit features under universal life-type contracts and for annuitization benefits. The additional actuarial liability is based on the estimated proportion of contract assessments required to fund insurance benefits and annuitization benefits in excess of the policyholder account value. The estimate of the required proportion must consider a range of possible future scenarios and is updated regularly as experience emerges and to reflect changes in assumptions regarding future experience.

	Canadian GAAP	U.S. GAAP
(v) 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 "available- for-sale" bonds and stocks had been realized. This adjustment to actuarial liabilities directly impacts shareholder equity and is not reflected in net income, consistent with the treatment of the corresponding adjustments to the carrying value of the assets. 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.
(vi) 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 "available-for-sale" bonds and stocks had actually been realized. These amounts are recorded in other comprehensive income.

	Canadian GAAP	U.S. GAAP
(vii) 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 "available-for-sale" bonds and stocks had actually been realized are recorded in other comprehensive income.
(viii) Deferred revenue	All premium income is recorded as revenue. The anticipated costs of future services are included within the actuarial liabilities.	Under SFAS 97, fees assessed to policyholders relating to services that are to be provided in future years are recorded as deferred revenue. Deferred revenue is amortized to fee income in the same pattern as the amortization of the DAC asset. Changes to deferred revenue that would have been necessary had unrealized gains and losses on "available-for-sale" bonds and stocks actually been realized are recorded in other comprehensive income.
(ix) 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.
(x) Derivatives	Derivatives are designated and effective as hedges if there is a high correlation between changes in market value of the derivative and the underlying hedged item at inception and over the life of the hedge. Realized and unrealized gains and losses on derivatives designated and effective as hedges are accounted for on the same basis as the underlying assets and liabilities. Derivatives no longer considered hedges are carried on a moving market basis, whereby carrying values are moved toward market at a rate of 5% per quarter. Realized gains and losses are deferred and amortized into income at the rate of 5% of the unamortized deferred realized gains and losses each quarter.	All derivatives are reported in the Consolidated Balance Sheets at their fair values, with changes in fair values recorded in income or equity, depending on the nature and effectiveness of the hedge. Changes in the fair value of derivatives not designated as hedges will be recognized in current period earnings. Specific guidance is provided relating to the types of hedges, the measurement of hedge ineffectiveness and hedging strategies. When a derivative instrument that is designated and qualifies as a fair value hedge is terminated, a final fair value change is recorded in income, together with the offsetting change in fair value of the hedged item. When a derivative instrument that is designated and qualifies as a cash flow hedge is terminated, the effective portion of the accumulated gain or loss continues to be recorded in other comprehensive income until the hedged item is recorded in income. If the Company determines that a hedged forecasted transaction is no longer probable of occurring, the unrealized gain or loss from the derivative instrument recorded in other comprehensive income is immediately recognized in earnings. See also section f.

	Canadian GAAP	U.S. GAAP
(xi) 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.	In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 158 "Employers' Accounting for Defined Benefit and Other Post Retirement Plans" ("SFAS 158"). SFAS 158 requires the funded status of a defined benefit pension or other post- retirement benefit plan to be recognized on the balance sheet as an asset or liability with an offset to other comprehensive income. The funded status is measured as the difference between plan assets at their fair value and the benefit obligation. SFAS 158 does not require restatement of prior periods and is effective for the year ended December 31, 2006. To initially apply SFAS 158, the Company recorded pre-tax other comprehensive income of $281 to recognize the funded status of its defined benefit pension and other post-retirement benefit plans, resulting in accumulated other comprehensive income of $90.

h) 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.	Assets and liabilities are called separate accounts and are presented in summary lines in the Consolidated Balance Sheets. Assets and liabilities are carried at market values and contract values, respectively. 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 Statement of Cash Flows.	The cash flows from investment contracts accounted for under SFAS 97 are disclosed as a financing activity in the Consolidated Statement of Cash Flows.

	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) Consolidation accounting – evaluation of general partners' control over their limited partnerships	Control over a limited partnership by its general partner (or by corollary, control over a limited liability company by its managing member) is evaluated based on facts and circumstances. Factors which are considered include whether the general partner is subject to removal without cause by any proportion or number of unrelated limited partners, and whether unrelated limited partners acting in any proportion or number have veto rights over significant decisions that would be expected to be made in the ordinary course of the limited partnership's business.	In July 2005, the Emerging Issues Task Force issued EITF No. 04-5 – "Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights" ("EITF 04-5"). EITF 04-5 presumes that the general partner of a partnership (or managing member of a limited liability company) controls the partnership and should consolidate it, unless limited partners have either substantive kickout rights (defined as the ability of a simple majority of those limited partners not related to the general partner to remove the general partner without cause) or have substantive participating rights (defined as the ability to be actively involved in managing the partnership) or the partnership is a VIE, in which case VIE consolidation accounting rules should be followed. As a result of adopting EITF 04-5 on January 1, 2006, the Company consolidated three partnerships. Consolidation of two partnerships into the Company's general fund as at December 31, 2006, resulted in an increase in invested assets of $149 and an increase in non-controlling interest in subsidiaries of $149. Consolidation of one partnership into the Company's separate accounts as at December 31, 2006 resulted in an increase in separate account assets of $67, and an increase in separate account liabilities of $67.
(viii) 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

Fair value option for financial assets and liabilities

In February 2007, the FASB issued Statement of Financial Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159's objective is to enable companies to mitigate that earnings volatility which is caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. SFAS 159 provides the option to use fair value accounting for most financial assets and financial liabilities, with changes in fair value reported in earnings. Selection of the fair value option is irrevocable, and can be applied on a partial basis, i.e. to some but not all similar financial assets or liabilities. SFAS 159 will be effective for the Company beginning January 1, 2008, and will then be prospectively applicable. The Company is currently evaluating the impact SFAS 159 will have on its consolidated financial statements.

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 will be effective for the Company's fiscal year beginning January 1, 2007, on a prospective basis. Retrospective adoption is not permitted. The Company does not expect the adoption to materially impact the consolidated financial statements.

Accounting for leveraged leases

In July 2006, the FASB issued FASB Staff Position 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 is effective for the Company's fiscal year beginning January 1, 2007 and transition to the new standard will result in a charge to opening retained earnings at January 1, 2007 of $157.

Accounting for uncertainty in income taxes

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). This guidance prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The standard is effective for the Company for the period beginning January 1, 2007 and upon adoption, the cumulative effect of the change will be recorded in retained earnings. The Company does not expect the adoption to materially impact the consolidated financial statements.

Accounting for certain hybrid financial instruments

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, “Accounting for Certain Hybrid Financial Instruments” (“SFAS 155”). This guidance amends SFAS 133 on derivatives and hedging and SFAS 140 on transfers and servicing of financial assets and extinguishments of liabilities, and resolves issues on the application of SFAS 133 to beneficial interests in securitized financial assets. SFAS 155 removes the requirement to bifurcate certain financial instruments by providing a fair value measurement option for certain hybrid financial instruments containing embedded derivatives. Use of this fair value option requires changes in fair value of the financial instrument be recorded in income. SFAS 155 is effective for all instruments acquired, issued or subject to a remeasurement event occurring on or after January 1, 2007. The Company does not expect the adoption to materially impact the consolidated financial statements.

Note 23 § Comparatives

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

Note 24 § Subsequent Event

Subordinated debt securities

On February 1, 2007, MIC Trust redeemed both its total outstanding U.S. $492.5 trust preferred securities at par plus accrued and unpaid distributions to the date of redemption and the U.S. $15, 8.25% securities held by MIC. MIC redeemed all of the outstanding subordinated debentures issued to MIC Trust due February 1, 2027 at par plus accrued and unpaid interest to the date of redemption and redeemed its preferred purchase contracts. MIC Trust has subsequently been dissolved.

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, 2007

/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, 2007

/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, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies, in all material respects, with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 26, 2007

/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, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies, in all material respects, with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 26, 2007

/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 report dated March 19, 2007, with respect to the consolidated financial statements of Manulife Financial Corporation, included in this Annual Report (Form 40-F) for the year ended December 31, 2006.

We consent to the incorporation by reference of our report referred to above in the following Registration Statements:

- Registration Statement (Form S-8 No. 333-12610) of Manulife Financial Corporation pertaining to the Manulife Financial Corporation Stock Plan for Non-Employee Directors and Executive Stock Option Plan;
- Registration Statement (Form S-8 No. 333-13072) of Manulife Financial Corporation pertaining to the Manulife Financial Corporation Global Share Ownership Plan;
- Registration Statement (Form S-8 No. 333-91102) of Manulife Financial Corporation pertaining to the Manulife Financial Corporation Director Equity Incentive Plan;
- Registration Statement (Form S-8 No. 333-114951) of Manulife Financial Corporation pertaining to the John Hancock Financial Services, Inc. 1999 Long-Term Stock Incentive Plan, as amended and the John Hancock Financial Services, Inc. Non-Employee Directors' Long-Term Stock Incentive Plan;
- Registration Statement (Form S-8 No. 333-129430) of Manulife Financial Corporation pertaining to the Deferred Compensation Plan for Certain Employees of John Hancock and the Deferred Compensation Plan of the John Hancock Financial Network;
- Registration Statement (Form F-3 Nos. 333-124224 and 333-124224-01) of Manulife Financial Corporation and John Hancock Variable Life Insurance Company pertaining to John Hancock Variable Life Insurance Company's market value adjustment interests under deferred annuity contracts and Manulife Financial Corporation's subordinated guarantee relating thereto; and
- Registration Statement (Form F-3 Nos. 333-124223 and 333-124223-01) of Manulife Financial Corporation and John Hancock Life Insurance Company pertaining to John Hancock Life Insurance Company's SignatureNotes and Manulife Financial Corporation's subordinated guarantee relating thereto.

/s/ Ernst & Young LLP
Toronto, Ontario
March 27, 2007

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, 2006 of my Appointed Actuary's Report to the Shareholders and Directors dated March 19, 2007 (the "Report"), relating to the valuation of the policy liabilities of the Company for its Consolidated Balance Sheets as at December 31, 2006 and 2005 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, 2007

Business of the Annual Meeting

1. Receipt of the Consolidated Financial Statements

To receive the consolidated financial statements of Manulife Financial Corporation (the "Company") for the year ended December 31, 2006, together with the reports of the auditor and the actuary on those statements.

2. Election of the Board of Directors

The 16 nominees for election to the Company's Board of Directors and their biographies are listed in the section "Nominees for the Board of Directors". Fourteen of the nominees are currently Directors of the Company.

Each successful nominee will be elected to the Board of Directors for a term of one year, which expires at the Company's Annual Meeting in 2008.

Directors' attendance at Board and committee meetings held in 2006 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 2007 fiscal year. Ernst & Young LLP has served as the Company's auditor for more than five years. For 2006, fees charged by Ernst & Young LLP to the Company and its subsidiaries were $28.7 million, compared with $20.1 million in 2005.

	Year ended December 31, 2006 ($ in millions)	Year ended December 31, 2005 ($ in millions)
Audit fees[1]	$ 27.6	$ 18.8
Audit-related fees[2]	0.8	0.6
Tax fees[3]	0.2	0.6
All other fees[4]	0.1	0.1
Total	**$ 28.7**	**$ 20.1**

1 Includes the annual audit, Sarbanes-Oxley Act of 2002 ("SOX") attestation, reviews of quarterly reports, statutory audits and regulatory filings.

2 Includes consultations concerning financial accounting and reporting standards, due diligence in connection with mergers and acquisitions and audits in connection with proposed or consummated acquisitions.

3 Includes tax compliance, tax planning and tax advice services.

4 Includes work relating to accident and health claims.

The Company has complied with applicable rules regulating the provision of non-audit services to the Company by its external auditor. All audit and non-audit services provided to the Company by Ernst & Young LLP have been pre-approved by the Audit and Risk Management Committee (the "Audit Committee"). The Audit Committee has reviewed the magnitude and nature of these services to ensure that they are compatible with maintaining the independence of the external auditor.

4. Shareholder Proposal

The shareholder proposal submitted for consideration by the shareholders at the Annual Meeting is included in Schedule "C".

Note:
All figures reported in this Proxy Circular are in Canadian currency, unless otherwise indicated.

Nominees for the Board of Directors

The following individuals are the nominees for election to the Board. Important information regarding the nominees relating to committee memberships, meeting attendance, public board memberships and equity ownership is provided in the following charts. All successful nominees for the Board of Directors are elected for a term of one year, expiring at the next Annual Meeting.

Director Nominee Information



Arthur R. Sawchuk
Age: 71
Toronto, ON Canada
Director Since[1]: 1993
Independent[2]

Arthur Sawchuk is Chairman of the Board. Mr. Sawchuk retired from DuPont Canada Inc. as Executive Chairman after almost six years as Chairman, President and Chief Executive Officer and 40 years at DuPont Canada in various managerial positions. Mr. Sawchuk holds a B.Sc. in Mechanical Engineering from the University of Manitoba and is currently a member of the Association of Professional Engineers of Ontario. He also serves as a director of the Canadian Institute for Advanced Research.

Board/Committee Membership:	Attendance[3]:		Public Board Membership During Last Five Years:	
Board of Directors	9 of 9	100%	Bowater Inc.	1998 — Present
Audit and Risk Management	6 of 6	100%	Manitoba Telecom Services Inc.	1997 — Present
Conduct Review and Ethics	3 of 3	100%		
Corporate Governance and Nominating (Chair)	5 of 5	100%		
Management Resources and Compensation (Vice Chair)	7 of 7	100%		

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	43,250	37,207	80,457	$ 3,128,168	$ 300,000
2006	43,250	31,814	75,064	$ 2,793,882	

Options Held (Director option grants discontinued in 2004):

Date Granted	Expiry Date	Number Granted	Exercise Price[8]	Total Unexercised	Value of Options Unexercised[9]
July 2, 2002	July 2, 2012	10,000	$ 21.825	10,000	$ 170,550



Dominic D'Alessandro
Age: 60
Toronto, ON Canada
Director Since[1]: 1994
Not Independent
(Management)

Since Dominic D'Alessandro's appointment as President and Chief Executive Officer in 1994, the Company has undergone a dramatic expansion of its operations and has emerged as one of the world's leading life insurers. Mr. D'Alessandro holds a B.Sc. in Physics and Mathematics and he is a Chartered Accountant. Mr. D'Alessandro is also very active in community affairs. In recognition of his achievements, Mr. D'Alessandro was voted Canada's Most Respected CEO in 2004 by his peers and was named Canada's Outstanding CEO for 2002. He is an Officer of the Order of Canada. In 2006, Mr. D'Alessandro was named to the Advisory Committee on the Public Service of Canada and appointed to NAFTA's North American Competitiveness Council.

Board/Committee Membership[10]:	Attendance[3] : [10]		Public Board Membership During Last Five Years:	
Board of Directors	8 of 8	100%	Hudson's Bay Company	1996 — 2003
			Trans Canada Pipelines	2000 — 2003

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	562,500	1,266,134	1,828,634	$ 71,097,290	$ 8,600,270
2006	562,500	660,496	1,222,996	$ 45,519,911	

Options Held: See "Statement of Executive Compensation" Section



John M. Cassaday
Age: 53
Toronto, ON Canada
Director Since[1]: 1993
Independent[2]

John Cassaday is President and Chief Executive Officer of Corus Entertainment Inc., a position he has held since 1999. Corus is a Canadian leader in specialty television and radio and is a global leader in the production of children's animation. Mr. Cassaday has also been Executive Vice President of Shaw Communications, President and Chief Executive Officer of Shaw Media, Star Choice Communications and of CTV Television Network. Mr. Cassaday has an MBA (Dean's List) from The Rotman School of Management at the University of Toronto.
Mr. Cassaday is also active in community affairs principally with the United Way, The Rotman School of Management and St. Michael's Hospital.

Board/Committee Membership:	Attendance[3]:		Public Board Membership During Last Five Years:	
Board of Directors	9 of 9	100%	Corus Entertainment Inc.	1999 — Present
Corporate Governance and Nominating	4 of 5	80%	Sysco Corporation	2004 — Present
			Loblaw Companies Limited	1997 — 2004
			Masonite International Corporation	1992 — 2005

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	40,000	24,449	64,449	$ 2,505,777	$ 300,000
2006	40,000	20,436	60,436	$ 2,249,428	

Options Held (Director option grants discontinued in 2004):

Date Granted	Expiry Date	Number Granted	Exercise Price[8]	Total Unexercised	Value of Options Unexercised[9]
July 2, 2002	July 2, 2012	6,000	$ 21.825	6,000	$ 102,330



Lino J. Celeste
Age: 69
Saint John, NB Canada
Director Since[1]: 1994
Independent[2]

Lino Celeste is past Chairman of Aliant Inc., the merged Atlantic provinces telephone companies. Prior to assuming the Chairmanship, Mr. Celeste was President and Chief Executive Officer of New Brunswick Telephone Company Limited. Mr. Celeste holds a P.Eng. (Electrical Engineering) from the University of New Brunswick. He also served as a director of New Brunswick Electric Power Commission and as Chairman of the Greater Saint John Community Foundation, a charitable organization.

Board/Committee Membership:	Attendance[3]:		Public Board Membership During Last Five Years:	
Board of Directors	9 of 9	100%	Aliant Inc.	1999 — 2002
Audit and Risk Management	6 of 6	100%		
Conduct Review and Ethics	3 of 3	100%		

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	12,600	13,405	26,005	$ 1,011,074	$ 300,000
2006	12,600	11,114	23,714	$ 882,635	

Options Held (Director option grants discontinued in 2004):

Date Granted	Expiry Date	Number Granted	Exercise Price[8]	Total Unexercised	Value of Options Unexercised[9]
July 2, 2002	July 2, 2012	6,000	$ 21.825	6,000	$ 102,330



Gail C.A. Cook-Bennett
Age: 66
Toronto, ON Canada
Director Since[1]: 1978
Independent[2]

Gail Cook-Bennett is Chairperson of the Canada Pension Plan Investment Board, an investment management organization that invests the $110 billion Canada Pension Plan fund to help pay the benefits of 16 million Canadians who participate in the Plan. Dr. Cook-Bennett holds a BA (Honours) from Carleton University, and a PhD (Economics) from the University of Michigan. She holds a Doctor of Laws Degree (honoris causa) from Carleton University and is a Fellow of the Institute of Corporate Directors.

Board/Committee Membership:	Attendance[3]:		Public Board Membership During Last Five Years:	
Board of Directors	7 of 9	78%	Emera Inc.	2004 — Present
Management Resources and Compensation	7 of 7	100%	Petro-Canada[11]	1991 — Present
			Transcontinental Inc.	1998 — 2004

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	15,000	8,361	23,361	$ 908,276	$ 300,000
2006	15,000	8,200	23,200	$ 863,504	

Options Held (Director option grants discontinued in 2004):

Date Granted	Expiry Date	Number Granted	Exercise Price[8]	Total Unexercised	Value of Options Unexercised[9]
July 2, 2002	July 2, 2012	6,000	$ 21.825	6,000	$ 102,330



Thomas P. d'Aquino
Age: 66
Ottawa, ON Canada
Director Since: 2005
Independent[2]

Thomas d'Aquino is Chief Executive and President of the Canadian Council of Chief Executives ("CCCE"), a research and advocacy group composed of 150 chief executives of Canada's leading enterprises. Mr. d'Aquino holds a BA from the University of British Columbia, an LLB from Queen's University and the University of British Columbia, an LLM from the University of London and Honorary Degrees of Doctor of Laws from Queen's University and Wilfrid Laurier University. Mr. d'Aquino is active on numerous non-profit boards and advisory committees both nationally and internationally. He is Chair of the CCCE's North American Security and Prosperity Initiative. He is currently Chair of Lawrence National Centre for Policy and Management at the Richard Ivey School of Business and he also chairs The National Gallery of Canada Foundation.

Board/Committee Membership:	Attendance[3]:		Public Board Membership During Last Five Years:	
Board of Directors	9 of 9	100%	CGI Inc.	2006 — Present
Audit and Risk Management	4 of 4[12]	100%		
Conduct Review and Ethics	2 of 2[12]	100%		
Management Resources and Compensation	7 of 7	100%		

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	6,190	7,403	13,593	$ 528,496	$ 300,000
2006	3,600	3,126	6,726	$ 250,342	

Options Held (Director option grants discontinued in 2004): Nil



Richard B. DeWolfe[13]
Age: 63
Westwood, MA U.S.A.
Director Since: 2004
Independent[2]

Richard DeWolfe is Managing Partner of DeWolfe & Company, LLC, a real estate management and investment consulting firm. Mr. DeWolfe holds a BAS, Marketing and Finance from Boston University. He is also a director of The Boston Foundation; Trustee of Boston University; Trustee of the 17136 Marine Biological Laboratory; and an honorary director of The Boston Center for Community and Justice. He was formerly Chairman and CEO of The DeWolfe Companies, Inc., the largest homeownership organization in New England, which was listed on the American Stock Exchange and acquired by Cendant Corporation in 2002. Mr. DeWolfe was formerly Chairman and Founder of Reliance Relocations Services, Inc. and was formerly Chairman of the Board of Trustees, Boston University.

Board/Committee Membership:	Attendance[3]:		Public Board Membership During Last Five Years:	
Board of Directors	9 of 9	100%	John Hancock Financial Services, Inc.	2002 — 2004
Audit and Risk Management (Co-Chair)[14]	6 of 6	100%		
Conduct Review and Ethics (Co-Chair)[14]	3 of 3	100%		

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	14,000	26,617	40,617	$ 1,579,189	$ 300,000
2006	14,000	20,986	34,986	$ 1,302,179	

Options Held (Director option grants discontinued in 2004): Nil



Robert E. Dineen, Jr.
Age: 66
New York, NY U.S.A.
Director Since[1]: 1999
Independent[2]

Robert Dineen is of counsel to Shearman & Sterling LLP, a leading international law firm headquartered in New York where he was a partner from 1974 until his retirement in December 2005. Mr. Dineen holds a BA from Brown University and an LLB from Syracuse University. Mr. Dineen led several of the firm's corporate groups, including groups in Latin America and Asia and its project finance work worldwide. Mr. Dineen has extensive experience in public finance transactions in the oil and gas pipeline business, and as a specialist in U.S. and international private banking and financial transactions.

Board/Committee Membership:	Attendance[3]:		Public Board Membership During Last Five Years:	
Board of Directors	9 of 9	100%	Nova Chemicals Corporation	1998 — Present
Audit and Risk Management	6 of 6	100%		
Conduct Review and Ethics	3 of 3	100%		

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	29,000	31,729	60,729	$ 2,361,144	$ 300,000
2006	29,000	31,116	60,116	$ 2,237,518	

Options Held (Director option grants discontinued in 2004):

Date Granted	Expiry Date	Number Granted	Exercise Price[8]	Total Unexercised	Value of Options Unexercised[9]
July 2, 2002	July 2, 2012	6,000	$ 21.825	6,000	$ 102,330



Pierre Y. Ducros
Age: 67
Montreal, QC Canada
Director Since[1]: 1999
Independent[2]

Pierre Ducros is President, P. Ducros & Associates Inc. in Montréal. Previously, he was Chairman, President and Chief Executive Officer of DMR Group Inc. which he co-founded in 1973, and Vice-Chairman of the Task Force on The Future of The Canadian Financial Services Sector (MacKay Task Force). Mr. Ducros holds a BA from the Université de Paris at Collège Stanislas in Montréal and a B.Eng. (Communications) from McGill University.

Board/Committee Membership:	Attendance[3]:		Public Board Membership During Last Five Years:	
Board of Directors	9 of 9	100%	Cognos Incorporated[15]	1986 — Present
Corporate Governance and Nominating	4 of 5	80%	Emergis Inc.	1998 — Present
			Rona Inc.	2005 — Present
			Telus	2005 — Present
			eNGENUITY Technologies Inc.	2002 — 2005
			Nstein Technologies Inc.	2002 — 2006

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	55,600	26,009	81,609	$ 3,172,958	$ 300,000
2006	55,600	21,872	77,472	$ 2,883,508	

Options Held (Director option grants discontinued in 2004):

Date Granted	Expiry Date	Number Granted	Exercise Price[8]	Total Unexercised	Value of Options Unexercised[9]
July 2, 2002	July 2, 2012	6,000	$ 21.825	6,000	$ 102,330



Allister P. Graham[16]
Age: 70
Toronto, ON Canada
Director Since[1]: 1996
Independent[2]

Allister Graham is the former Chairman and Chief Executive Officer of The Oshawa Group Limited, a food distributor. Currently, he serves as Chairman Emeritus of Nash Finch Company, a U.S. wholesale/retail food distributor. Mr. Graham is also a trustee of the Associated Brands Income Trust. He is a previous Chairman of the Retail Council of Canada and Food Distributors International of Washington, D.C.

Board/Committee Membership:	Attendance[3]:		Public Board Membership During Last Five Years:	
Board of Directors	8 of 9	89%	Associated Brands Income Trust	2002 — Present
Audit and Risk Management	6 of 6	100%	Nash Finch Company (U.S.A.)	1992 — Present
Conduct Review and Ethics	3 of 3	100%		

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	50,582	25,826	76,408	$ 2,970,743	$ 300,000
2006	50,448	21,442	71,890	$ 2,675,746	

Options Held (Director option grants discontinued in 2004):

Date Granted	Expiry Date	Number Granted	Exercise Price[8]	Total Unexercised	Value of Options Unexercised[9]
July 2, 2002	July 2, 2012	6,000	$ 21.825	6,000	$ 102,330



Scott M. Hand
Age: 64
Toronto, ON Canada
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 a number of not-for-profit institutions, including the Ontario Heritage Foundation. Mr. Hand received a J.D. from Cornell University and a BA from Hamilton College.

Public Board Membership During Last Five Years:

Inco Limited	1991 — January 2007
Independence Community Bank Corp.	1987 — 2006

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	10,000	0	10,000	$ 388,800	$ 300,000

Options Held (Director option grants discontinued in 2004): Nil



Luther S. Helms
Age: 63
Scottsdale, AZ U.S.A
Independent[2]

Luther Helms has been the Managing Director of Sonata Capital Group ("Sonata") since 2000. Sonata is a privately-owned registered investment advisory firm. Mr. Helms has extensive banking and financial services experience, holding various positions at Bank of America Corporation, including Vice Chairman from 1993-1998 and was the Vice Chairman of KeyBank from 1998-2000. Mr. Helms is a director of Lifelock, an identity theft protection company. Mr. Helms has an MBA from the University of Santa Clara and a BA in History and Economics from the University of Arizona.

Public Board Membership During Last Five Years:

ABM Industries Incorporated	1995 — Present

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	2,100	0	2,100	$ 81,648	$ 300,000

Options Held (Director option grants discontinued in 2004): Nil



Thomas E. Kierans
Age: 66
Toronto, ON Canada
Director Since[1]: 1990
Independent[2]

Thomas Kierans is the Chairman of The Canadian Journalism Foundation. 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 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, President and Chief Executive Officer of the C.D. Howe Institute and President of McLeod Young Weir Limited (later ScotiaMcLeod Inc.).

Board/Committee Membership:	Attendance[3]:		Public Board Membership During Last Five Years:	
Board of Directors	9 of 9	100%	Petro-Canada[11]	1991 — Present
Audit and Risk Management (Co-Chair)[14]	6 of 6	100%	BCE Inc.	1999 — 2004
Conduct Review and Ethics (Co-Chair)[14]	3 of 3	100%	Inmet Mining Corporation	1996 — 2004
Corporate Governance and Nominating	5 of 5	100%	IPSCO Inc.	1993 — 2003
			Teleglobe Inc.[17]	1999 — 2002
			Telesat Canada	1999 — 2004

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	61,362	0	61,362	$ 2,385,755	$ 300,000
2006	61,362	0	61,362	$ 2,283,894	

Options Held (Director option grants discontinued in 2004):

Date Granted	Expiry Date	Number Granted	Exercise Price[8]	Total Unexercised	Value of Options Unexercised[9]
July 2, 2002	July 2, 2012	6,000	$ 21.825	6,000	$ 102,330



Lorna R. Marsden
Age: 65
Toronto, ON Canada
Director Since[1]: 1995
Independent[2]

Lorna Marsden is President and Vice Chancellor and a member of the Board of Governors of York University. Dr. Marsden holds a BA from the University of Toronto and a PhD from Princeton University. A former member of the Senate of Canada, she serves as a director of several Canadian companies. Dr. Marsden is also active in non-profit organizations.

Board/Committee Membership:	Attendance[3]:		Public Board Membership During Last Five Years:	
Board of Directors	9 of 9	100%	SNC-Lavalin Group Inc.	2006 — Present
Management Resources and Compensation	7 of 7	100%	Westcoast Energy Inc.	1995 — 2002

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	38,664	12,416	51,080	$ 1,985,990[18]	$ 300,000
2006	38,664	10,358	49,022	$ 1,824,599	

Options Held (Director option grants discontinued in 2004):

Date Granted	Expiry Date	Number Granted	Exercise Price[8]	Total Unexercised	Value of Options Unexercised[9]

July 2, 2002	July 2, 2012	6,000	$	21.825	6,000	$ 102,330



Hugh W. Sloan, Jr.
Age: 66
Bloomfield Village, MI U.S.A.
Director Since[1]: 1985
Independent[2]

Hugh Sloan is Deputy Chairman of Woodbridge Foam Corporation, a manufacturer of automobile parts, where he held various management positions for more than 20 years. Mr. Sloan holds a BA (Honours) from Princeton University. Mr. Sloan serves as a director of a number of Canadian and American corporate, community and charitable organizations. He is a former Staff Assistant to President Richard Nixon and a former Trustee of Princeton University.

Board/Committee Membership:	Attendance[3]:		Public Board Membership During Last Five Years:	
Board of Directors	9 of 9	100%	Wescast Industries Inc.	1998 — Present
Corporate Governance and Nominating	5 of 5	100%	Virtek Vision International, Inc.	2000 — 2005
Management Resources and Compensation (Chair)	7 of 7	100%		

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	14,420	19,336	33,756	$ 1,312,433	$ 300,000
2006	14,420	16,514	30,934	$ 1,151,363	

Options Held (Director option grants discontinued in 2004):

Date Granted	Expiry Date	Number Granted	Exercise Price[8]	Total Unexercised	Value of Options Unexercised[9]
July 2, 2002	July 2, 2012	6,000	$ 21.825	6,000	$ 102,330



Gordon G. Thiessen
Age: 68
Ottawa, ON Canada
Director Since[1]: 2002
Independent[2]

Gordon Thiessen joined the Board following a distinguished career with the Bank of Canada that began in 1963 and culminated in a seven-year term as the Bank's Governor. He is Chairman of the Canadian Public Accountability Board, the oversight body for the auditing profession in Canada. Mr. Thiessen holds a BA (Honours), an MA from the University of Saskatchewan and a PhD from the London School of Economics. Mr. Thiessen also serves as a director of the Institute for Research on Public Policy.

Board/Committee Membership:	Attendance[3]:		Public Board Membership During Last Five Years:	
Board of Directors	9 of 9	100%	IPSCO Inc.	2001 — Present
Management Resources and Compensation	7 of 7	100%		

Securities Held:

Year	Common Shares[4]	DSUs[5]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[6]	Minimum Ownership Requirement[7]
2007	1,000	20,868	21,868	$ 850,228	$ 300,000
2006	0	18,600	18,600	$ 692,292	

Options Held (Director option grants discontinued in 2004):

Date Granted	Expiry Date	Number Granted	Exercise Price[8]	Total Unexercised	Value of Options Unexercised[9]
July 2, 2002	July 2, 2012	6,000	$ 21.825	6,000	$ 102,330

1 "Director Since" refers to the year the Director was first elected to the Board of Manufacturers Life. When Manufacturers Life demutualized in 1999, it became a wholly-owned subsidiary of the Company.

2 "Independent" refers to the standards of independence established under Section 303A.02 of the New York Stock Exchange Listed Company Manual, Section 301 of SOX and Section 1.2 of Canadian Securities Administrators' National Instrument 58-101 — Disclosure of Corporate Governance Practices.

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 "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 14, 2007 and March 15, 2006, respectively, on a post stock dividend basis.

5 "DSUs" refers to the number of deferred share units held by the Director as of March 14, 2007 and March 15, 2006, respectively, on a post stock dividend basis. Richard B. DeWolfe's DSUs include 10,660 DSUs granted by John Hancock Financial Services, Inc. prior to the merger that are only redeemable in cash.

6 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 14, 2007 ($38.88) and March 15, 2006 ($37.22, after adjusting for the 2006 stock dividend), respectively, times the number of Common Shares and DSUs outstanding as of March 14, 2007 and March 15, 2006.

7 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, while stock options are not. Directors must take compensation in DSUs until the minimum threshold is met (see Schedule "A" Statement of Corporate Governance Practices — Director Share Ownership). The minimum required for Dominic D'Alessandro, as President and CEO, is equal to seven times his base salary (see "Report on Executive Compensation — Executive Share Ownership Guidelines"). Mr. D'Alessandro meets this requirement.

8 The "Exercise Price" is the closing price of the Common Shares on the TSX on the last trading day prior to the grant date.

9 The "Value of Options Unexercised" is calculated on the basis of the difference between the closing price of the Common Shares on the TSX on March 14, 2007 and the exercise price of the options multiplied by the number of unexercised options on March 14, 2007 on a post stock dividend basis.

10 Dominic D'Alessandro is not a member of any Board committee. He attends committee meetings at the invitation of the Chair. One Board meeting in 2006 was for independent Directors only.

11 Gail C.A. Cook-Bennett and Thomas E. Kierans also serve together on the Board of Petro-Canada.

12 Thomas P. d'Aquino was appointed to the Audit and Risk Management Committee and the Conduct Review and Ethics Committee at the Board meeting on May 4, 2006.

13 Richard B. DeWolfe was a director of Response U.S.A., Inc. ("Response") until October 2000. In May 2001, Response commenced proceedings under applicable bankruptcy statutes in the United States.

14 Messrs. DeWolfe and Kierans were appointed Co-Chairs of the Audit and Risk Management Committee and the Conduct Review and Ethics Committee at the Board Meeting on May 4, 2006.

15 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.

16 Allister P. Graham was a director of Dylex Limited ("Dylex") until May 2001. In August 2001, Dylex initiated proceedings under the Companies' Creditors Arrangement Act (Canada) ("CCAA") and certain creditors filed petitions in bankruptcy. In September 2001, a receiving order was made against Dylex and a trustee in bankruptcy was appointed.

17 Thomas E. Kierans was a director of Teleglobe Inc. ("Teleglobe") until April 23, 2002. On May 15, 2002, Teleglobe announced that it had obtained creditor protection under the CCAA and that it had initiated ancillary filings in the United States and the United Kingdom.

18 Lorna R. Marsden also owns 20,000 Non-Cumulative Class A Shares, Series 1 of the Company.

Schedule "A" – Statement of Corporate Governance Practices

The corporate governance practices of Manulife Financial Corporation (the "Company") meet or exceed the standards set out in the Insurance Companies Act (Canada) ("Insurance Companies Act"), Canadian Securities Administrators' Multilateral Instrument 52-109 (the "Certification Instrument"), Canadian Securities Administrators' Multilateral Instrument 52-110 (the "Audit Committee Instrument") and the corporate governance standards and disclosure requirements in Canadian Securities Administrators' National Policy 58-201 and National Instrument 58-101 (the "Governance Instrument"). The Company's corporate governance practices also comply with applicable requirements of the Sarbanes-Oxley Act of 2002 ("SOX"), including any U.S. Securities and Exchange Commission ("SEC") rules under SOX, as well as the domestic issuer standards of the New York Stock Exchange Corporate Governance Rules (the "NYSE Rules").

The following Statement of Corporate Governance Practices highlights various elements of the Company's corporate governance program.

Mandate of the Board of Directors

The Board of Directors of the Company is responsible for the stewardship of the Company and for the supervision of the management of the business and affairs of the Company. The Board's general responsibilities are set out in the Board Mandate and the Board Policies. The Mandate of the Board and the Board Policies are attached as Schedule "B". The Mandate of the Board and the Board Policies are on the Corporate Governance page of the Company's website and are available upon request from the Corporate Secretary.

Independence of the Board

The Board annually reviews the independence of the Directors. The Board reviews the Directors' employment status, other board memberships, Company shareholdings and business relationships to determine whether there are any relationships which might interfere with a Director's ability to make an independent judgment.

The Board has determined that 13 of the 14 current members of the Board as well as the two new nominees are independent under Section 303A.2 of the NYSE Rules, Section 301 of SOX and Section 1.2 of the Governance Instrument. Dominic D'Alessandro is not independent because he is the Company's President and CEO.

Independence of the Chair of the Board

- The positions of the Chair and the CEO are separate.
- The Chair is an independent Director.
- The Chair's mandate provides that the Chair is accountable for ensuring that the Board carries out its responsibilities effectively and separately from management.
- The Chair's principal accountabilities include managing the affairs of the Board, developing the composition, structure and renewal of the Board, guiding the Board's deliberations on strategic and policy matters and ensuring proper oversight by the Board is exercised.

Nomination of Directors

The Corporate Governance and Nominating Committee (the "Governance Committee") is responsible for identifying qualified candidates for nomination to the Board. The Governance Committee:

- Develops and recommends to the Board criteria for the selection of new Directors, periodically reviews the criteria adopted by the Board and recommends changes to such criteria, which includes professional experience and personal characteristics.
- Maintains a Directors' Matrix identifying the desired competencies, expertise, skills, background and personal qualities of the Directors and potential candidates.
- Annually reviews the skills, areas of expertise, backgrounds, independence and qualifications of the members of the Board.
- Identifies and recommends to the Board individuals qualified and suitable to become Board members, taking into consideration any gaps identified in the Directors' Matrix.
- Maintains an evergreen list of suitable candidates for the Board who the Governance Committee believes meet the identified criteria and whose skills and characteristics complement the existing mix. The Chair is responsible for approaching Board candidates. Candidates meet with the Chair and the CEO prior to nomination or appointment to review expected contributions and commitment requirements.
- Directors must retire at 72 and may not be nominated for reelection.

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 the 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

In 2006, the Governance Committee amended its Majority Election of Directors Policy, which provides that Director nominees who do not receive a majority of votes in favour in an uncontested election will be required to immediately submit their resignation to the Governance Committee. The Board will, in the absence of extenuating circumstances, accept the resignation within 90 days of the Annual Meeting and issue a press release confirming the Director's resignation or the reason for not accepting it. In filling the vacancy resulting from a Director resignation, the Directors may wait until the next Annual Meeting, appoint a new Director whom the Board considers will have the confidence of the shareholders or call a special meeting of shareholders to elect a Director.

Position Descriptions for Chair, Committee Chairs, CEO and Individual Directors

The Board has developed position descriptions outlining the accountabilities for the Chair, the Chairs of Board committees, the CEO and the individual Directors. The position descriptions can be found on the Corporate Governance page of the Company's website or can be obtained by contacting the Corporate Secretary.

Director Education and Orientation

The Company provides an education program for all Directors, including a detailed orientation program for new Directors, which incorporates the following:

- New Directors are provided with detailed information about the Company, including its business strategies, corporate information, structure and the roles and expectations of the Board and individual Directors.
- New Directors receive a manual which provides information about the Company, the Proxy Circular, Annual Report, Manufacturers Life's Report to Policyholders, organizational information about the Board and its meetings and the Directors' information requirements required pursuant to applicable insurance and securities regulations.
- New independent Directors are initially appointed to the Audit Committee as part of the Directors' orientation to the Company's business. As an Audit Committee member, the Director will be exposed to all aspects of the financial and risk management elements of the Company and is intended to help new independent Directors to more quickly learn the business model. All Directors have a standing invitation to attend committee meetings and new Directors are encouraged to do so to assist in their orientation.
- New Directors meet with the Chair, the CEO and other members of management to discuss the Company's strategies, operations and functions.
- A Directors' Manual providing a comprehensive outline of the duties, responsibilities, structure and the committees of the Board. The Directors' Manual includes the Board Mandate, Board Policies, committee charters, the regulatory compliance program, the incorporating documents, by-laws, administrative resolutions, Directors' policies, Company policies, the Code of Business Conduct and Ethics and a Glossary of Terms.
- Directors' seminars and divisional presentations to the Board to provide in-depth reviews of key businesses and functions. In 2006, seminars included: Canadian Asset Liability Method of Calculating Actuarial Reserves (CALM); New Accounting Standard (Financial Instruments - Recognition and Measurement); Integrated Risk Measures – Economic Capital and Earnings at Risk; Organization and Strategy of Investment Operations; China and Taiwan Operations; Association of South East Asian Nations Operations and Investment Issues; Overview of Economic and Political Situation in Japan.
- 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 2006 the Directors visited the Company's Asian operations in Hong Kong and Tokyo.
- In 2006, the Governance Committee agreed that all Directors would become 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 2006, certain Directors became members of organizations relating to human resources and women on boards and attended a conference for executives on the life insurance industry.

Board Access to Management

The Company provides both formal and informal means for the Board to interact with management. Directors have access to management to discuss matters that they may wish to pursue.

Board Committee Membership Standards

The Board relies on its committees to fulfill its mandate and meet its responsibilities. Committees of the Board allow Directors to share responsibility and devote the necessary resources to a particular area or issue. There are currently four standing committees of the Board: the Audit and Risk Management Committee ("Audit Committee"); the Conduct Review and Ethics Committee ("Ethics Committee"); the Governance Committee; and the Management Resources and Compensation Committee ("Compensation Committee"). All committees have the following common characteristics:

- Comprised solely of independent Directors.
- Have a written charter setting out its responsibilities. Each committee tracks its compliance with its charter at each meeting throughout the year. The charters and the scorecards are available on the Company's website or by writing to the Corporate Secretary.
- Report to and seek approvals as required from the Board after each of its meetings. Committees meet without any members of management present ("*in camera*") at each meeting.
- Reviews its performance and its charter annually.
- Has its membership reviewed by the Board and rotated as requirements of the committees and the Directors dictate.

Audit and Risk Management Committee

The Board has reviewed the membership of the Audit Committee and has determined that no member serves on more than two other audit committees of publicly traded companies and that no member's ability to serve the Audit Committee is impaired in any way.

Financial statements are presented for review by the Audit Committee at meetings scheduled prior to Board meetings. The Audit Committee provides a report and recommendation to the Board with respect to financial disclosure of the Company.

The Audit Committee has established the Protocol for Approval of Audit and Permitted Non-Audit Services. Under this Protocol, the Audit Committee annually reviews and pre-approves recurring audit and non-audit services that are identifiable for the coming year. This Protocol also requires that any audit or non-audit services that are proposed during the year be approved by the Audit Committee or by a member appointed by the Audit Committee for this purpose.

The Board annually reviews the membership of the Audit Committee to confirm that all members are financially literate, as required by the Audit Committee Instrument and the NYSE Rules and that at least one member can be designated as a financial expert as required by SOX. The Board has determined that all members are financially literate and that 6 of the 7 current members possess the necessary qualifications to be designated as Audit Committee Financial Experts.

The Audit Committee has direct communication and *in camera* meetings with each of the internal auditor, the independent auditor, the Appointed Actuary and the Company's principal regulator, the Office of the Superintendent of Financial Institutions (Canada). The Audit Committee also meets with management.

The Board considers all principal risks facing the Company, as well as the measures either proposed or already implemented to manage these risks. The Audit Committee ensures that comprehensive risk management policies and processes, internal controls and management information systems are in place and updated regularly to mitigate the Company's exposures.

Conduct Review and Ethics Committee

The Ethics Committee oversees the procedures relating to conflicts of interest, customer complaints, related party transactions and protection of confidential information.

The Ethics Committee annually reviews the Company's Code of Business Conduct and Ethics, the Related Party Procedures, the Conflict of Interest Procedures, the Confidential Information Procedures and Complaint Handling Practices.

Management Resources and Compensation Committee

The Compensation Committee oversees the Company's global human resources strategy and the effective utilization of human resources, focusing on management succession, development and compensation. The Compensation Committee is responsible for:

- Approving the appointment of and providing proper development, compensation and review of senior management.
- Reviewing and approving annually the appointment, succession, remuneration and performance of the senior executives, excluding the CEO. The annual performance assessment and compensation review of the CEO is performed by the Governance Committee.
- Reviewing annually the Company's compensation policies, including base pay, incentive, pension and benefit plans and making recommendations to the Board.

Corporate Governance and Nominating Committee

The Governance Committee is responsible for:

- Developing director selection criteria.
- Identifying and recommending to the Board qualified director nominees.
- Overseeing the Company's corporate governance program.
- Developing governance policies, practices and procedures.
- Reviewing the structure, mandate and composition of the Board and Board committees.
- Reviewing the objectives, performance and compensation of the President and CEO.
- Reviewing and evaluating the effectiveness of the Board, the committees, the Chair and the Directors.

Independent Directors' Meetings

Each meeting of the Board and of its committees is followed by an *in camera* meeting, at which the independent Chair of the Board or the independent Chair of one of the committees of the Board acts as Chair. Non-independent Directors and management do not attend.

The Board also holds meetings at which non-independent Directors and members of management are not in attendance. In 2006, one meeting of the independent Directors was held.

Shareholders wishing to contact independent Directors of the Company may write to the Chair of the Board, in care of the Corporate Secretary, at the head office of the Company.

Retention of Outside Advisors by Directors

The Board and its committees may retain outside advisors at the Company's expense, as they deem necessary.

The Governance, Compensation and Audit Committees retained outside advisors in 2006.

Individual Directors may also retain outside advisors, at the Company's expense, to provide advice on any matter before the Board or a Board committee with the approval of the Governance Committee.

Director Compensation

The Board, with the assistance of the Governance Committee and independent external advisors, undertakes a biennial review of Director compensation to ensure that it meets the objective of properly aligning the interests of Directors with the long-term interests of the Company. During 2006, the Board engaged Hugessen Consulting Inc., a recognized, independent external consultant to provide advice and guidance on Director compensation issues with a view to making recommendations for 2007.

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 compensation in shares or DSUs until minimum holdings are met. All current Directors have met the minimum equity ownership amount.

No stock options have been granted after 2002 to non-employee Directors and in 2004 the Board of Directors resolved to permanently discontinue stock option grants to non-employee Directors.

Board Evaluation

The Governance Committee conducts annual, formal evaluations of the Board, Board committees, the Chairman and the individual 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 areas for improvement, develops action plans and monitors the progress of these plans.
- Annual *in camera* meeting of the independent Directors to review the results of the evaluations and to approve the Governance Committee's plan for improvement.
- Review of overall size and operation of the Board and its committees to ensure that they operate effectively.
- Annual determination of whether a Director's ability to serve the Company is impaired by external obligations or by changes in his or her principal occupation or country of residence.

CEO Evaluation

The Governance Committee and the CEO annually set financial and non-financial objectives for the CEO, which are approved by the Board. The CEO's performance is evaluated annually by the Governance Committee based on these objectives and on the Company's performance.

Ethical Business Conduct

The Company has adopted the Code of Business Conduct and Ethics ("Code"), which applies to Directors, officers, employees and those who perform services for or on behalf of the Company.

The Code complies with the requirements of the NYSE Rules, the SEC rules and the Governance Instrument.

The Code is available on the Company's website at www.man-ulife.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 is in the business of taking risk to generate profitable growth. Risk must be managed effectively to safeguard our reputation and capital, and to meet the expectations of our shareholders, customers and regulators. Our 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. Manulife Financial seeks to achieve this by capitalizing on business opportunities that are aligned with the Company's risk taking philosophy, risk appetite and return expectations, by identifying, monitoring and measuring all key risks taken, and by proactively executing effective risk control and mitigation programs.

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

An enterprise level strategy has been established that guides our risk taking and risk management activities globally. The enterprise risk management strategy sets out comprehensive policies and rigorous standards of practice related to risk governance, risk identification and monitoring, risk measurement, and risk control and mitigation. In order to ensure that we can effectively execute our risk management strategy, we continuously invest to attract and retain qualified risk professionals, and to build and maintain the necessary processes, tools and systems.

Specific risk management strategies are also in place for each broad risk category: strategic risk, credit risk, market and asset liability and liquidity risk, insurance risk and operational risk. To ensure consistency, these strategies incorporate policies and standards of practice that are aligned with those within the enterprise risk management strategy, covering:

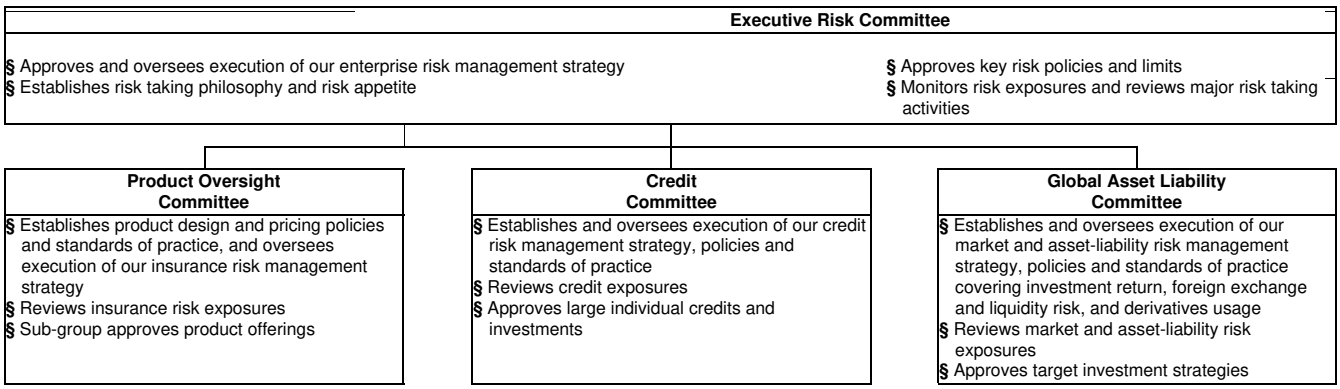
- Assignment of risk management accountabilities across the organization;
- Delegation of authorities related to risk taking activities;
- Philosophy related to assuming risks;
- Establishment of specific risk limits;
- Identification, measurement, monitoring, and reporting of risks; and
- Activities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

Risk Governance

Sound business decisions require a strong risk culture, and a well-informed executive management and Board of Directors. The Audit and Risk Management Committee ("ARMC") of the Board of Directors oversees our global risk taking activities and risk management practices. The ARMC approves and periodically reviews our enterprise risk management strategy, risk taking philosophy, overall risk appetite, and approves and monitors compliance with all key risk policies and limits. The ARMC regularly reviews with management trends in material risk exposures and major risk taking activities, and the ongoing effectiveness of our risk management practices. The Conduct Review and Ethics Committee of the Board oversees activities and risks specifically related to conflicts of interest, confidentiality of information, customer complaints and related third party transactions, and the Management Resources and Compensation Committee of the Board oversees global human resources strategy, policies and 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 strategies, and is supported by the Chief Financial Officer and Chief Risk Officer ("CRO") as well as by the Executive Risk Committee ("ERC"), comprised of members from the Company's Executive Committee. Together, they shape and continuously promote our risk culture throughout our global operations. The ERC, along with other executive-level risk oversight committees, establishes risk policy, guides risk taking activity, monitors material risk exposures, and sponsors strategic risk management priorities throughout the organization.

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



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

Corporate Risk Management ("CRM"), under the direction of the CRO, establishes and maintains our enterprise risk management strategy as well as specific risk management strategies for each broad risk category, and oversees the execution of these strategies across the enterprise. CRM monitors and reports on enterprise-wide risk exposures and oversees economic capital modeling. CRM proactively partners with business units to ensure a consistent enterprise-wide assessment of risk, risk-based capital, and risk-adjusted returns. CRM also drives the development and introduction of new risk measurement and management practices, and risk education, throughout our organization.

Other corporate groups are responsible for overseeing the execution of risk management strategies for certain risks. Global Compliance oversees our regulatory compliance risk management program, Corporate Legal oversees management of our legal risks, Corporate Treasury oversees liquidity and foreign exchange risk management, Corporate Information Technology oversees business interruption risk management, and Corporate Human Resources manages our global human resource programs. Internal Audit independently assesses the effectiveness of our risk management strategies and their execution across the enterprise. The Chief Actuary performs the Dynamic Capital Adequacy Testing that is required by regulators.

Risk Identification and Monitoring

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

The ERC and the ARMC each review a comprehensive report quarterly that presents all key elements of our risk profile and exposures across all risk categories enterprise-wide, incorporating both quantitative risk measures and qualitative assessments. The report presents 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 report includes a scan of our external risk environment, a consolidated view of our exposure to all material risks, highlights recent developments and management activity, and facilitates monitoring of compliance with all risk policy limits.

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

Risk Measurement

Risk exposures are evaluated using a variety of risk measures. Certain of these risk measures are used across a number of risk categories, while others apply only to a single risk type. Risk measures range from simple key risk indicators and scenario impact analyses, to deterministic stress testing and sophisticated stochastic scenario modeling of economic value, 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.

The Company evaluates its consolidated internal risk-based capital using a combination of internal economic capital and Canadian-based Minimum Continuing Capital and Surplus Requirements ("MCCSR"). Economic capital measures the amount of equity needed to support risks, covering potential extreme losses that could occur, with a pre-defined confidence level. We evaluate our consolidated earnings volatility using an internal 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. Strong controls are in place over the development, implementation and application of the stochastic scenario models used in measuring economic capital, earnings at risk and performing other risk analyses across our organization.

The Dynamic Capital Adequacy Test examines our regulatory capital adequacy over a five year projected timeframe, incorporating both existing and projected new business activities, by stress-testing a number of significantly adverse but "plausible" scenarios.

Risk Control and Mitigation

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

Risk mitigation activities, such as product and investment portfolio management, hedging, reinsurance and insurance protection are used to ensure our aggregate risk remains within our risk appetite and limits. Internal controls within the business units and corporate functions are in place to limit our exposure to operational risk, such as regulatory and compliance risk and information security breaches and to ensure integrity of our business and financial results.

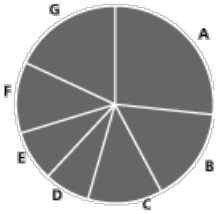
The Company manages risk taking activities against an overall group appetite for assuming risk that reflects the financial condition, and the business strategies and risk tolerances approved by the Board of Directors. The risk appetite is set in relation to a variety of risk measures including economic 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:

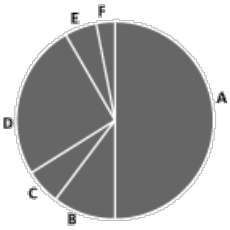
Internal Risk-Based Capital By Risk Type

A Credit
B Interest Rates
C General Fund Equities
D Off-Balance Sheet Product Guarantees & Fees
E Real Estate & Other Assets
F Claims
G Policy Retention & Other Insurance Risks



Internal Risk-Based Capital By Product

A Individual Insurance
B Long Term Care
C Group Insurance
D Individual Wealth Management & Fixed Annuities
E Variable Annuities
F Group Annuities & Pensions



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 other insurance and non-insurance financial services companies. Customer loyalty and retention, and access to distributors, is influenced by many factors, including our product features, service levels, prices relative to our competitors, and our reputation. External business, political and regulatory environments can significantly impact the products and services we can offer, and their price. Changes to laws, taxes, and regulations could reduce barriers to entry, increase cost of compliance, or reduce the attractiveness of some of our product offerings. Continuing consolidation of the financial services industry may increase competition further, and effective execution of desirable transactions is a challenge. Financial strength and claims paying ability ratings are also important to our competitive position. A ratings downgrade could reduce the demand for our products and services, increase the level of surrenders of our products, and negatively impact the cost and availability of capital to us.

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;
- **§** 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 Asset Liability Risk and Liquidity Risk
Market and asset liability 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 and asset liability risk management strategy. The strategy covers the management of a variety of risks that arise in generating the investment returns required to support product liabilities, as well as the 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, interest rate changes, and foreign exchange rate changes. The committee also oversees the management of liquidity. Our market and asset liability risk management strategy is designed to keep potential losses from these risks within acceptable limits.

Global investment policies, approved by the ARMC, establish enterprise-wide and portfolio level targets and limits, as well as delegated transaction approval authorities. The targets and limits are designed to ensure investment portfolios are widely diversified across asset classes and individual investment risks, and are suitable for the liabilities they support. We monitor actual investment positions and risk exposures regularly, and report the positions and exposures to the Global Asset Liability Committee on a quarterly basis, with some exposures reported monthly. We also present reports to the ERC and the ARMC quarterly.

Segmentation and Investment Approach General account product liabilities are segmented into groups with similar characteristics and are

each supported with a uniquely segmented 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 investment policies and goals encompass asset mix, quality rating, duration and cash flow profile, liquidity, currency mix and industry concentration targets, as

well as portfolio management styles such as active or indexed for public equities and buy-and-hold or actively traded for public bonds. 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 long-term returns, subject to considerations related to regulatory and economic capital requirements, and tolerances with respect to short-term income volatility and long-term extreme event risk. Governing business unit asset liability committees and the Global Asset Liability Committee approve the investment policies and goals.

Several products, such as payout annuities and insurance, have guaranteed obligations extending well beyond terms for which returns can generally be locked in with certainty, typically about 25 to 30 years in North America. To support obligations falling within the period for which investment returns can be locked in, we invest in fixed income assets that have a generally matching cash flow or key rate duration profile. We support the remaining liabilities, which give rise to systemic investment return risk as they cannot be cash flow matched, with assets managed to achieve a target return sufficient to support these obligations over their long-term investment horizon. We do this by investing in a prudent amount of a diversified basket of non-fixed income assets, with the balance invested in fixed income portfolios. We allocate any recurring premium inflows, after funding current obligations, between the matching investment strategies and target return investment strategies as needed to support obligations.

To support wealth management products with fixed and highly predictable benefit payments, we invest in fixed income assets that have a generally matching cash flow or key rate duration profile. These products primarily have short to medium-term obligations and offer interest rate guarantees for specified terms on single premiums.

Other products such as participating insurance, universal life insurance and U.S. fixed annuities, largely pass through the investment performance of the assets we invest in to support these products to our policyholders, through dividends declared or rates of interest credited. We manage the assets supporting these products to achieve a target return designed to maximize dividends or credited rates, subject to established risk tolerances.

Derivatives, including foreign exchange contracts, interest rate and cross currency swaps, forward rate agreements and options are used to manage interest rate, foreign currency and equity risks. We mitigate the unique 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.

Investment Return Risk

Key Risk Factors Investment return risk relates primarily to potential losses arising from asset returns insufficient to support product liabilities and is driven by our asset allocation, market influences, as well as the nature of embedded product guarantees and policyholder options.

The investment return risk within our general account arises mainly from: the uncertainty of returns that can be achieved on investments to be made in the future as recurring premiums are received, the uncertainty of returns that can be achieved on existing asset portfolios being managed for long-term return supporting long-dated liabilities, minimum rate guarantees on products where investment returns are generally passed through to policyholders, and embedded policyholder withdrawal options. Investment return risk within the general account may also arise from any tactical mismatch positions taken between the cash flow or key rate duration profile of assets and liabilities that are generally targeted to be matched.

If the cash flow and maturity profile of our assets are shorter than our guaranteed liabilities, interest rate declines may reduce the future return on invested assets earmarked to support those liabilities. On the other hand, for products with adjustable rates, if rates increase significantly, we may need to increase credited rates and reduce margins in order to remain competitive or face potential increases in surrenders on these products. Declines in market values of equity, commercial real estate, and to a lesser extent, timberlands will impact the market value of our general account investments.

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

In addition, the level of our sales activity may be affected by the performance of stock markets, interest rates, inflation and general economic conditions as these will influence the performance of our general account investments, segregated funds and mutual funds.

Risk Management Strategy Interest rate risk management policies and standards of practice are clearly defined and communicated, including interest rate risk exposure limits and delegated trading authorities approved by the ARMC, as well as accountabilities for managing and monitoring interest rate risk. Asset duration, key-rate duration or 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 manage fixed income assets invested for total return against established external benchmarks and portfolio managers maintain interest rate risk exposure positions within prescribed limits.

We mitigate 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. We manage total non-fixed income asset investments against an established aggregate limit, representing a small proportion of total assets, 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 investment return risk arising from off-balance sheet products through benefit guarantee design, limitations on fund offerings and the use of reinsurance. We design new product benefit guarantees and fund offerings to meet established extreme event risk exposure limits, based on economic capital. We have reinsurance in place on existing business that transfers investment return related benefit guarantee risk, where appropriate.

The Company's aggregate exposure to equities is managed against enterprise-wide limits that are approved by the ERC and the ARMC. These limits cover the combined risk arising from off-balance sheet product death and living benefit guarantees, asset-based fees and general account investments.

Market risk exposures are evaluated using a variety of techniques and measures that are primarily based on projecting asset and liability cash flows under a variety of future interest rate and market return scenarios. These measures include durations, key-rate durations, convexity, cash flow gaps, shareholders' economic value at risk based on specific stress scenarios, earnings at risk and economic capital. We monitor and report exposures quarterly to the Global Asset Liability Committee, the ERC and the ARMC.

The following tables show the shareholders' economic value at risk under sample 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 internal models. We calculate shareholders' economic value as the net present value of future cash flows related to current assets, recurring premiums to be received and product benefit and expenses to be paid, all discounted at market yields and adjusted for tax. The stress scenarios are:

- an immediate and permanent parallel increase of one per cent in interest rates for all maturities across all markets;
- an immediate and permanent parallel decrease of one per cent in interest rates for all maturities across all markets, subject to a minimum interest rate of 0.25 per cent; and
- an immediate 10 per cent decline in the market value of non-fixed income assets.

Exposures are shown separately for segments supported with asset-liability matching mandates and segments supported with total return mandates.

Exposures Arising in Segments Supported with Matching Mandates Liability segments supported with matching mandates include non-adjustable product benefit and expense obligations falling within a period for which returns can generally be locked in, typically 25 to 30 years. These liabilities represented approximately half of our product liabilities as at December 31, 2006. Our strategy is to support these liabilities with fixed income assets that have a generally matching cash flow or key rate duration profile.

The following table shows the shareholders' economic values at risk arising from segments supported with asset-liability matching mandates under the interest rate stress scenarios described above.

Shareholders' Economic Value at Risk Arising from Segments Supported with Matching Mandates

As at December 31 (Canadian $ in millions)	1% change in interest rates Increase	 Decrease
2006		
Wealth management	**$ 22**	**$ (24)**
Insurance	**247**	**(325)**
Total	**$ 269**	**$ (349)**
2005		
Wealth management	$ (11)	$ 16
Insurance	227	(314)
Total	$ 216	$ (298)

As at December 31, 2006, our wealth management business supported with matching mandates had virtually no sensitivity to parallel interest rate changes. Within our insurance liability segments supported with matching mandates, we remain positioned to benefit from increases in interest rates in our U.S. long-term care, U.S. life insurance and Canadian insurance segments, and consequently remain exposed to potential permanent declines in interest rates.

Exposures Arising in Segments Supported with Target Return Mandates Liability segments supported with target return mandates include non-adjustable product benefit and expense obligations falling beyond the period for which returns can generally be locked in, typically 25 to 30 years, as well as all liabilities with benefits that can generally be adjusted. These liabilities represented approximately half of our product liabilities as at December 31, 2006. Target return mandate segments also include our shareholders' equity account. These liabilities are supported by asset portfolios incorporating a prudent amount of a diversified basket of non-fixed income assets, with the balance invested in fixed income portfolios. For our asset segments supporting non-adjustable long-dated liabilities, the underlying economic risk exposure is the potential failure to achieve the assumed returns over the entirety of their long investment horizon. For our asset segments supporting adjustable product liabilities, the embedded economic risk arises primarily from embedded minimum guarantees and policyholder withdrawal options.

The following table shows the shareholders' economic values at risk arising from segments supported by total return mandates described above, under the three stress scenarios.

Shareholders' Economic Value at Risk Arising from Segments Supported by Target Return Mandates

As at December 31 (Canadian $ in millions)	1% change in interest rates		10% decline in market values		
	Increase	Decrease	Equities	Real Estate	Other*
2006					
Wealth management	**$ (70)**	**$ 13**	**$ (59)**	**$ (27)**	**$ (7)**
Insurance	**533**	**(1,033)**	**(124)**	**(211)**	**(74)**
Shareholders' equity account	**(396)**	**451**	**(339)**	**(15)**	**(66)**
Total	**$ 67**	**$ (569)**	**$ (522)**	**$ (253)**	**$ (147)**
2005					
Wealth management	$ (36)	$ 30	$ (63)	$ (6)	$ (6)
Insurance	500	(999)	(150)	(172)	(47)
Shareholders' equity account	(304)	340	(244)	(11)	(48)
Total	$ 160	$ (629)	$ (457)	$ (189)	$ (101)

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

Within our insurance liability segments supported by target return mandates, exposure to a permanent decline in interest rates primarily arises in long-dated non-adjustable product benefit segments, due to fixed income asset portfolios with cash flow or key rate duration profiles shorter than the benefits, as well as exposure to minimum rate guarantees on adjustable benefit segments. The exposures within our insurance liability segments are partially offset by the exposures within our shareholders' equity account.

Exposures for Variable Products and Other Managed Assets The following table shows the potential impact on shareholders' economic value, arising from variable products and mutual funds, as well as institutional asset management operations, as a result of an immediate 10 per cent decline in the market value of equity funds.

Impact on Shareholders' Economic Value of a Ten Per Cent Decline in Market Values of the Equity Component of Variable Product and Other Managed Assets

As at December 31 (Canadian $ in millions)	2006	2005
Market-based fees	**$ (567)**	$ (472)
Variable product guarantees	**$ (167)**	$ (207)

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

Variable Annuity and Segregated Fund Benefit Guarantees

As at December 31 (Canadian $ in millions)	2006			2005		
	Fund value[2]	Amount at risk[2]	Expected guarantee cost[3]	Fund value[2]	Amount at risk[2]	Expected guarantee cost[3]
Maturity / income benefits	**$ 51,188**	**$ 429**		$ 36,553	$ 613	
Death benefits[1]	**12,926**	**1,133**		12,543	1,578	
Total	**$ 64,114**	**$ 1,562**	**$ (1,623)**	$ 49,096	$ 2,191	$ (1,252)

1 Death benefits include stand-alone guarantees and guarantees in excess of maturity or income guarantees where both are provided on a policy.

2 Amount at risk is the excess of guaranteed values over fund values on all policies where the guaranteed value exceeds the fund value. Fund value and amount at risk are net of amounts reinsured. This amount is not currently payable and represents a theoretical value only.

3 Expected guarantee cost is net of reinsurance and fee income allocated to support the guarantees.

Guaranteed benefits are contingent and only payable upon death, maturity, withdrawal or annuitization, if fund values remain below guaranteed values. The expected guarantee cost represents the average, across all stochastically modeled investment return scenarios, of the present values of projected future guaranteed benefit payments, net of reinsurance and fee income allocated to support the guarantees, considering future mortality, policy termination and annuitization rates. Fee income supporting guarantees is expected to exceed benefit payments, resulting in a negative expected cost. The reduction in the amount at risk and the improved expected cost of guarantees as compared to December 31, 2005 was driven by favourable equity market performance along with the sales of higher margin products.

The actuarial liabilities established for guaranteed benefit payments related to variable annuities and segregated funds must fall between the average of the present values calculated as described above, across the most adverse 40 per cent of investment scenarios and the average calculated across the most adverse 20 per cent of the investment return scenarios. As at December 31, 2006 and December 31, 2005, actuarial liabilities held for these guaranteed benefit payments were $546 million and $547 million respectively, exceeding both the minimum requirement and the expected guarantee cost. While determined based on an average of stochastic investment return scenarios, in aggregate, the actuarial liabilities held as at December 31, 2006 would adequately defease our projected

guaranteed benefit payments across all businesses as long as future fund returns, including dividends, average at least two and one half per cent per annum.

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 were to strengthen relative to non-Canadian currencies, the translated value of reported revenue, expenses and 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.

Currency risk exposure is managed to an established Value at Risk limit. The Value at Risk model is based on the industry-accepted J.P. Morgan Chase Risk Metrics methodology applied to our actual currency position relative to the policy position. We also monitor and regularly report the sensitivity of our net income and shareholders' equity to changes in foreign exchange rates to the Global Asset Liability Committee and ERC and report quarterly to the ARMC. A one per cent increase in the Canadian dollar relative to the U.S. dollar would have reduced shareholders' equity by $165 million as at December 31, 2006 and $151 million as at December 31, 2005. The same change in foreign exchange rates would have reduced 2006 and 2005 net income by $28 million and $21 million, respectively.

Liquidity Risk

Key Risk Factors Manulife Financial is exposed to liquidity risk in each operating company and in the holding company. In the operating companies, expected cash demands arise day-to-day to fund anticipated policyholder benefits, expenses and investment activities. Under stressed conditions, unexpected cash demands could arise primarily from an increase in the level of policyholders either terminating policies with material cash surrender values, or not renewing them when they mature, and from an increase in the level of borrowers renewing or extending their loans when they mature.

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

Risk Management Strategy Global liquidity management policies and procedures are designed to ensure we have adequate liquidity available in the holding company, each operating company, and our consolidated operations, 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 lessened 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. These policies generate a diversified and stable flow of recurring premium income. We design the policyholder termination features of our wealth management products and our investment strategies to support them, to mitigate the financial exposure and liquidity risk related to unexpected policyholder terminations. We establish and implement investment strategies that match the cash flow or maturity profile of the assets to the liabilities they support, taking into account the potential for unexpected policyholder terminations and resulting liquidity needs. We also maintain centralized cash pools and access to other sources of liquidity such as repurchase funding agreements. We forecast and monitor actual daily operating liquidity and cash movements in local operations as well as centrally, to ensure liquidity is available and cash is employed optimally.

Global operating and strategic liquidity levels are managed against established minimums, approved by the ARMC. 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 using an industry-accepted model under both immediate (within one month) and ongoing (within one year) stress scenarios. Under this model, adjusted liquid assets include cash and short-term investments, and marketable bonds and stocks that are discounted to reflect convertibility to cash, are net of maturing debt obligations. Under the model, policy liabilities are adjusted to reflect their potential for withdrawal. Our policy is to maintain adjusted liquid assets at a level above adjusted policy liabilities, corresponding to the highest liquidity rating issued by Standard & Poor's.

Strategic Liquidity

	2006		2005	
As at December 31 (Canadian $ in millions unless otherwise stated)	Immediate scenario	Ongoing scenario	Immediate scenario	Ongoing scenario
Adjusted liquid assets	**$ 92,142**	**$91,320**	$ 87,798	$88,638
Adjusted policy liabilities	**$ 22,507**	**$28,973**	$ 22,120	$28,485
Liquidity ratio	**409%**	**315%**	397%	311%

During the year, the Strategic Liquidity Ratio was adjusted to more accurately reflect the surrender profile of certain Annuities business. Prior year numbers have been revised to conform to the current basis of calculation.

Credit Risk

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

Key Risk Factors A pronounced and sustained economic downturn could result in borrower or counterparty defaults or downgrades, and could lead to increased provisions for impairments related to our general account invested assets and off-balance sheet 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 and intermediaries, including reinsurers and insurance providers. Our policies, approved by the Credit Committee, 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. The Credit Committee monitors compliance against all credit policies and limits. Internal Audit performs periodic internal audits of all credit-granting units to ensure compliance with credit policies and procedures.

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

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

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

An allowance for losses on invested assets is established when an asset or portfolio of assets becomes impaired as a result of deterioration in credit quality, to the extent there is no longer assurance of timely realization of the carrying value of assets and related investment income. We reduce the carrying value of an impaired asset 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 losses or that additional provisions or asset write-downs will not be required. However, we remain conservatively provisioned for credit losses overall and our level of impaired assets continues to be very low.

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 loss rates and, to a lesser extent, deterioration in credit ratings of borrowers, may result in losses if actual rates exceed expected rates. As at December 31, 2006 and December 31, 2005, credit loss rates over the next year which exceed the rates provided for in actuarial reserves by 25 per cent would reduce net income by $30 million and $39 million, respectively.

A variety of aggregate credit risk exposure measures are monitored regularly and reported to the Credit Committee and ARMC, as shown in the following table.

Credit Risk Measures

As at December 31 (Canadian $ in millions unless otherwise stated)	**2006**	2005
Net impaired assets	**$ 341**	$ 643
Net impaired assets as a per cent of total invested assets	**0.20%**	0.39%
Allowance for impairment	**$ 186**	$ 276
Provision for future credit losses included in actuarial liabilities [1]	**$ 2,547**	$ 2,906

1 Excludes allowances for pass-through credit risk pertaining to participating policies and certain other policies. The allowance for expected credit losses implicit in actuarial liabilities for these policies was estimated to be $1,289 million as at December 31, 2006 and $1,231 million as at December 31, 2005.

Insurance Risk

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

Key Risk Factors A variety of assumptions are made related to the future level of claims, policyholder behaviour, expenses and sales levels when we design and price products, and when we establish actuarial liabilities. To develop assumptions for future claims, we use both Company and industry experience. Actual claims may be materially worse 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. To develop assumptions for future policyholder behavior, we use Company experience and predictive models. Policyholder premium payment patterns, policy renewal, withdrawal and surrender activity is influenced however, by many factors including market and general economic conditions, and the availability and price of other products in the marketplace. Predictions, therefore, rely on significant judgement. Actual policyholder activity may be materially more adverse than the assumptions we make.

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 approved by the ARMC, 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 related 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 and periodic internal audits of the product development and pricing activities of all businesses, to ensure compliance with standards.

We utilize a global underwriting manual to ensure insurance underwriting practices 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 periodically review business unit practices to ensure compliance with standards.

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

We further reduce exposure to claims concentrations by applying geographical aggregate retention limits for certain covers and by purchasing catastrophe reinsurance for life, health and disability insurance worldwide. Our catastrophe reinsurance covers losses in excess of U.S. $100 million deductible up to U.S. $225 million (U.S. $50 million for Japan) over the deductible. In addition to accidents and natural catastrophes, it provides full cover for losses due to all terrorist activities in Canada, where the concentrations are highest, and restricted cover for losses due to terrorist activities in other parts of the world.

As noted above, fluctuations in claims experience may result in losses. As at December 31, 2006 and December 31, 2005 actual mortality and morbidity rates over the next year exceeding the rates provided for in actuarial reserves by five per cent would reduce net income by $123 million and $113 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, 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, poor customer service or damage to reputation. Operational risk is also embedded in all the practices we use to manage other risks. If not managed effectively, operational risk can impact our ability to manage other key risks such as credit risk, market and asset liability risk and insurance risk.

Risk Management Strategy Manulife Financial's strong corporate governance, clearly communicated 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 comprehensive risk control self-assessments to identify, document and assess inherent operational risks and effectiveness of internal controls. They regularly monitor key risk indicators that provide early warnings of emerging control issues and proactively modify procedures. Material operational risk exposures and risk management activities are reported quarterly to the ERC and the ARMC. Internal Audit independently assesses the effectiveness of risk management strategies and internal controls. External auditors review the effectiveness of internal controls to the extent necessary to conduct an audit of the Company's financial statements. Both the internal and external auditors report independently to the ARMC on the findings of their audits.

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

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

Reputation Risk Reputation risk is the risk that our corporate image may be eroded by adverse publicity, as a result of our business practices or those of our representatives and business partners, potentially causing damage to our franchise value. Representatives, among others, include independent distributors, such as broker-dealers, banks and wholesalers, 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 their 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. We have established an enterprise-wide Reputation Risk Policy, approved by the ARMC, which specifies the responsibilities of the Board and 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 clearly detailed and 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. The laws, regulations and regulatory policies are primarily intended to protect policyholders, beneficiaries and depositors, not shareholders. Failure to comply with applicable statutes or regulations could result in financial penalties or sanctions, and damage to reputation. We are also regularly involved in litigation, both as plaintiff and defendant, which could result in an unfavourable resolution.

Global Compliance oversees our regulatory compliance program, supported by designated chief compliance officers in every division. The program is designed to promote compliance with regulatory obligations worldwide and to help ensure awareness of the laws and regulations that affect us, and the risks associated with failing to comply. Divisional compliance groups monitor emerging legal and regulatory issues as well as proposed regulatory changes and take an active role in attempting to influence these where appropriate. They also prepare us to address new requirements. Global Compliance also independently assesses and monitors the effectiveness of a broad range of regulatory compliance processes and business practices against potential legal, regulatory and reputation risks, and helps to ensure significant issues are escalated and proactively mitigated, reporting to the ARMC semi-annually. 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.

As part of the Sarbanes Oxley Act of 2002, a risk assessment of our operational risks associated with enterprise-wide financial reporting was conducted. As part of this assessment, a thorough documentation and review of our controls was undertaken by the Company. This review has enabled us to further improve our overall efficiency and effectiveness around our financial reporting.

Technology 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. 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. Our executive management is committed to employee training and development, and our compensation program is designed to retain employees. We have in place a number of recruiting programs to attract the best and the brightest for every level of the organization.

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

Additional Risk Factors That May Affect Future Results

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

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

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

Critical Accounting and Actuarial Policies

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

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

Allowance for Asset Impairment

The allowance for credit losses adjusts the value of fixed income assets that are considered other than temporarily impaired for other than interest rate changes, to their estimated realizable value. In assessing the estimated realizable value, judgment is exercised relating to matters including economic factors, developments affecting companies in particular industries and specific issues with respect to single borrowers, for which the ultimate outcome is unknown.

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

Policy Liabilities

Policy liabilities for Canadian GAAP are valued under standards established by the Canadian Institute of Actuaries. These standards are designed to ensure we establish an appropriate liability on the balance sheet to cover future obligations to all our policyholders. Under Canadian GAAP, the assumptions underlying the calculation 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 policy benefit 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 where all or part of a policy liability is transferred to another 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 ranges for the permissible level of margins for adverse deviation based on the risk profile of the business. We use assumptions at the conservative end of the permissible 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 2006 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 2006 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 2006 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 2006 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 re-investment strategies are based on our target investment policies for each segment and the re-investment returns are derived from current and projected market rates for fixed interest investments and our projected outlook for non-fixed interest assets. Investment return assumptions include expected future credit losses on fixed income investments. Credit losses are projected based on our own and industry experience, as well as specific reviews of the current investment portfolio. In 2006, credit loss experience on both bonds and mortgages continued to be favourable when compared to our assumptions. Investment return assumptions for each asset class also incorporate expected investment management expenses that are derived from internal cost studies. Overall 2006 investment management expense experience was unfavourable when compared to our assumptions.

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

Experience adjusted products: Where policies have features that allow the impact of changes in experience to be passed on to policyholders through policy dividends, experience rating refunds, credited rates or other adjustable features, the projected policyholder benefits are adjusted to reflect the projected experience.

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.

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. The future revenue deferred in the valuation due to these limitations is shown in the table below.

As at December 31

(Canadian $ in millions)	**2006**	2005
Best estimate actuarial liability	**$100,742**	$104,030
Provision for Adverse Deviation		
Insurance risks (mortality/morbidity)	**$ 5,659**	$ 4,998
Policyholder behavior (lapse/surrender/premium persistency)	**2,667**	2,586
Expenses	**850**	877
Investment risks (non-credit)	**9,169**	7,205
Investment risks (credit)	**1,581**	1,736
Segregated fund guarantees	**2,195**	1,820
Other	**553**	1,112
Total Provision for Adverse Deviation (PfAD)	**$ 22,674**	$ 20,334
Segregated funds – non-capitalized margins	**8,038**	6,197
Total of PfAD and non-capitalized segregated fund margins	**$ 30,712**	$ 26,531

Reported actuarial liabilities as at December 31, 2006 of $123,416 million (2005 – $124,364 million) are composed of $100,742 million (2005 – $104,030 million) of best estimate actuarial liability and $22,674 million (2005 – $20,334 million) of PfAD.

The increase in the PfAD for insurance risks is primarily related to increasing levels of Long Term Care business in-force.

The increase in PfAD for investment risks (non-credit) reflects an increase in PfAD levels through adoption of a new valuation interest scenario for policy liability valuation as a result of changes to valuation standards of practice, other changes to modeling of re-investment risk, and changes to asset mix and assumed re-investment asset mix assumptions.

The increase in the PfAD for segregated fundguarantees reflects increased margins in the provisions held due to strong equity markets as well as business growth. These two factors also drive the increase in the other Segregated Funds – Non-Capitalized margins.

The reduction in Other PfAD reflects a reduction in specific additional risk reserves related to policyholder dividends and asset disposition risks on John Hancock private debt assets.

Sensitivity of Policy Liabilities to Changes in Assumptions

When our assumptions are updated to reflect recent and emerging experience or change in outlook, the result is a change in the value of policy liabilities. The sensitivity of the value of policy liabilities to changes in assumptions is shown below, assuming that there is a simultaneous change in the assumption across all business units. For policy related assumptions, the adverse sensitivity assumes experience moves in the direction that generates an adverse result for each key business separately.

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 Policy Liabilities**	
	2006	2005
Policy Related Assumptions – 10% adverse change		
Future mortality rates	**$ 2,407**	$ 2,402
Future morbidity rates	**1,112**	914
Future termination rates	**810**	684
Future expense levels	**664**	670

Asset Related Assumptions – 100 basis point change	**Increase**	**Decrease**	Increase	Decrease
Level of future market interest rates	**$ (420)**	**$ 488**	$ (811)	$ 1,079
Level of future equity returns	**(1,052)**	**1,122**	(1,450)	1,597
Level of future real estate returns	**(939)**	**991**	(258)	234

- The sensitivities of policy liabilities to changes in assumptions shown in the table above are not adjusted for the related impact on income taxes.
- Changes in market interest rates reflect a change to the initial market interest rates, but assume that ultimate long-term fixed income re-investment rates ("URRs") for new investments are unchanged. If the long-term URRs were to be changed by a similar amount to the initial market interest rates, so that the valuation reflected a permanent shift in market interest rates available for all future re-investments, the policy liability increases by $3,347 million for a 100 basis point decrease in interest rates, and decreases by $2,461 million for a 100 basis point increase in interest rates.
- The sensitivities for level of future market interest rates are calculated based on adjusting the interest rates in the current valuation interest scenario used to determine policy liabilities, and do not reflect potential additional costs from full prescribed scenario testing.
- The sensitivities to future equity returns reflect the impact of an increase/decrease on both common and private equity returns.

The reduction in sensitivity to the level of future market interest rates in 2006 relative to 2005 reflects a change in the valuation interest scenario used to determine policy liabilities. Under the scenario used in 2006, market interest rates in North America are assumed to grade to the ultimate re-investment rates over five years, as opposed to 20 years in the previous year's valuation interest scenario.

The increase in sensitivity to the assumed level of future real estate returns in 2006 relative to 2005 is due to an increase in real estate assets currently supporting policy liabilities and an increased assumption of real estate used in future cash flow re-investment asset mixes. This is offset by a reduction in equity sensitivity, as the increase in real estate usage is largely offset by a reduction in equity usage.

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

Impact of 2006 Review by Category of Change

(Canadian $ in millions)

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

Total	**$ (67)**

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

The 2005 review of the actuarial methods and assumptions underlying policy liabilities produced a net reduction in the policy liabilities of $50 million. Net of the impacts on participating surplus and minority interests, this resulted in an increase in 2005 shareholders' income of pre-tax $74 million.

Impact of 2005 Review by Category of Change

(Canadian $ in millions)

Credit loss assumptions	$ (96)	Release of remaining corporate cyclical credit loss provision partially offset by impact of revisions to long-term credit loss rate assumptions.
Long-term interest rate assumptions	338	Increase in liabilities due to adoption of more conservative ultimate long-term interest rates in North America as well as an increase due to a decline in long-term interest rate assumptions in Taiwan to a level consistent with the very low current interest rate environment.
Other investment return assumption impacts	52	Comprises the following items: (i) increase from updating the investment return assumptions for 2005 investment market movements, driven by impact of lower interest rates on long duration individual life contracts in Canada, offset by strong 2005 equity markets in Japan; and (ii) release related to refinements to the asset mix and re-investment assumptions used in valuation of John Hancock segments to reflect target investment strategies being implemented (see note below).
Regular review of non- economic assumptions	(275)	Comprises the following items: (i) release from lower investment expense and general maintenance expense assumptions reflecting John Hancock acquisition synergies; (ii) release from improved mortality assumptions, primarily in Reinsurance, Canada and Singapore with some off- set in Japan; and (iii) increase from strengthening related to policy persistency, primarily on insur- ance lines in the U.S. and Canada.
Model enhancements	(69)	Includes a number of enhancements for modeling of taxes, investment risks and policy benefits.
Total	**$ (50)**	

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

Change in Policy Liabilities

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

2006 Policy Liability Movement Analysis

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

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

The increase of $8 million in acquisition results from the acquisition of a block of business from Pramerica in the Philippines in the third quarter of 2006.

The large reduction of $6,276 million for in-force movements on the U.S. Wealth Management block includes $4,534 million of net maturity benefits on institutional contracts, a product line that is intentionally being de-emphasized. The reduction of $366 million for in-force movement in Reinsurance Division is largely due to provisions set up in 2005 related to Hurricane Katrina and released to cover claims costs. The increase in the Corporate and Other segment includes a liability established in the 2006 valuation review of methods and assumptions related to implementation of quarterly CALM valuation for insurance business.

Included in the total in-force reduction of $3,310 million is a reduction of $67 million from changes in methods and assumptions, as described above. This reduction results in an increase in pre-tax earnings.

Of the $1,310 million net reduction in policy liabilities related to new business and in-force movement, $1,127 million is reported as a reduction in actuarial liabilities on the Consolidated Statement of Operations. The remaining $183 million is comprised of a $284 million decrease in other policy liabilities and a $101 million re-classification from other liabilities to policy liabilities.

2005 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, 2005	$ 42,246	$ 49,387	$30,046	$13,835	$ 1,936	$ (40)	$137,410
New business	497	1,226	351	(131)	17	—	1,960
Acquisitions	(425)	(241)	110	525	—	472	441
In-force movement	809	(5,752)	784	358	304	(229)	(3,726)
Currency impact	(1,168)	(1,362)	—	(1,421)	(26)	(59)	(4,036)
Total net changes	(287)	(6,129)	1,245	(669)	295	184	(5,361)
Balance, December 31, 2005	$ 41,959	$ 43,258	$31,291	$13,166	$ 2,231	$ 144	$132,049

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

The increase of $441 million for acquisitions relates to adjustments to our 2004 John Hancock acquisition. There is an increase in policy liabilities of $318 million that was recorded as the result of the purchase equation adjustments, as well as an increase of $518 million in Asia relating to the consolidation of the operations of Malaysia onto the balance sheet. Offsetting these increases was a reduction of $395 million in U.S. Wealth Management from a reclassification of certain institutional policy liabilities as off balance sheet.

The large reduction of in-force movements within U.S. Wealth Management includes $4,682 million of net maturity benefits on institutional contracts, a product line that is intentionally being de-emphasized. The remaining reduction of $1,070 million is consistent with the general shift in business from on balance sheet to segregated funds and other off balance sheet business. The reduction of $229 million in the Corporate and Other segment includes the release of the cyclical credit loss provision in the 2005 valuation review of methods and assumptions.

Included in the total in-force reduction of $3,726 million is a reduction of $50 million from changes in methods and assumptions, as described above. This reduction resulted in an increase to pre-tax earnings. Of the $1,766 million net reduction in policy liabilities related to new business and in-force movement, $2,376 million is reported as a reduction in actuarial liabilities on the Consolidated Statement of Operations. The remaining $610 million relates to the change in other policy liabilities.

Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15, “Consolidation of Variable Interest Entities” (“AcG15”), which was effective for the Company on January 1, 2005. AcG15 sets out the application of consolidation principles to variable interest entities (“VIEs”) that are subject to consolidation on the basis of beneficial financial interest as opposed to ownership of voting interests. Where an entity is considered a VIE, the primary beneficiary is required to consolidate the assets, liabilities and results of operations of the VIE. The primary beneficiary is the entity that is exposed, through variable interests, to a majority of the VIE’s expected losses and/or is entitled to a majority of the VIE’s expected residual returns, as defined in AcG15. The Company has determined that no variable interest entity is required to be consolidated on the general fund accounts of the Company. However, as outlined in note 17 to the consolidated financial statements, certain VIEs have been consolidated on the Segregated Funds Statements of Net Assets. Segregated funds net assets attributable to other contract holders increased by $140 million (2005 – $133 million). The Company uses a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether an entity is a VIE, and to analyze and calculate its expected losses and its expected residual returns. These processes involve estimating the future cash flows and performance of the VIE, analyzing the variability in those cash flows, and allocating the losses and returns among the identified parties holding variable interests to then determine who is the primary beneficiary. In addition, there is a significant amount of judgment exercised in interpreting the provisions of AcG15 and applying them to specific transactions. For further details on the Company’s involvement with VIEs, see note 17 to the consolidated financial statements.

Pensions and Other Post-employment Benefits

We have a number of defined benefit and defined contribution plans providing pension and other benefits to eligible employees and agents after employment. These plans include registered/qualified pension plans, supplemental pension plans and health, dental and life insurance plans. The defined benefit pension plans provide benefits based on years of service, contributions and average earnings at retirement. Due to the long-term nature of these plans and of the non-pension post-employment benefit plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on plan assets, health care cost trend rates, projected compensation increases, retirement age, mortality and termination rates. These assumptions are determined by management and are reviewed annually. Actual experience that differs from the assumed experience will affect the amounts of benefit obligation and expense. The key weighted average assumptions used, as well as the sensitivity of these assumptions, are presented in note 16 to the consolidated financial statements.

Income Taxes

The Company is subject to income tax laws in various jurisdictions. These complex tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. The provision for income taxes represents management’s interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the period. A future income tax asset or liability is determined for each timing difference based on the future tax rates that are expected to be in effect and management’s assumptions regarding the expected timing of the reversal of such temporary differences.

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are tested at least annually for impairment. The test is at the reporting unit level for goodwill and at the total company level for intangible assets with indefinite lives. Any potential impairment of goodwill is identified by comparing the estimated fair value of a reporting unit to its carrying value. Carrying value is determined as the amount of capital allocated to the reporting unit. Any potential impairment of intangible assets with indefinite lives is identified by comparing the estimated fair value of the asset to its carrying value on the balance sheet. An impairment loss would be recognized and the asset written down to the extent that the carrying value of the asset exceeds the fair value. Fair values are determined using valuation techniques such as market multiples and discounted cash flow models. The process of determining these fair values requires management to make estimates and assumptions including, but not limited to, projected future sales, earnings and capital investment, discount rates and terminal growth rates. Projected future sales, earnings and capital investment are consistent with plans presented to the Board of Directors. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies. The tests performed in 2006 demonstrated that there was no impairment of goodwill or intangible assets with indefinite lives.

Changes in Accounting Policies

Stock-based compensation

In July 2006, the Emerging Issues Committee of the CICA issued a new abstract, EIC 162, “Stock-based Compensation for Employees Eligible to Retire before the Vesting Date”. The abstract requires that stock-based compensation be recognized at the grant date, for grants to employees who are eligible to retire on the grant date, and over the period from the date of grant to the date of retirement eligibility for grants to employees who will become eligible to retire during the vesting period. This abstract was effective for the year ended December 31, 2006 and was to be applied retroactively, with restatement of prior periods.

The Company adopted the provisions of this new abstract in the fourth quarter of 2006 and reported the cumulative effect on prior years as adjustments to opening contributed surplus and opening retained earnings. Opening retained earnings decreased by $10 million, made up of $7 million related to stock options and $3 million related to restricted share units. The Company has not restated net income of any prior years as a result of adopting this accounting change as the Company has concluded that such an impact is not material to any particular year. For the year ended December 31, 2006, the effect of adopting this change in policy was a decrease in net income of $6 million (net of a provision for income taxes of $1 million).

Financial instruments – recognition and measurement, hedges, comprehensive income and equity

In January 2005, the CICA issued new accounting standards comprising CICA Handbook sections 3855 “Financial Instruments –Recognition and Measurement”, 3865 “Hedges”, 1530 “Comprehensive Income” and 3251 “Equity”, all of which became effective for the Company on January 1, 2007. The standards will increase harmonization with U.S. and international accounting standards. As well, the CICA reissued accounting standard section 4210 “Life Insurance Enterprises – Specific Items” as section 4211, which became effective for the Company on January 1, 2007, and requires life insurance enterprises to account for financial assets and liabilities (excluding policy liabilities) and freestanding and embedded derivatives in accordance with the new financial instruments section.

The standards require that all financial assets be classified as trading, available for sale, held to maturity, or loans and receivables. In addition, the standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans, receivables, and investments intended to be, and classified as, held to maturity, which should be measured at amortized cost. OSFI has imposed certain restrictions on the use of the trading classification.

Changes in the fair value of trading securities will be reported in earnings, while changes in the fair value of available-for-sale securities will be reported within other comprehensive income, until the financial asset is disposed of or becomes impaired, at which time it will be recognized in income.

Similarly, the standards require that all financial liabilities, other than actuarial liabilities, be measured at fair value when they are classified as held for trading or are derivatives. Other financial liabilities should be measured at amortized cost.

Section 3855 does not apply to insurance contracts issued to policyholders by insurance enterprises that are accounted for in accordance with section 4211. However, the determination of policy liabilities depends on the measurement of financial instruments. The standard requires the consequential impact on the policy liabilities to be recorded as an adjustment to the balance of retained earnings at the beginning of the fiscal year when section 3855 is adopted.

Derivatives will be classified as trading, unless they are specifically designated within an effective hedging relationship. The standards permit three types of hedging relationships: fair value hedges, cash flow hedges, and hedges of net investments in self-sustaining foreign operations. For fair value hedges, the effective portion of changes in the fair value of derivative instruments is offset in earnings by the changes in fair value, attributed to the risk being hedged in the underlying asset, liability or firm commitment. For cash flow hedges and hedges of net investments in self-sustaining foreign operations, the effective portion of changes in fair value of derivative instruments is offset through other comprehensive income, until the variability in cash flows being hedged is recognized in earnings in a future accounting period or upon derecognition of the net investment. Where a derivative instrument is designated as a hedge and meets the criteria for hedge effectiveness, earnings offset is available, but only to the extent that the hedge is effective. Any ineffectiveness in a hedging relationship will be recognized in current earnings.

Accumulated other comprehensive income will be included on the consolidated balance sheets as a separate component of shareholders’ equity (net of tax) and will include net unrealized gains on available-for-sale securities, net unrealized gains on derivative instruments designated within an effective cash flow hedge, and unrealized foreign currency translation gains and losses and offsetting hedges on self-sustaining foreign operations.

The impact of these accounting changes on the Company's opening balance sheet as at January 1, 2007 is:

Balance sheet item	Opening balance sheet adjustment
Bonds	Bonds will be classified as held for trading, or available for sale.
Loans	Loans will include bonds that are not traded in an active market, as well as mortgages, policy loans and bank loans.
Stocks	Stocks with a reliable fair market value will be classified as trading or available for sale. Stocks without a reliable fair market value will be carried at the lower of cost and realizable value.
Real estate	Real estate is outside the scope of section 3855 and therefore remains unchanged.
Other investments	Other investments, except where the equity method of accounting is used, will be classified as loans or private equities held at lower of cost and realizable value. Derivative transactions that do not qualify for hedge accounting will be reclassified from the other investments category to other assets and other liabilities.
Other assets and other liabilities	Derivatives with a positive fair value will be classified as other assets and derivatives with a negative fair value will be classified as other liabilities.
Deferred realized net gains	Deferred realized net gains, except those related to real estate, no longer qualify as an asset or liability and will be eliminated.
Policy liabilities	Although policy liabilities are scoped out of section 3855, their measurement depends on the measurement of financial instruments. The initial change to policy liabilities upon adoption of section 3855 resulting from changes in the other balances will be recorded in opening retained earnings.
Consumer notes	Consumer notes will be classified as held for trading.
Future income tax liability	The future income tax liability will be adjusted for the tax impact of the changes to the other balance sheet items.
Liabilities for preferred shares and capital instruments	All liabilities will be carried at amortized cost except for the subordinated debt securities payable to MIC Financing Trust I. This liability will be classified as trading as it is to be redeemed on February 1, 2007.
Opening retained earnings	Opening retained earnings at January 1, 2007 will include an adjustment for all assets and liabilities classified as trading, the elimination of non real estate deferred realized net gains, the consequential impact of the accounting policy changes to policy liabilities, and the related tax impact.
Opening accumulated other comprehensive income ("OCI")	Opening accumulated OCI at January 1, 2007 will include the unrealized gains and losses related to those assets designated as available for sale, net of a tax adjustment. It will also include an adjustment for cash flow hedges, including the closing currency translation account currently reported within retained earnings.

In addition, where an asset or liability was or is in a fair value hedge relationship, the carrying value, or if designated as available for sale the OCI, will be adjusted for the unamortized hedge adjustment attributable to the hedged risk.

Due to the complexity in classifying all of the assets and determining the impact on policy liabilities, the opening balance sheet impact has not been completed.

Accounting for leveraged leases

In September 2006, the Emerging Issues Committee of the CICA amended EIC 46, "Accounting for Leveraged Leases," to incorporate new U.S. Financial Accounting Standards Board Staff Position 13-2 guidance issued in July 2006. 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 is effective for the Company's fiscal year beginning January 1, 2007 and the transition to the new standard will result in a charge to opening retained earnings at January 1, 2007 of $157 million.

Financial instruments – disclosure and presentation

On December 1, 2006, the CICA issued new accounting standards comprising CICA Handbook sections 3862 "Financial Instruments – Disclosure" and 3863 "Financial Instruments – Presentation". Section 3862 requires extensive disclosures of financial instruments, focusing on their impact on financial position and performance, but also on risk of recognized and unrecognized financial instruments. Section 3863 carries forward unchanged the presentation requirements of Section 3861. These standards will be effective for the Company's fiscal year beginning January 1, 2008.

Capital disclosures

In December 2006, the CICA issued a new accounting standard on capital disclosures, Section 1535 "Capital Disclosures", which requires disclosure of the Company's objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. This standard is effective for the Company's fiscal year beginning January 1, 2008.

Differences between Canadian and U.S. GAAP

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

significant respects from U.S. GAAP.

The primary differences between Canadian GAAP and U.S. GAAP include accounting for premiums and deposits, invested assets, investment income and segregated funds. There are also differences in the calculation and accounting for policy liabilities and differences in reporting policy 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 their 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, stocks are carried at market value as compared to current Canadian GAAP where stocks are carried on a move to market value basis. Bonds are considered to be available for sale and are carried at market value for Hong Kong GAAP as compared to amortized cost of current Canadian 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, 2006, the Company's net assets determined in accordance with Canadian GAAP exceeded the minimum solvency margin required by Hong Kong insurance regulations.

Controls and Procedures

Disclosure controls and procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian and U.S. securities laws. Our process includes controls and procedures that are designated to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2006, 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 Audit and Risk Management Committee, the Chief Executive Officer and Chief Financial Officer.

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as at December 31, 2006.

Internal control over financial reporting

Management is responsible for establishing and maintains adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management assessed the effectiveness of our internal control over financial reporting as at December 31, 2006, and based on that assessment determined that our internal control over financial reporting was effective. See pages 46 and 47 for Management's Report on Internal Control over Financial Reporting and the Auditors' Report on Internal Controls under Standards of the Public Accounting Oversight Board (United States) prepared by Ernst & Young LLP with respect to management's assessment of internal control over financial reporting.

No changes were made in our internal control over financial reporting during the year ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Principal Subsidiaries

The following is a list of the directly and indirectly held major operating subsidiaries of Manulife Financial Corporation.

As at December 31, 2006 (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	$ 14,440	Toronto, Canada	Leading Canadian-based financial services company that offers a diverse range of financial protection products and wealth management services
Manulife Holdings (Alberta) Limited	100		Calgary, Canada	Holding company
Manulife Holdings (Delaware) LLC	100		Delaware, U.S.A.	Holding company
The Manufacturers Investment Corporation	100		Michigan, U.S.A.	Holding company
John Hancock Life Insurance Company (U.S.A.)	100		Michigan, U.S.A.	U.S. based life insurance company that provides individual life insurance, annuities, and group pension products in all states in the U.S. except New York
John Hancock Life Insurance Company of New York	100		New York, U.S.A.	Provides group pension, individual annuities and life insurance products in the State of New York
John Hancock Investment Management Services, LLC	95		Massachusetts, U.S.A.	Investment advisor
Manulife Reinsurance Limited	100		Hamilton, Bermuda	Provides life and financial reinsurance
Manulife Holdings (Bermuda) Limited	100		Hamilton, Bermuda	Holding company
Manufacturers P&C Limited	100		St. Michael, Barbados	Provides property and casualty and financial reinsurance
Manufacturers Life Reinsurance Limited	100		St. Michael, Barbados	Provides life and financial reinsurance
Manulife International Holdings Limited	100		Hamilton, Bermuda	Holding company
Manulife (International) Limited	100		Hong Kong, China	Life insurance company serving Hong Kong and Taiwan
Manulife-Sinochem Life Insurance Co. Ltd.	51		Shanghai, China	Chinese life insurance company
Manulife Asset Management (Asia) Limited	100		St. Michael, Barbados	Holding company
Manulife Asset Management (Hong Kong) Limited	100		Hong Kong, China	Hong Kong investment management and advisory company marketing mutual funds
Manulife Bank of Canada	100		Waterloo, Canada	Provides integrated banking products and service options not available from an insurance company
Manulife Canada Ltd.	100		Waterloo, Canada	Canadian life insurance company
FNA Financial Inc.	100		Toronto, Canada	Holding company
Elliott & Page Limited	100		Toronto, Canada	Investment counseling, portfolio and mutual fund management in Canada
First North American Insurance Company	100		Toronto, Canada	Canadian property and casualty insurance company
NAL Resources Management Limited	100		Calgary, Canada	Management company for oil and gas properties
Manulife Securities International Ltd.	100		Waterloo, Canada	Mutual fund dealer for Canadian operations
Regional Power Inc.	83.5		Montreal, Canada	Operator of hydro-electric power projects
MLI Resources Inc.	100		Calgary, Canada	Holding company for oil and gas assets and Japanese operations
Manulife Life Insurance Company	100		Tokyo, Japan	Japanese life insurance company
P.T. Asuransi Jiwa Manulife Indonesia	95		Jakarta, Indonesia	Indonesian life insurance company
P.T. Manulife Aset Manajemen Indonesia	95.3		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 Insurance (Thailand) Public Company Limited	97.9		Bangkok, Thailand	Thai life insurance company
Manulife Europe Ruckversicherungs-Aktiengesellschaft	100		Cologne, Germany	European property and casualty reinsurance company
MFC Global Fund Management (Europe) Limited	100		London, England	Holding company
MFC Global Fund Investment Management (Europe) Limited	100		London, England	Investment management company for Manulife Financial's international funds

As at December 31, 2006 (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	$11,547	Wilmington, Delaware, U.S.A.	Holding company
John Hancock Financial Services, Inc.	100		Boston, Massachusetts, U.S.A.	Holding company
John Hancock Life Insurance Company	100		Boston, Massachusetts, U.S.A.	Leading U.S. based financial services company that offers a diverse range of financial protection products and wealth management services
John Hancock Variable Life Insurance Company	100		Boston, Massachusetts, U.S.A.	U.S. based life insurance company that provides variable and universal life insurance policies, and annuity products in all states in the U.S. except New York
P.I. Asuransi Jiwa John Hancock Indonesia	96.2		Jakarta, Indonesia	Indonesian life insurance company
Independence Declaration Holdings LLC	100		Boston, Massachusetts, U.S.A.	Holding company
Declaration Management & Research LLC	100		McLean, Virginia, U.S.A.	Provides institutional investment advisory services
John Hancock Subsidiaries LLC	100		Wilmington, Delaware, U.S.A.	Holding company
John Hancock Financial Network, Inc.	100		Boston, Massachusetts, U.S.A.	Financial services distribution organization
The Berkeley Financial Group, LLC	100		Boston, Massachusetts, U.S.A.	Holding company
John Hancock Funds LLC	100		Boston, Massachusetts, U.S.A.	Mutual fund company
Hancock Natural Resource Group, Inc.	100		Boston, Massachusetts, U.S.A.	Manager of globally diversified timberland and agricultural portfolios for public and corporate pension plans, high net-worth individuals, foundations and endowments
John Hancock International Holdings, Inc.	100		Boston, Massachusetts, U.S.A.	Holding company
Manulife Insurance (Malaysia) Berhad	45.8		Kuala Lumpur, Malaysia	Malaysian life insurance company
John Hancock International, Inc.	100		Boston, Massachusetts, U.S.A.	Holding company
John Hancock Tianan Life Insurance Company	50		Shanghai, China	Chinese life insurance company