

Manulife Financial Corporation *Consolidated Financial Statements*

For the year ended December 31, 2011



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 International Financial Reporting Standards and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada. 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.

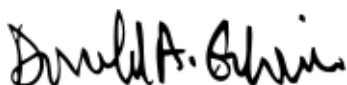
Appropriate systems of internal control, policies and procedures have been maintained to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by management and the Company's internal audit department.

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 Committee of unrelated and independent directors appointed by the Board of Directors.

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

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Ernst & Young LLP has full and free access to management and the Audit Committee.



Donald A. Guloien
President and Chief Executive Officer



Michael W. Bell
Senior Executive Vice President and Chief Financial Officer

Toronto, Canada

March 16, 2012

Appointed Actuary's Report to the Shareholders

I have valued the policy liabilities of Manulife Financial Corporation for its Consolidated Statements of Financial Position as at December 31, 2011 and 2010 and January 1, 2010 and their change in the Consolidated Statements of Income (Loss) for the years ended December 31, 2011 and 2010 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.



Cindy Forbes, F.C.I.A.
Executive Vice President and Appointed Actuary

Toronto, Canada

March 16, 2012

Independent Auditors' Report of Registered Public Accounting Firm

To the Shareholders of Manulife Financial Corporation

We have audited the accompanying consolidated financial statements of Manulife Financial Corporation, which comprise the Consolidated Statements of Financial Position as at December 31, 2011 and 2010, and January 1, 2010, and the Consolidated Statements of Income (Loss), Comprehensive Income (Loss), Changes in Equity and Cash Flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

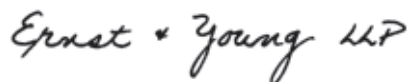
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manulife Financial Corporation as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Manulife Financial Corporation's internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2012 expressed an unqualified opinion on Manulife Financial Corporation's internal control over financial reporting.



Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada

March 16, 2012

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

To the Shareholders of Manulife Financial Corporation

We have audited Manulife Financial Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Manulife Financial Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Controls over Financial Reporting contained in Management's Discussion and Analysis. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

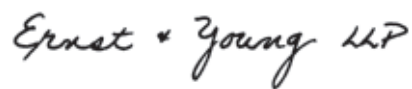
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Manulife Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, 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 Statements of Financial Position as at December 31, 2011 and 2010, and January 1, 2010, and the Consolidated Statements of Income (Loss), Comprehensive Income (Loss), Changes in Equity and Cash Flows for the years ended December 31, 2011 and 2010 of Manulife Financial Corporation and our report dated March 16, 2012 expressed an unqualified opinion thereon.



Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada

March 16, 2012

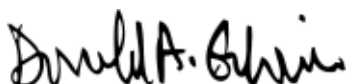
Consolidated Statements of Financial Position

As at


(Canadian \$ in millions)

	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Cash and short-term securities	\$ 12,813	\$ 11,849	\$ 18,805
Securities			
Bonds	120,487	101,560	85,107
Stocks	10,243	10,475	9,688
Loans			
Mortgages	35,023	32,837	31,158
Private placements	20,294	19,577	19,980
Policy loans	6,827	6,486	6,609
Bank loans	2,288	2,353	2,457
Real estate	7,466	6,353	5,988
Other invested assets	11,079	9,732	9,436
Total invested assets (note 4)	\$ 226,520	\$ 201,222	\$ 189,228
Other assets			
Accrued investment income	\$ 1,802	\$ 1,642	\$ 1,583
Outstanding premiums	781	671	812
Derivatives (note 5)	15,472	4,000	2,707
Reinsurance assets (note 8)	10,728	7,832	8,044
Deferred tax asset (note 6)	1,757	1,373	1,255
Goodwill and intangible assets (note 7)	5,442	5,907	8,405
Miscellaneous	3,542	3,000	3,183
Total other assets	\$ 39,524	\$ 24,425	\$ 25,989
Segregated funds net assets (note 23)	\$ 196,058	\$ 199,120	\$ 190,783
Total assets	\$ 462,102	\$ 424,767	\$ 406,000
LIABILITIES and EQUITY			
Liabilities			
Policy liabilities			
Insurance contract liabilities (note 8)	\$ 190,366	\$ 158,312	\$ 147,943
Investment contract liabilities (note 9)	2,540	2,990	3,778
Bank deposits	18,010	16,300	14,734
Derivatives (note 5)	7,627	3,287	2,451
Deferred tax liability (note 6)	766	640	1,026
Other liabilities	12,341	9,598	9,831
	\$ 231,650	\$ 191,127	\$ 179,763
Long-term debt (note 12)	5,503	5,841	3,856
Liabilities for preferred shares and capital instruments (note 13)	4,012	4,004	4,022
Segregated funds net liabilities (note 23)	196,058	199,120	190,783
Total liabilities	\$ 437,223	\$ 400,092	\$ 378,424
Equity			
Issued share capital			
Preferred shares (note 14)	\$ 1,813	\$ 1,422	\$ 1,422
Common shares (note 14)	19,560	19,254	18,937
Contributed surplus	245	222	196
Shareholders' retained earnings	2,501	3,393	6,062
Shareholders' accumulated other comprehensive income (loss)			
On available-for-sale securities	104	333	660
On cash flow hedges	(91)	(55)	(19)
On translation of foreign operations	83	(464)	–
Total shareholders' equity	\$ 24,215	\$ 24,105	\$ 27,258
Participating policyholders' equity	249	160	80
Non-controlling interest in subsidiaries	415	410	238
Total equity	\$ 24,879	\$ 24,675	\$ 27,576
Total liabilities and equity	\$ 462,102	\$ 424,767	\$ 406,000

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



Donald A. Guloien
President and Chief Executive Officer



Gail Cook-Bennett
Chair of the Board of Directors

Consolidated Statements of Income (Loss)

For the years ended December 31,

(Canadian \$ in millions except per share amounts)

	2011	2010
Revenue		
Premium income		
Gross premiums	\$ 23,898	\$ 24,125
Premiums ceded to reinsurers	(6,394)	(6,027)
Net premiums	\$ 17,504	\$ 18,098
Investment income (note 4)		
Investment income	\$ 10,367	\$ 9,577
Realized and unrealized gains on assets supporting insurance and investment contract liabilities	15,870	3,585
Net investment income	\$ 26,237	\$ 13,162
Other revenue	\$ 7,242	\$ 6,358
Total revenue	\$ 50,983	\$ 37,618
Contract benefits and expenses		
To contract holders and beneficiaries		
Death, disability and other claims	\$ 9,213	\$ 8,837
Maturity and surrender benefits	5,403	5,205
Annuity payments	3,164	3,000
Policyholder dividends and experience rating refunds	1,080	1,130
Net transfers (from) to segregated funds	(299)	76
Change in insurance contract liabilities	27,934	13,642
Change in investment contract liabilities	64	78
Ceded benefits and expenses	(4,918)	(4,828)
Change in reinsurance assets	(1,852)	447
Net benefits and claims	\$ 39,789	\$ 27,587
General expenses	4,061	3,848
Investment expenses (note 4)	1,001	981
Commissions	3,813	3,891
Interest expense (note 4)	1,249	1,044
Net premium taxes	257	262
Goodwill impairment (note 7)	665	2,330
Total contract benefits and expenses	\$ 50,835	\$ 39,943
Income (loss) before income taxes	\$ 148	\$ (2,325)
Income tax recovery (note 6)	97	799
NET INCOME (LOSS)	\$ 245	\$ (1,526)
Net income (loss) attributed to:		
Non-controlling interest in subsidiaries	\$ 27	\$ 57
Participating policyholders	89	80
Shareholders	129	(1,663)
	\$ 245	\$ (1,526)
Net income (loss) attributed to shareholders	\$ 129	\$ (1,663)
Preferred share dividends	(85)	(79)
Net income (loss) available to common shareholders	\$ 44	\$ (1,742)
EARNINGS (LOSS) PER SHARE		
Weighted average number of common shares outstanding (in millions)	1,786	1,765
Weighted average number of diluted common shares outstanding (in millions)	1,789	1,765
Basic earnings (loss) per common share	\$ 0.02	\$ (0.99)
Diluted earnings (loss) per common share	\$ 0.02	\$ (0.99)
Dividends per common share	\$ 0.52	\$ 0.52

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

Consolidated Statements of Comprehensive Income (Loss)

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

	2011	2010
Net income (loss)	\$ 245	\$ (1,526)
Other comprehensive income (loss), net of tax		
Change in unrealized foreign exchange gains (losses) on:		
Translation of foreign operations	\$ 577	\$ (625)
Net investment hedges	(30)	161
Change in unrealized gains on available-for-sale financial securities		
Unrealized gains arising during the year	303	348
Reclassification of realized (gains) losses and (recoveries) impairments to net income	(536)	(669)
Changes in unrealized losses on derivative instruments designated as cash flow hedges		
Unrealized losses arising during the year	(52)	(44)
Reclassification of realized losses to net income	8	8
Share of other comprehensive income (loss) of associates	7	(6)
Other comprehensive income (loss), net of tax	\$ 277	\$ (827)
Total comprehensive income (loss)	\$ 522	\$ (2,353)
Total comprehensive income (loss) attributed to:		
Non-controlling interest	\$ 22	\$ 57
Participating policyholders	89	80
Shareholders	411	(2,490)

Income Taxes Included in Other Comprehensive Income (Loss)

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

	2011	2010
Income tax (recovery) expense		
Change in unrealized foreign exchange gains (losses)		
Income tax (recovery) expense on translation of foreign operations	\$ 5	\$ (7)
Income tax (recovery) expense on net investment hedges	(17)	80
Change in unrealized gains (losses) on available-for-sale financial securities		
Income tax expense from unrealized gains arising during the year	68	82
Income tax expense related to reclassification of realized gains and recoveries/impairments to net income	(139)	(252)
Changes in unrealized losses on derivative instruments designated as cash flow hedges		
Income tax (recovery) from unrealized losses arising during the year	(10)	(24)
Income tax recovery related to reclassification of realized losses to net income	4	5
Income tax expense (recovery) on share of other comprehensive income/loss of associates	4	(3)
Total income tax recovery	\$ (85)	\$ (119)

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

Consolidated Statements of Changes in Equity

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

	2011	2010
Preferred shares		
Balance, beginning of year	\$ 1,422	\$ 1,422
Issued during the year (note 14)	400	–
Issuance costs, net of tax	(9)	–
Balance, end of year	\$ 1,813	\$ 1,422
Common shares		
Balance, beginning of year	\$ 19,254	\$ 18,937
Issued on exercise of stock options and deferred share units	2	3
Issued under dividend reinvestment and share purchase plans	304	314
Balance, end of year	\$ 19,560	\$ 19,254
Contributed surplus		
Balance, beginning of year	\$ 222	\$ 196
Exercise of stock options and deferred share units	–	1
Stock option expense	23	25
Balance, end of year	\$ 245	\$ 222
Shareholders' retained earnings		
Balance, beginning of year	\$ 3,393	\$ 6,062
Net income (loss) attributed to shareholders	129	(1,663)
Preferred share dividends	(85)	(79)
Common share dividends	(936)	(927)
Balance, end of year	\$ 2,501	\$ 3,393
Shareholders' accumulated other comprehensive income (loss) ("AOCI")		
Balance, beginning of year	\$ (186)	\$ 641
Change in unrealized foreign exchange gains (losses) on translation of foreign operations	547	(464)
Change in unrealized gains (losses) on available-for-sale financial securities	(236)	(321)
Changes in unrealized gains (losses) on derivative instruments designated as cash flow hedges	(36)	(36)
Share of other comprehensive income (loss) of associates	7	(6)
Balance, end of year	\$ 96	\$ (186)
Total shareholders' equity, end of year	\$ 24,215	\$ 24,105
Participating policyholders' equity		
Balance, beginning of year	\$ 160	\$ 80
Net income attributed to participating policyholders	89	80
Balance, end of year	\$ 249	\$ 160
Non-controlling interest in subsidiaries		
Balance, beginning of year	\$ 410	\$ 238
Net income attributed to non-controlling interest	27	57
Other comprehensive loss attributed to non-controlling interest	(5)	–
Deconsolidation of a subsidiary	–	107
Contributions (distributions), net	(17)	8
Balance, end of year	\$ 415	\$ 410
Total equity, end of year	\$ 24,879	\$ 24,675

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

Consolidated Statements of Cash Flows

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

	2011	2010
Operating activities		
Net income (loss)	\$ 245	\$ (1,526)
Adjustments for non-cash items in net income (loss):		
Increase in insurance contract liabilities	27,934	13,642
Increase in investment contract liabilities	64	78
(Increase) decrease in reinsurance assets	(1,852)	447
Amortization of premium/discount on invested assets	25	118
Other amortization	345	316
Net realized and unrealized gains including impairments	(16,759)	(4,491)
Deferred income tax recovery	(210)	(474)
Stock option expense	23	25
Goodwill impairment	665	2,330
Net income adjusted for non-cash items	\$ 10,480	\$ 10,465
Changes in policy related and operating receivables and payables	(1,147)	1,094
Cash provided by operating activities	\$ 9,333	\$ 11,559
Investing activities		
Purchases and mortgage advances	\$ (82,830)	\$ (76,090)
Disposals and repayments	71,851	54,533
Changes in investment broker net receivables and payables	1,757	83
Net cash decrease from purchase of subsidiaries	–	(28)
Cash used in investing activities	\$ (9,222)	\$ (21,502)
Financing activities		
Increase in repurchase agreements and securities sold but not yet purchased	\$ 66	\$ 536
Issue of long-term debt, net	–	2,024
Repayment of long-term debt	(396)	(1)
Issue of capital instruments, net	547	–
Repayment of capital instruments	(550)	–
Net redemption of investment contract liabilities	(568)	(739)
Funds borrowed, net	44	5
Secured borrowings from securitization transactions	250	577
Changes in bank deposits, net	1,603	1,574
Shareholder dividends paid in cash	(717)	(691)
Contributions from (distributions to) non-controlling interest	(17)	36
Common shares issued, net	2	3
Preferred shares issued, net	391	–
Cash provided by financing activities	\$ 655	\$ 3,324
Cash and short-term securities		
Increase (decrease) during the year	\$ 766	\$ (6,619)
Effect of foreign exchange rate changes on cash and short-term securities	192	(339)
Balance, beginning of year	11,322	18,280
Balance, December 31	\$ 12,280	\$ 11,322
Cash and short-term securities		
Beginning of year		
Gross cash and short-term securities	\$ 11,849	\$ 18,805
Net payments in transit, included in other liabilities	(527)	(525)
Net cash and short-term securities, January 1	\$ 11,322	\$ 18,280
End of year		
Gross cash and short-term securities	\$ 12,813	\$ 11,849
Net payments in transit, included in other liabilities	(533)	(527)
Net cash and short-term securities, December 31	\$ 12,280	\$ 11,322
Supplemental disclosures on cash flow information:		
Interest paid	\$ 1,053	\$ 864
Interest received	\$ 8,401	\$ 8,022
Income taxes paid	\$ 255	\$ 103

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

Notes to Consolidated Financial Statements

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Notes to Consolidated Financial Statements

(Canadian \$ in millions except per share amounts or unless otherwise stated)

Note 1 Nature of Operations and Significant Accounting Policies

(a) Reporting entity

Manulife Financial Corporation ("MFC") is a publicly traded life insurance company and the holding company of The Manufacturers Life Insurance Company ("MLI"), a Canadian life insurance company, and John Hancock Reassurance Company Ltd. ("JHRECO"), a Bermuda reinsurance company. MFC and its subsidiaries (collectively, "Manulife Financial" or the "Company") is a leading Canada-based financial services group with principal operations in Asia, Canada and the United States. Manulife Financial's international network of employees, agents and distribution partners offers financial protection and wealth management products and services to millions of clients as well as asset management services to institutional customers. The Company operates as Manulife Financial in Canada and Asia and primarily as John Hancock in the United States.

MFC is domiciled in Canada and incorporated under the Insurance Companies Act (Canada) ("ICA"). These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") 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 IFRS. As these are the Company's first consolidated annual financial statements presented under IFRS, they were prepared in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards". As outlined in (d) below, IFRS does not currently include an insurance contract measurement model and, therefore, as permitted by IFRS 4 "Insurance Contracts", insurance contract liabilities continue to be measured using the Canadian Asset Liability Method ("CALM").

An explanation of how the transition to IFRS has affected the equity, comprehensive income (loss) and cash flows of the Company is provided in note 25.

These consolidated financial statements of MFC as at and for the year ended December 31, 2011 were authorized for issue by the Board of Directors on February 22, 2012.

(b) Basis of preparation

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from these estimates. The most significant estimation processes relate to the determination of insurance and investment contract liabilities, provisioning for asset impairment, determination of pension and other post-employment benefit obligations and expenses, income taxes and uncertain tax positions, impairment testing of goodwill and intangible assets, fair value of certain financial instruments, derivative and hedge accounting, assessment of relationships with other entities for consolidation and the measurement and disclosure of contingent liabilities. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Although some variability is inherent in these estimates, management believes that the amounts recorded are appropriate. The significant accounting policies used and the most significant judgments made by management in applying these accounting policies in the preparation of these consolidated financial statements are summarized below.

(c) Basis of consolidation

MFC consolidates the financial statements of all subsidiary companies including certain special purpose entities ("SPEs") where appropriate. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of another entity so as to obtain significant benefits from its activities. In assessing control, significant judgment is applied which considers whether potential voting rights that are presently exercisable and contractual management relationships with the entity, if any, provide the Company with power over the entity's financial and operating policies. Significant judgment is also applied to assess the level of significance of benefits to the Company from the entity's activities. The financial statements of the subsidiaries are included in the Company's consolidated results from the date control is established and are excluded from consolidation from the date control ceases. SPEs are consolidated when the substance of the relationship between the Company and that entity indicates control. Potential indicators of control include the assessment of the Company's exposure to the risks and rewards of the SPE. The assessment of risks and rewards is based on arrangements in place and the assessed risk exposures at inception. The initial assessment is reconsidered at a later date if the Company acquires additional interest in the entity, the contractual arrangements of the entity are amended such that the relative exposure to risks and rewards change, or if the Company acquires or loses control over the key operating and financial decisions of the entity.

The Company's consolidated financial statements have been prepared using uniform accounting policies for like transactions and events in similar circumstances. Intercompany balances, and income and expenses arising from intercompany transactions, have been eliminated in preparing the consolidated financial statements.

Non-controlling interest in subsidiaries represents interests of outside parties in the equity of the Company's subsidiaries and is presented within total equity, separate from the equity of MFC's shareholders. Non-controlling interest in the net income and other comprehensive income ("OCI") of MFC's subsidiaries is included in total net income and total other comprehensive income, respectively. An exception to this occurs where the subsidiary's shares are required to be redeemed for cash on a fixed or determinable date, in which case non-controlling interest in the subsidiary's equity is presented as liabilities of the Company and non-controlling interest in the subsidiary's income and OCI is recorded as expenses of the Company.

The equity method of accounting is used to account for investments over which the Company has significant influence, whereby the Company records its share of the investee's net assets and financial results using uniform accounting policies for similar transactions and events. Significant judgment is used to determine whether voting rights, contractual management and other relationships with the entity, if any, provide the Company with significant influence over the entity. Gains and losses on sale of these investments are included in income when realized, while impairment losses are recognized immediately when there is objective evidence of impairment. Gains and losses on transactions with investees are eliminated to the extent of the Company's interest in the investee. These investments are included in other invested assets on the Company's Consolidated Statements of Financial Position.

(d) Invested assets

Invested assets that are considered financial instruments are classified as fair-value-through-profit-or-loss ("FVTPL"), loans and receivables, held to maturity investments, available-for-sale ("AFS") financial assets, or as derivatives, including those designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. Invested assets are recognized initially at fair value plus, in the case of investments not at FVTPL, directly attributable transaction costs. Invested assets are classified as financial instruments at FVTPL if they are held for trading, or if they are designated by management under the fair value option.

Invested assets classified as AFS are non-derivative financial assets that are designated as AFS and are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently held at fair value.

The invested assets held by the Company are accounted for using the methods described below.

Cash and short-term securities comprise cash, current operating accounts, overnight bank and term deposits, and fixed income securities held for the purpose of meeting short-term cash commitments. Short-term securities are carried at their fair values. Net payments in transit and overdraft bank balances are included in other liabilities.

Bonds are carried at fair value. Realized gains and losses on sale of bonds and unrealized gains and losses on bonds designated as FVTPL are recognized in investment income immediately. Unrealized gains and losses on AFS bonds are recorded in OCI, with the exception of unrealized gains and losses on foreign currency translation which are included in income. Impairment losses on AFS bonds are recognized in income on an individual security basis when there is objective evidence of impairment. Impairment is considered to have occurred when it is deemed probable that the Company will not be able to collect all amounts due according to contractual terms of the bond.

Stocks are carried at fair value. Realized gains and losses on sale of stocks and unrealized gains and losses on stocks designated as FVTPL are recognized in income immediately. Unrealized gains and losses on AFS stocks are recorded in OCI. Impairment losses on AFS stocks are recognized in income on an individual security basis when there is objective evidence that the cost may not be recovered. Impairment is considered to have occurred when fair value has declined below cost by significant amounts or for prolonged periods of time. Judgment is applied in determining whether the decline is significant or prolonged.

Mortgages are classified as loans and are carried at amortized cost less allowance for impairment losses, if any. Realized gains and losses are recorded in income immediately. When mortgages are impaired or when contractual payments are more than 90 days in arrears, contractual interest is no longer accrued. Contractual interest accruals are resumed once the contractual payments are no longer in arrears and are considered current. Impairment losses are recorded on individual mortgages when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Impairment is measured based on the discounted value of expected future cash flows at the original effective interest rates inherent in the mortgages. Expected future cash flows are typically determined in reference to the fair value of collateral security underlying the mortgages, net of expected costs of realization and any amounts legally required to be paid to the borrowers; or observable market prices for the mortgages, if any.

The Company accounts for current insured mortgage securitizations as secured financing transactions as the criteria for sale accounting is not met. For these transactions, the Company continues to recognize the mortgages and records a liability in other liabilities for the amount owed at maturity. Interest income on the mortgages and interest expense on the borrowing are recorded using the effective interest rate method.

Private placements, which include corporate loans for which there is no active market, are classified as loans and are carried at amortized cost less allowance for impairments. Realized gains and losses are recorded in income immediately. When private placements are considered impaired, contractual interest is no longer accrued. Contractual interest accruals are resumed once the investment is no longer considered to be impaired. Impairment losses are recorded on individual private placements when there is no longer assurance as to the timely collection of the full amount of principal and interest. Impairment is measured based on the discounted value of expected future cash flows at the original effective interest rates inherent in the loans. Judgment is applied in the determination of impairment including the timing and amount of future collections.

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

Bank loans are carried at unpaid principal less allowance for credit losses, if any. When bank loans are impaired or when contractual payments are more than 90 days in arrears, contractual interest is no longer accrued. Contractual interest accruals are resumed once the contractual payments are no longer in arrears and are considered current.

Once established, allowances for impairment of mortgages, private placements and bank loans are reversed only if the conditions that caused the impairment no longer exist. Reversals of impairment charges on AFS debt securities are only recognized in income to the extent that increases in fair value can be attributed to events subsequent to the impairment loss being recorded. On disposition of an impaired asset, any allowance for impairment is released. Impairment losses for AFS equity instruments are not reversed through income.

In addition to allowances against the carrying value of impaired assets, the Company considers the impact of the impairments on the investment yields assumed in the calculation of actuarial liabilities.

Interest income is recognized on bonds and loans as it accrues and is calculated by using the effective interest rate method. Premiums, discounts and transaction costs are amortized over the life of the underlying investment using the effective yield method for AFS bonds and loans and receivables measured at amortized cost.

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

Real estate consists of both own use and investment property.

Own use property is carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated based on the cost of an asset less its residual value and is recognized in income on a straight-line basis over the estimated useful life ranging from 30 to 60 years. Impairment losses are recorded in income to the extent the recoverable amount is less than the carrying amount.

Investment property is property held to earn rental income, for capital appreciation or both. Investment property is measured at fair value with changes in fair value recognized in income.

Other invested assets include private equity and fixed income investments held primarily in power and infrastructure, oil and gas, and timber and agriculture sectors. Private equity investments are accounted for using the equity method when the Company has the ability to exercise significant influence or are classified as FVTPL or AFS and carried at fair value when the Company does not have significant influence. Fixed income investments are carried at amortized cost less impairment. Investments in oil and gas exploration and evaluation costs are measured on a "successful efforts" basis.

Other invested assets also include investments in leveraged leases. The carrying value of investments in leveraged leases is calculated by accruing income on the lease receivable and related non-recourse debt using the effective yield method.

(e) Goodwill and intangible assets

Goodwill represents the difference between the acquisition cost of the business combination and the Company's proportionate share of the net identifiable assets acquired and liabilities and certain contingent liabilities assumed. It is initially recorded at cost and subsequently measured at cost less accumulated impairment.

Goodwill is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable at the cash generating unit ("CGU") or group of CGUs level. The Company allocates goodwill to CGUs or groups of CGUs for the purpose of impairment testing based on the lowest level within the entity in which the goodwill is monitored for internal management purposes. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. Any potential impairment of goodwill is identified by comparing the recoverable amount of a CGU or group of CGUs to its carrying value. If the deficiency exceeds the carrying amount of goodwill, the carrying values of the remaining assets in the CGU or group of CGUs are reduced by the excess on a pro-rata basis.

The recoverable amount of a CGU is the higher of the estimated fair value less costs to sell or value-in-use of the group. In assessing value-in-use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Intangible assets consist of assets with indefinite useful lives such as the John Hancock brand name and certain investment management contracts and assets with finite useful lives such as the Company's distribution networks. The assessment of the indefinite useful life is based on the brand name being protected in the markets where they are sold by trademarks, which are renewable indefinitely. There are no legal, regulatory or contractual provisions that limit the useful life.

An intangible asset with an indefinite useful life is subject to an annual impairment test or more frequently if there is an indication that it is not recoverable.

Finite life intangible assets are amortized over their estimated useful lives, which vary from three to 68 years, and assessed for indicators of impairment at each reporting period, or more frequently when events or changes in circumstances dictate. If any indication of impairment exists, these assets are subject to an impairment test.

(f) Miscellaneous assets

Miscellaneous assets include defined benefit assets, deferred acquisition costs and capital assets. Deferred acquisition costs are carried at cost less accumulated amortization. These costs are recognized over the period where redemption fees may be charged or over the period revenue is earned. 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.

(g) Segregated funds

The Company manages a number of segregated funds on behalf of policyholders. The investment returns on these funds are passed directly to the policyholders, although in some cases the Company has provided guarantees of investment performance as described below. Segregated funds net assets and segregated funds net liabilities are presented on separate lines on the Consolidated Statements of Financial Position. Segregated funds net assets are generally recorded at fair value. The fair value of the segregated funds net liabilities is equal to the fair value of the segregated funds net assets. Income earned from segregated fund management fees is included in other revenue. Investment income earned by the segregated funds and expenses incurred by the segregated funds are not separately presented in the Consolidated Statements of Income (Loss) and are disclosed in note 23.

The Company provides minimum guarantees on certain individual variable life and annuity contracts. These include minimum death benefit guarantees, minimum withdrawal guarantees, minimum accumulation guarantees and minimum income benefit guarantees. The liabilities associated with these minimum guarantees are recorded within insurance contract liabilities in the general fund.

(h) Insurance and investment contract liabilities

Contract classification

Most contracts issued by the Company are considered insurance, investment or service contracts. Contracts under which the Company accepts significant insurance risk from a policyholder are classified as insurance contracts in the consolidated financial statements. A contract is considered to have significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance at the inception of the contract. Contracts under which the Company does not accept significant insurance risk are classified as either investment contracts or considered a service contract and are accounted for in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" or IAS 18 "Revenue", respectively.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts if insurance risk subsequently becomes significant.

Insurance contract liabilities

Insurance contract liabilities, net of reinsurance assets, represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends and refunds, taxes (other than income taxes) and expenses on policies in force. Insurance contract liabilities are presented gross of reinsurance assets on the Consolidated Statements of Financial Position. The Company's Appointed Actuary is responsible for determining the amount of insurance contract liabilities in accordance with standards established by the Canadian Institute of Actuaries. Insurance contract liabilities, net of reinsurance assets, have been determined using the Canadian Asset Liability Method ("CALM") as permitted by IFRS 4 "Insurance Contracts". Refer to note 8.

Investment contract liabilities and deposits

Investment contract liabilities include contracts issued to retail and institutional investors that do not contain significant insurance risk. Investment contract liabilities and deposits are measured at amortized cost, or at fair value if elected to ensure consistent measurement and reduce accounting mismatches between the assets supporting the contracts and the liabilities. The liability is derecognized when the contract expires, is discharged or is cancelled.

Embedded derivatives

Derivatives embedded within insurance contracts are separated if they are not considered to be closely related to the host insurance contract and do not meet the definition of an insurance contract. These embedded derivatives are presented separately in other assets or other liabilities and are measured at fair value with changes in fair value recognized in income.

(i) Reinsurance assets

The Company uses reinsurance in the normal course of business to manage its risk exposure. Insurance ceded to a reinsurer does not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet its obligations for reinsurance ceded to it under the reinsurance agreements.

Reinsurance assets represent the benefit derived from reinsurance agreements in force at the reporting date, taking into account the financial condition of the reinsurer. Amounts recoverable from reinsurers are estimated in accordance with the terms of the relevant reinsurance contract.

Gains or losses on buying reinsurance are recognized in income immediately at the date of purchase and are not amortized. Premiums ceded and claims reimbursed are presented on a gross basis on the Consolidated Statements of Income (Loss). Reinsurance assets are

not offset against the related insurance contract liabilities and are presented separately on the Consolidated Statements of Financial Position.

(j) Other financial instruments accounted for as liabilities

The Company issues a variety of other financial instruments classified as liabilities, including notes payable, term notes, senior notes, senior debentures, subordinated notes, surplus notes and preferred shares. These financial liabilities are measured at amortized cost, with issuance costs deferred and amortized using the effective interest rate method.

(k) 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 date of the Consolidated Statements of Financial Position. The income tax provision is comprised of current income taxes and deferred income taxes. Current and deferred income taxes relating to items recognized in OCI and directly in equity are similarly recognized in OCI and directly in equity, respectively.

Current income taxes are amounts expected to be payable or recoverable as a result of operations in the current year and any adjustments to tax payable in respect of previous years.

Deferred income taxes result from temporary differences between the carrying value of assets and liabilities and their respective tax bases. Deferred income tax is measured at the substantively enacted tax rates that are expected to be applied to temporary differences when they reverse.

A deferred tax asset is recognized to the extent that future realization of the tax benefit is probable. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the tax benefit will be realized. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries and investments subject to significant influence, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

(l) Foreign currency translation

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Transactions in a foreign currency are initially recorded at the functional currency rate prevailing at the date of the transaction.

Assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate in effect at the reporting date. Revenue and expenses denominated in foreign currencies are translated at the average exchange rate prevailing during the year. Exchange gains and losses are recognized in income with the exception of foreign monetary items that form part of a net investment in a foreign operation and the results of hedging these positions. These foreign exchange gains and losses are recognized in OCI until such time that a gain or loss on the underlying investment in the subsidiary is recognized in income.

(m) Stock-based compensation

The Company provides stock-based compensation to certain employees and directors as described in note 16. The Company uses the fair value method for stock option awards granted on or after January 1, 2002.

Compensation expense of equity instruments is accrued based on the best estimate of the number of instruments expected to vest, with revisions made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates, unless forfeitures are due to market based conditions.

Stock options are expensed with a corresponding increase in contributed surplus. Restricted share units, special restricted share units and deferred share units are expensed with a corresponding liability accrued based on the fair value of MFC's common shares. Performance share units are expensed with a corresponding liability accrued based on specific performance conditions and the market value of MFC's common shares. The change in the value of units resulting from changes in the Company's market value or changes in the specific performance conditions and credited dividends is recognized in income, offset by the impact of total return swaps used to manage the variability of the related liability.

Stock-based compensation is recognized as compensation expense over the applicable vesting period, except if the employee is eligible to retire at the time of grant or will be eligible to retire during the vesting period. Compensation cost, attributable to stock options and restricted share units granted to employees who are eligible to retire on the grant date or who will become eligible to retire during the vesting period, is recognized over the period from the grant date to the date of retirement eligibility.

When a stock-based compensation award vests in instalments (graded vesting features), each instalment is considered a separate award with the compensation expense amortized accordingly.

Contributions to the Global Share Ownership Plan ("GSOP") are expensed as incurred. Under the GSOP, subject to certain conditions, the Company will match a percentage of the employee's eligible contributions to certain maximums. All contributions are used by the plan's trustee to purchase MFC common shares in the open market.

(n) Employee future benefits

The Company maintains a number of pension plans, both defined benefit and defined contribution, and post-employment benefit plans for eligible employees and agents. These plans include broad-based pension plans for employees, supplemental pension plans for executives and other post-employment benefit plans.

The Company's obligation in respect of defined benefit pension plans and post-employment benefit plans is calculated for each plan as the estimated present value of the future benefits that employees have earned in return for their service up to the reporting date. The discount rate used is based on the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of these obligations and that are denominated in the same currency in which the benefits are expected to be paid. To determine the Company's net defined benefit asset or liability, the fair value of any plan assets, any unrecognized past service costs and any unrecognized gains and losses are then deducted. When this calculation results in an asset, the amount recognized is limited to the sum of any unrecognized past service costs and actuarial losses and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Defined benefit assets are included in other assets and defined benefit liabilities are included in other liabilities.

The traditional defined benefit pension plans provide pension benefits based on the length of the employees' service and the employees' final average earnings. The other defined benefit pension plans consist of cash balance plans in the United States and Japan that provide benefits based on notional accumulated contributions and interest credits. The cost of all defined benefit pension plans is recognized using the projected benefit method, prorated on service, and estimates of expected return on plan assets and, where applicable, rates of compensation increases and retirement ages of employees. Actuarial gains and losses that exceed 10 per cent of the greater of the defined benefit obligation or the fair value of the plan assets are amortized and recognized in 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 and on the fair value of plan assets.

The defined contribution plans provide pension benefits based on the accumulated contributions and fund earnings. The cost of defined contribution plans is the contribution provided by the Company. Contributions to defined contribution pension plans are recognized in income in the periods during which services are rendered by employees.

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

In Canada and the United States, health and dental benefits are also provided to employees who are absent from work due to disability (or other approved leave). The year over year change in the defined benefit obligation, including any actuarial gains or losses, is recognized in income in the current year.

When the benefits under the pension plans and post-employment benefit plans are improved, the portion of the increased benefit relating to past service by employees is recognized in income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the increased benefit for past service is immediately recognized in income.

(o) Derivative and hedging instruments

The Company uses derivative financial instruments ("derivatives") to manage exposures to foreign currency, interest rate and other market risks arising from on-balance sheet financial instruments, selected anticipated transactions and certain insurance contract liabilities. Derivatives embedded in other financial instruments ("host instruments") are separately recorded as derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative and the host instrument itself is not recorded at FVTPL. Derivatives are recorded at fair value. Derivatives with unrealized gains are reported as derivative assets and derivatives with unrealized losses are reported as derivative liabilities.

A determination is made for each relationship as to whether hedge accounting can be applied. Where hedge accounting is not applied, changes in the fair value of derivatives are recorded in investment income. Refer to note 5.

Hedge accounting

Where the Company has elected to use hedge accounting, a hedge relationship is designated and documented at inception. Hedge effectiveness is evaluated at inception and throughout the term of the hedge and hedge accounting is only applied when the Company expects that each hedging instrument will be highly effective in achieving offsetting changes in fair value or changes in cash flows attributable to the risk being hedged. The assessment of hedge effectiveness is performed at the end of each reporting period. When it is determined that the hedging relationship is no longer effective, or the hedging instrument or the hedged item has been sold or terminated, the Company discontinues hedge accounting prospectively. In such cases, if the derivative hedging instruments are not sold or terminated, any subsequent changes in fair value of the derivative are recognized in investment income.

For derivatives that are designated as hedging instruments, changes in fair value are recognized according to the nature of the risks being hedged, as discussed below.

Fair value hedges

In a fair value hedging relationship, changes in the fair value of the hedging derivatives are recorded in investment income, along with changes in fair value attributable to the hedged risk. The carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk. To the extent the changes in the fair value of derivatives do not offset the changes in the fair value of the hedged item attributable to the hedged risk in investment income, any ineffectiveness will remain in investment income. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments are amortized to investment income over the remaining term of the hedged item unless the hedged item is sold, at which time the balance is recognized immediately in investment income.

Cash flow hedges

In a cash flow hedging relationship, the effective portion of the changes in the fair value of the hedging instrument is recorded in OCI while the ineffective portion is recognized in investment income. Gains and losses accumulated in Accumulated Other Comprehensive Income ("AOCI") are recognized in income during the same periods as the variability in the cash flows hedged or the hedged forecasted transactions are recognized. The reclassifications from AOCI are made to investment income, with the exception of total return swaps that hedge restricted share units, which are reclassified to compensation expense.

Gains and losses on cash flow hedges accumulated in AOCI are reclassified immediately to investment income when the hedged item is sold or the forecasted transaction is no longer expected to occur. When a hedge is discontinued, but the hedged forecasted transaction remains highly probable to occur, the amounts accumulated in AOCI are reclassified to investment income in the periods during which variability in the cash flows hedged or the hedged forecasted transaction is recognized in income.

Net investment hedges

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

(p) 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. Premiums are reported gross of reinsurance ceded (see note 8). Revenue on service contracts is recognized as services are rendered.

Expenses are recognized when incurred. Insurance contract liabilities are computed at the end of each year, resulting in benefits and expenses being matched with the premium income.

Note 2 Future Accounting and Reporting Changes

(a) Amendments to IFRS 7 "Financial Instruments: Disclosures"

The amendments to IFRS 7 "Disclosures – Transfer of Financial Assets", issued in October 2010, increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing involvement in the asset. The amendments also require disclosures where transfers of financial assets do not occur evenly throughout the reporting period.

The amendments to IFRS 7 are effective for fiscal years beginning on or after July 1, 2011. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

(b) Amendment to IAS 12 "Income Taxes"

An amendment to IAS 12 was issued in December 2010 that provides a practical approach to the measurement of deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under IAS 40 "Investment Property". Where entities measure deferred tax liabilities and deferred tax assets using a tax rate and tax base that is consistent with the expected manner of recovery or settlement, the amendment provides a rebuttable presumption for investment property measured using the fair value model that its carrying amount will be recovered through sale. This amendment is effective for fiscal years beginning on or after January 1, 2012. The adoption of this amendment is not expected to have a significant impact on the consolidated financial statements.

(c) IFRS 10 "Consolidated Financial Statements"

IFRS 11 "Joint Arrangements"

IFRS 12 "Disclosure of Interests in Other Entities"

Amendments to IAS 27 "Separate Financial Statements"

Amendments to IAS 28 "Investments in Associates and Joint Ventures"

IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", amendments to IAS 27 "Separate Financial Statements" and amendments to IAS 28 "Investments in Associates and Joint Ventures" were all issued in May 2011 to improve consolidation and joint venture accounting. Each standard has an effective date for fiscal years beginning on or after January 1, 2013.

IFRS 10 replaces the consolidation guidance in IAS 27 “Separate Financial Statements” and Standards Interpretation Committee (“SIC”) -12 “Consolidation – Special Purpose Entities” by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure or rights to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns. The adoption of IFRS 10 is not expected to have a significant impact on the consolidated financial statements, although the Company expects that certain investments in private equity funds and a timber fund will be deconsolidated from the consolidated financial statements.

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 “Interests in Joint Ventures”. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. The adoption of IFRS 11 is not expected to have a significant impact on the consolidated financial statements as the Company does not have material joint venture arrangements.

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to present information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders’ involvement in the activities of consolidated entities. The adoption of IFRS 12 is not expected to have a significant impact on the consolidated financial statements.

IAS 27 and 28 have been amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12 and the adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

(d) IFRS 13 “Fair Value Measurement”

IFRS 13 “Fair Value Measurement” was issued in May 2011 and replaces existing IFRS guidance on fair value measurement with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The standard is effective for fiscal years beginning on or after January 1, 2013. The adoption of IFRS 13 will result in additional financial statement disclosure but is not expected to have a significant impact on the consolidated financial statements.

(e) Amendments to IAS 1 “Presentation of Financial Statements”

An amendment to IAS 1 was issued in June 2011 requiring changes to the presentation of items of other comprehensive income. Under the amendments, presentation of items within other comprehensive income will be separately presented based on whether or not the item will be subsequently reclassified into net income. The amendments are effective for the Company for fiscal years beginning on or after January 1, 2013. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

(f) Amendments to IAS 19 “Employee Benefits”

The amendments to IAS 19 “Employee Benefits” were issued in June 2011. The amendments require the full funded status of the plan to be reflected in the Consolidated Statements of Financial Position and eliminate the corridor approach for amortization of actuarial gains and losses. This will result in actuarial gains and losses being recognized in full in OCI when they occur and no longer recognized in income. Past service costs will be recognized when a plan is amended with no deferral over the vesting period. The net benefit cost for defined benefit plans will be disaggregated into service cost and finance cost components in the Consolidated Statements of Income (Loss). Finance costs will be calculated using interest rates based on high quality corporate bond yields. Further, these amendments include enhanced disclosures about the characteristics of defined benefit plans and the risks to which the entity is exposed through participation in those plans.

The amendments to IAS 19 are effective for fiscal years beginning on or after January 1, 2013. At December 31, 2011, the consolidated pre-tax unrecognized net actuarial loss for the Company’s pension and post-employment benefit plans was \$1,011 and \$58, respectively, which will be reflected in AOCI, a component of equity, upon adoption. If these amounts persist at the date of adoption, they are expected to result in a material reduction of the Company’s capital ratios and could result in significant ongoing volatility in available capital, if regulatory capital includes this component of AOCI in the future. The actual impact to the Company will be based on actuarial estimates, market conditions and capital requirements that exist at the date of transition.

(g) Amendments to IFRS 7 “Financial Instruments: Disclosure”

Amendments to IAS 32 “Financial Instruments: Presentation”

The amendments to IFRS 7 – “Offsetting Financial Assets and Financial Liabilities” issued in December 2011 introduce new disclosure requirements for financial instruments relating to their rights of offset and related arrangements under an enforceable master netting agreement or similar arrangements. The amendments to IFRS 7 are effective for fiscal years beginning on or after January 1, 2013. The Company is assessing the impact of these new disclosure requirements on its consolidated financial statements.

The amendments to IAS 32 – “Offsetting Financial Assets and Financial Liabilities” also issued in December 2011 clarify the basis for offsetting financial instruments presented in the statement of financial position. The amendments to IAS 32 are effective for fiscal years beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

(h) IFRS 9 “Financial Instruments”

IFRS 9 “Financial Instruments” issued in November 2009 and amended in October 2010 is the first phase of a three phase project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 currently provides that financial assets are measured at either amortized cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remains generally unchanged; however, revisions have been made in the accounting for changes in fair value of a financial liability attributable to changes in the credit risk of that liability. The other phases of this project which are currently under development include impairment of financial assets and hedge accounting.

IFRS 9 is effective for fiscal years beginning on or after January 1, 2015. The Company is assessing the impact of IFRS 9 on its consolidated financial statements in conjunction with the completion of the other phases of this project.

Note 3 Disposition

On July 18, 2011, the Company entered into an agreement with Pacific Life Insurance Company (“Pacific Life”) to sell its life retrocession business. The transaction closed on August 31, 2011. The transaction was structured as reinsurance agreements between Pacific Life and the Company, in which the actuarial liabilities and related operating assets were transferred to Pacific Life. The net cash payment to Pacific Life was \$704 in lieu of transferring the invested assets backing the actuarial liabilities. Under the terms of the agreement, the Company transferred the infrastructure (including information technology systems and workforce) required to administer the life retrocession business to Pacific Life. The gain on transfer was \$303 (net of taxes of \$128), which has been recorded in other revenue in the Company’s Consolidated Statements of Income (Loss).

Note 4 Invested Assets and Investment Income

(a) Carrying values and fair values of invested assets

As at December 31, 2011	FVTPL	AFS	Other	Total carrying value	Total fair value
Cash and short-term securities ⁽¹⁾	\$ 568	\$ 8,473	\$ 3,772	\$ 12,813	\$ 12,813
Bonds ⁽²⁾					
Canadian government & agency	11,030	5,517	—	16,547	16,547
U.S. government & agency ⁽³⁾	20,108	7,904	—	28,012	28,012
Other government & agency	10,318	1,844	—	12,162	12,162
Corporate	53,091	5,017	—	58,108	58,108
Mortgage/asset-backed securities	5,135	523	—	5,658	5,658
Stocks ⁽⁴⁾	8,778	1,465	—	10,243	10,243
Loans					
Mortgages ⁽⁵⁾	—	—	35,023	35,023	37,062
Private placements ⁽⁶⁾	—	—	20,294	20,294	22,191
Policy loans ⁽⁷⁾	—	—	6,827	6,827	6,827
Bank loans ⁽⁵⁾	—	—	2,288	2,288	2,299
Real estate ⁽⁸⁾					
Own use property	—	—	831	831	1,260
Investment property	—	—	6,635	6,635	6,635
Other invested assets ⁽⁹⁾	4,062	121	6,896	11,079	11,390
Total invested assets	\$ 113,090	\$ 30,864	\$ 82,566	\$ 226,520	\$ 231,207

As at December 31, 2010

Cash and short-term securities ⁽¹⁾	\$ 668	\$ 8,827	\$ 2,354	\$ 11,849	\$ 11,849
Bonds ⁽²⁾					
Canadian government & agency	10,044	5,177	—	15,221	15,221
U.S. government & agency ⁽³⁾	13,109	5,587	—	18,696	18,696
Other government & agency	7,591	1,417	—	9,008	9,008
Corporate	47,648	4,367	—	52,015	52,015
Mortgage/asset-backed securities	5,947	673	—	6,620	6,620
Stocks ⁽⁴⁾	8,892	1,583	—	10,475	10,475
Loans					
Mortgages ⁽⁵⁾	—	—	32,837	32,837	34,375
Private placements ⁽⁶⁾	—	—	19,577	19,577	20,838
Policy loans ⁽⁷⁾	—	—	6,486	6,486	6,486
Bank loans ⁽⁵⁾	—	—	2,353	2,353	2,364
Real estate ⁽⁸⁾					
Own use property	—	—	822	822	1,207
Investment property	—	—	5,531	5,531	5,531
Other invested assets ⁽⁹⁾	3,283	80	6,369	9,732	10,113
Total invested assets	\$ 97,182	\$ 27,711	\$ 76,329	\$ 201,222	\$ 204,798

As at January 1, 2010

Cash and short-term securities ⁽¹⁾	\$ 651	\$ 16,124	\$ 2,030	\$ 18,805	\$ 18,805
Bonds ⁽²⁾					
Canadian government & agency	8,131	4,337	—	12,468	12,468
U.S. government & agency ⁽³⁾	5,365	2,230	—	7,595	7,595
Other government & agency	5,105	1,022	—	6,127	6,127
Corporate	45,780	5,690	—	51,470	51,470
Mortgage/asset-backed securities	6,556	891	—	7,447	7,447
Stocks ⁽⁴⁾	7,730	1,958	—	9,688	9,688
Loans					
Mortgages ⁽⁵⁾	—	—	31,158	31,158	32,114
Private placements ⁽⁶⁾	—	—	19,980	19,980	20,594
Policy loans ⁽⁷⁾	—	—	6,609	6,609	6,609
Bank loans ⁽⁵⁾	—	—	2,457	2,457	2,468
Real estate ⁽⁸⁾					
Own use property	—	—	859	859	1,212
Investment property	—	—	5,129	5,129	5,129
Other invested assets ⁽⁹⁾	2,544	124	6,768	9,436	9,931
Total invested assets	\$ 81,862	\$ 32,376	\$ 74,990	\$ 189,228	\$ 191,657

⁽¹⁾ Fair values of short-term securities are determined using appropriate prevailing interest rates and credit spreads.

⁽²⁾ Fair values for bonds, including corporate, U.S. Treasury and municipal securities are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). The significant inputs into these models include, but are not limited to, yield curves, credit risks and spreads, measures of volatility and prepayment rates.

(footnotes continue on following page)

⁽³⁾ U.S. government & agency bonds include \$5,541 of state issued securities (December 31, 2010 – \$4,304 and January 1, 2010 – \$2,141).

⁽⁴⁾ Fair values for stocks are determined with reference to quoted market prices. The balance includes investments in seed capital funds of approximately \$642 (December 31, 2010 – \$595 and January 1, 2010 – \$454) consisting principally of public stocks.

⁽⁵⁾ Fair values of fixed-rate mortgages and bank loans are determined by discounting the expected future cash flows at market interest rates for mortgages with similar remaining terms and credit risks. Fair values for the majority of variable-rate mortgages and bank loans are assumed to equal their carrying values since there are no fixed spreads. Where a variable rate mortgage has a fixed spread above the benchmark rate, the mortgages are valued using current market spreads for equivalently rated borrowers.

⁽⁶⁾ Fair values of private placements are based on valuation techniques and assumptions which reflect changes in interest rates and changes in the creditworthiness of individual borrowers which have occurred since the investments were originated. The assumptions are based primarily on market observable data. Fair values also reflect any applicable provision for credit loan losses.

⁽⁷⁾ Policy loans are carried at amortized cost. As policy loans are fully collateralized by their cash surrender values and can be repaid at any time, their carrying values approximate their fair values.

⁽⁸⁾ Fair values of investment property real estate are determined by qualified independent external appraisals using a variety of techniques including discounted cash flows, income capitalization approaches and comparable sales analysis. These appraisals incorporate relevant market evidence, where available. Own use real estate properties are carried on a cost basis with carrying values adjusted for accumulated depreciation and any accumulated impairment losses.

⁽⁹⁾ Other invested assets include private equity (13% at December 31, 2011 and 14% at December 31, 2010) and fixed income investments held primarily in power and infrastructure (23% at December 31, 2011 and 22% at December 31, 2010), oil and gas (12% at December 31, 2011 and 9% at December 31, 2010), and timber and agriculture sectors (21% at December 31, 2011 and 20% at December 31, 2010) as well as investments in leveraged leases (23% at December 31, 2011 and 25% at December 31, 2010). Fair values of these investments are estimated based on best available information which is generally not market observable. This may include external appraisals, various valuation techniques used by external managers as well as internal valuations using a variety of techniques including discounted cash flows, earnings multiple of comparable companies and comparable sales analyses. Leveraged leases are carried at values taking into account the present value of future cash flows from the net investment.

(b) Bonds and stocks classified as FVTPL

The FVTPL classification was elected for securities backing insurance and investment contract liabilities in order to substantially reduce an accounting mismatch arising from changes in the value of these assets and changes in the value recorded for the related insurance and investment contract liabilities. There would otherwise be a mismatch if the AFS classification was selected because changes in insurance and investment contract liabilities are reflected in net income rather than in OCI.

(c) Bonds and stocks classified as AFS

The Company's investments in bonds and stocks classified as AFS are summarized below.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
As at December 31, 2011				
Bonds				
Canadian government & agency	\$ 5,546	\$ 226	\$ (255)	\$ 5,517
U.S. government & agency	7,758	154	(8)	7,904
Other government & agency	1,813	38	(7)	1,844
Corporate	4,867	229	(79)	5,017
Mortgage/asset-backed securities	572	22	(71)	523
Total bonds	\$ 20,556	\$ 669	\$ (420)	\$ 20,805
Stocks ⁽¹⁾	1,577	41	(153)	1,465
Other invested assets – private stocks	119	13	(11)	121
Total bonds and stocks	\$ 22,252	\$ 723	\$ (584)	\$ 22,391
As at December 31, 2010				
Bonds				
Canadian government & agency	\$ 4,974	\$ 263	\$ (60)	\$ 5,177
U.S. government & agency	5,697	49	(159)	5,587
Other government & agency	1,388	33	(4)	1,417
Corporate	4,199	196	(28)	4,367
Mortgage/asset-backed securities	736	25	(88)	673
Total bonds	\$ 16,994	\$ 566	\$ (339)	\$ 17,221
Stocks ⁽¹⁾	1,372	255	(44)	1,583
Other invested assets – private stocks	86	–	(6)	80
Total bonds and stocks	\$ 18,452	\$ 821	\$ (389)	\$ 18,884
As at January 1, 2010				
Bonds				
Canadian government & agency	\$ 3,892	\$ 525	\$ (80)	\$ 4,337
U.S. government & agency	2,163	89	(22)	2,230
Other government & agency	998	31	(7)	1,022
Corporate	5,327	431	(68)	5,690
Mortgage/asset-backed securities	1,051	10	(170)	891
Total bonds	\$ 13,431	\$ 1,086	\$ (347)	\$ 14,170
Stocks ⁽¹⁾	1,755	263	(60)	1,958
Other invested assets – private stocks	138	1	(15)	124
Total bonds and stocks	\$ 15,324	\$ 1,350	\$ (422)	\$ 16,252

⁽¹⁾ The largest single issuer represented 9% (December 31, 2010 – 9% and January 1, 2010 – 26%) of the fair value of stocks classified as AFS.

A tax expense of \$26 (December 31, 2010 – \$97 and January 1, 2010 – \$266) reduces the pre-tax net unrealized gain of \$139 (December 31, 2010 – gain of \$432 and January 1, 2010 – gain of \$928) above to \$113 (December 31, 2010 – \$335 and January 1, 2010 – \$662).

Securities that are designated as AFS are not actively traded but sales do occur as circumstances warrant. Such sales result in a reclassification of any accumulated unrealized gain (loss) in AOCI to net income as a realized gain (loss). The table below sets out the movement in unrealized gains (losses) on AFS securities during the year. In determining gains and losses on sale and transfer of AFS assets, cost is determined at the security lot level.

Sales of AFS securities

For the years ended December 31,	2011	2010
Sale of bonds		
Sale proceeds	\$ 30,307	\$ 13,909
Gross gains	1,550	1,319
Gross losses	(850)	(515)
Sale of stocks		
Sale proceeds	1,264	2,387
Gross gains	165	359
Gross losses	(50)	(191)
Sale of other invested assets – private stocks		
Sale proceeds	41	34
Gross gains	4	6
Gross losses	(2)	(3)
Sale of short-term securities		
Sale proceeds	13,017	9,495
Gross gains	–	–
Gross losses	–	–

Unrealized losses on AFS securities

The Company monitors its portfolio of AFS securities on an ongoing basis to identify impairments based on objective evidence. Analysis is conducted at the individual security lot level and includes an assessment of a significant or prolonged decline in the fair value of an individual security lot below its cost.

For further discussion regarding the Company's impairment policy, see note 1. The following table presents the Company's unrealized loss aging for total bonds and stocks classified as AFS, by investment type and length of time the security was in a continuous unrealized loss position.

	Less than 12 months			12 months or more			Total		
	Amortized cost	Fair value	Unrealized losses	Amortized cost	Fair value	Unrealized losses	Amortized cost	Fair value	Unrealized losses
As at December 31, 2011									
Bonds									
Canadian government & agency	\$ 1,474	\$ 1,419	\$ (55)	\$ 1,490	\$ 1,290	\$ (200)	\$ 2,964	\$ 2,709	\$ (255)
U.S. government & agency	1,031	1,023	(8)	1	1	–	1,032	1,024	(8)
Other government & agency	649	643	(6)	18	17	(1)	667	660	(7)
Corporate	1,180	1,144	(36)	321	278	(43)	1,501	1,422	(79)
Mortgage/asset-backed securities	46	44	(2)	212	143	(69)	258	187	(71)
Total bonds	\$ 4,380	\$ 4,273	\$ (107)	\$ 2,042	\$ 1,729	\$ (313)	\$ 6,422	\$ 6,002	\$ (420)
Stocks	1,058	905	(153)	2	2	–	1,060	907	(153)
Other invested assets – private stocks	1	1	–	57	46	(11)	58	47	(11)
Total bonds and stocks	\$ 5,439	\$ 5,179	\$ (260)	\$ 2,101	\$ 1,777	\$ (324)	\$ 7,540	\$ 6,956	\$ (584)
As at December 31, 2010									
Bonds									
Canadian government & agency	\$ 3,111	\$ 3,057	\$ (54)	\$ 103	\$ 97	\$ (6)	\$ 3,214	\$ 3,154	\$ (60)
U.S. government & agency	3,942	3,783	(159)	–	–	–	3,942	3,783	(159)
Other government & agency	321	317	(4)	11	11	–	332	328	(4)
Corporate	1,020	1,000	(20)	127	119	(8)	1,147	1,119	(28)
Mortgage/asset-backed securities	37	36	(1)	257	170	(87)	294	206	(88)
Total bonds	\$ 8,431	\$ 8,193	\$ (238)	\$ 498	\$ 397	\$ (101)	\$ 8,929	\$ 8,590	\$ (339)
Stocks	415	378	(37)	41	34	(7)	456	412	(44)
Other invested assets – private stocks	78	72	(6)	3	3	–	81	75	(6)
Total bonds and stocks	\$ 8,924	\$ 8,643	\$ (281)	\$ 542	\$ 434	\$ (108)	\$ 9,466	\$ 9,077	\$ (389)
As at January 1, 2010									
Bonds									
Canadian government & agency	\$ 1,847	\$ 1,788	\$ (59)	\$ 185	\$ 164	\$ (21)	\$ 2,032	\$ 1,952	\$ (80)
U.S. government & agency	819	798	(21)	17	16	(1)	836	814	(22)
Other government & agency	167	162	(5)	15	13	(2)	182	175	(7)
Corporate	522	510	(12)	781	725	(56)	1,303	1,235	(68)
Mortgage/asset-backed securities	42	40	(2)	447	279	(168)	489	319	(170)
Total bonds	\$ 3,397	\$ 3,298	\$ (99)	\$ 1,445	\$ 1,197	\$ (248)	\$ 4,842	\$ 4,495	\$ (347)
Stocks	666	606	(60)	–	–	–	666	606	(60)
Other invested assets – private stocks	91	76	(15)	–	–	–	91	76	(15)
Total bonds and stocks	\$ 4,154	\$ 3,980	\$ (174)	\$ 1,445	\$ 1,197	\$ (248)	\$ 5,599	\$ 5,177	\$ (422)

At December 31, 2011, there were 507 (December 31, 2010 – 555 and January 1, 2010 – 899) AFS bonds with an aggregate gross unrealized loss of \$420 (December 31, 2010 – \$339 and January 1, 2010 – \$347) of which the single largest unrealized loss was \$81 (December 31, 2010 – \$67 and January 1, 2010 – \$27). The Company anticipates that these bonds will perform in accordance with their contractual terms and currently has found no objective evidence of impairment.

At December 31, 2011, there were 1,358 (December 31, 2010 – 1,046 and January 1, 2010 – 546) publicly traded stocks with an aggregate gross unrealized loss of \$153 (December 31, 2010 – \$44 and January 1, 2010 – \$60), of which the single largest unrealized loss was \$40 (December 31, 2010 – \$3 and January 1, 2010 – \$5). The Company anticipates that these stocks will recover in value in the near term.

As at December 31, 2011, 78 per cent (December 31, 2010 – 86 per cent and January 1, 2010 – 81 per cent) of publicly traded securities in an unrealized loss position were trading at greater than 80 per cent of amortized cost. Based upon the Company's current evaluation of these securities in accordance with its impairment policy, the Company has found no objective evidence of impairment and the carrying value is appropriate. For securities listed above as being in an unrealized loss position of 12 months or more, the duration of impairment ranges from 12 to 57 months (December 31, 2010 – 12 to 45 months and January 1, 2010 – 12 to 33 months).

Contractual maturity of AFS bonds

The amortized cost and estimated fair value of AFS bonds by contractual maturity are shown below.

As at December 31, 2011	Amortized cost	Fair value
Maturity		
One year or less	\$ 1,405	\$ 1,408
Over one year through five years	2,806	2,878
Over five years through ten years	3,727	3,889
Over ten years	12,046	12,107
Subtotal	\$ 19,984	\$ 20,282
Asset-backed and mortgage-backed securities	572	523
Total	\$ 20,556	\$ 20,805

Securitized assets, such as asset-backed securities ("ABS"), mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMOs"), are not categorized by contractual maturity because estimated maturities may differ from contractual maturities due to security call or prepayment provisions.

(d) Other invested assets

Other invested assets include investments in associates accounted for using the equity method of accounting as follows.

As at	December 31,				January 1,	
	2011		2010		2010	
	Carrying value	% of total	Carrying value	% of total	Carrying value	% of total
Leases	\$ 2,560	75.7	\$ 2,424	72.7	\$ 2,479	72.2
Private equity and mezzanine debt	45	1.3	116	3.5	140	4.1
Timber	129	3.8	120	3.6	99	2.9
Agriculture	183	5.4	147	4.4	118	3.4
Affordable housing	336	9.9	377	11.3	429	12.5
Other	132	3.9	148	4.5	168	4.9
Total	\$ 3,385	100.0	\$ 3,332	100.0	\$ 3,433	100.0

The Company's share of profit from its investments in associates included in income for the year ended December 31, 2011 was \$54 (2010 – \$55).

For the year ended December 31, 2011, the Company did not receive dividends from any of its investments in associates (2010 – nil).

(e) Mortgages

The following tables present the carrying value and fair value of mortgages, by region and by property type:

Mortgage loans by region

As at	December 31,				January 1,	
	2011		2010		2010	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Canada						
Ontario	\$ 9,037	\$ 9,329	\$ 8,577	\$ 8,820	\$ 7,999	\$ 8,070
Western Canada	7,569	7,727	7,159	7,294	6,566	6,633
Quebec	2,919	2,983	2,458	2,509	2,127	2,141
Eastern Canada	1,418	1,474	1,337	1,380	1,251	1,265
United States						
East North Central	1,528	1,666	1,267	1,366	1,195	1,268
East South Central	222	242	229	245	417	431
Middle Atlantic	2,301	2,583	2,287	2,503	2,308	2,462
Mountain	895	975	918	986	946	999
New England	1,014	1,142	1,003	1,099	1,095	1,166
Pacific	3,710	4,084	3,517	3,786	3,537	3,741
South Atlantic	2,905	3,198	2,520	2,702	2,282	2,426
West North Central	561	625	498	536	359	372
West South Central	785	850	907	966	903	947
Other	158	183	159	182	172	192
Other	1	1	1	1	1	1
Total	\$ 35,023	\$ 37,062	\$ 32,837	\$ 34,375	\$ 31,158	\$ 32,114

Mortgage loans by property type

As at

	December 31,				January 1,	
	2011		2010		2010	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Residential	\$ 16,893	\$ 17,266	\$ 14,875	\$ 15,125	\$ 13,238	\$ 13,409
Office	5,688	6,153	5,483	5,854	4,821	5,067
Retail	5,816	6,398	5,903	6,332	5,999	6,221
Industrial	2,888	3,120	3,184	3,410	3,444	3,608
Other	3,738	4,125	3,392	3,654	3,656	3,809
Total	\$ 35,023	\$ 37,062	\$ 32,837	\$ 34,375	\$ 31,158	\$ 32,114

The carrying value of government-insured mortgages was 32 per cent of the total mortgage portfolio as at December 31, 2011 (December 31, 2010 – 34 per cent and January 1, 2010 – 30 per cent) and the carrying value of privately-insured mortgages was 0.4 per cent of the total mortgage portfolio as at December 31, 2011 (December 31, 2010 – 0.3 per cent and January 1, 2010 – 0.1 per cent).

(f) Investment income

For the year ended December 31, 2011	FVTPL	AFS	Other ⁽²⁾	Total	Yields
Cash and short-term securities					1.3%
Interest income	\$ 16	\$ 83	\$ –	\$ 99	
Gains ⁽¹⁾	9	44	–	53	
Bonds					13.1%
Interest income	4,014	620	–	4,634	4.4%
Gains ⁽¹⁾	8,070	640	–	8,710	8.4%
Impairment loss, net	(60)	(15)	–	(75)	
Stocks					(2.8)%
Dividend income	210	68	–	278	
Gains (losses) ⁽¹⁾	(648)	133	–	(515)	
Impairment loss	–	(61)	–	(61)	
Loans					
Mortgages					5.1%
Interest income	–	–	1,660	1,660	
Gains ⁽¹⁾	–	–	24	24	
Provision, net	–	–	(24)	(24)	
Private placements					7.2%
Interest income	–	–	1,319	1,319	
Gains ⁽¹⁾	–	–	23	23	
Recovery, net	–	–	28	28	
Policy loans	–	–	391	391	6.0%
Bank loans					4.3%
Interest income	–	–	97	97	
Real estate					10.1%
Rental income, net of depreciation	–	–	358	358	
Gains ⁽¹⁾	–	–	271	271	
Impairment loss	–	–	(3)	(3)	
Derivatives					n/a
Interest income, net	–	–	316	316	
Gains ⁽¹⁾	–	–	7,802	7,802	
Other investments					8.8%
Interest income	–	–	30	30	
Oil and gas, timber, agriculture and other income	–	–	585	585	
Gains ⁽¹⁾	163	23	48	234	
Recovery	–	–	3	3	
Total investment income	\$ 11,774	\$ 1,535	\$ 12,928	\$ 26,237	13.4%
Interest income	\$ 4,030	\$ 703	\$ 3,813	\$ 8,546	4.2%
Dividend, rental and other income	210	68	943	1,221	0.6%
Impairments and provisions for loan losses (note 10)	(60)	(76)	4	(132)	(0.1)%
Realized gains (losses) on assets backing surplus	(18)	799	(49)	732	0.4%
	\$ 4,162	\$ 1,494	\$ 4,711	\$ 10,367	
Realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities					
Bonds	\$ 8,070	\$ 28	\$ –	\$ 8,098	3.9%
Stocks	(648)	13	–	(635)	(0.3)%
Loans	–	–	44	44	0.0%
Real estate	–	–	267	267	0.1%
Other investments	190	–	32	222	0.1%
Derivatives	–	–	7,874	7,874	3.8%
	\$ 7,612	\$ 41	\$ 8,217	\$ 15,870	
Total investment income	\$ 11,774	\$ 1,535	\$ 12,928	\$ 26,237	13.4%

For the year ended December 31, 2010	FVTPL	AFS	Other ⁽²⁾	Total	Yields
Cash and short-term securities					0.1%
Interest income	\$ 14	\$ 62	\$ –	\$ 76	
Losses ⁽¹⁾	(59)	–	–	(59)	
Bonds					8.3%
Interest income	3,785	683	–	4,468	4.7%
Gains ⁽¹⁾	2,500	819	–	3,319	3.5%
Impairment loss, net	(52)	(22)	–	(74)	
Stocks					14.0%
Dividend income	188	55	–	243	
Gains ⁽¹⁾	945	168	–	1,113	
Impairment loss	–	(43)	–	(43)	
Loans					
Mortgages					5.1%
Interest income	–	–	1,612	1,612	
Gains ⁽¹⁾	–	–	21	21	
Provision for loan losses, net	–	–	(35)	(35)	
Private placements					6.5%
Interest income	–	–	1,275	1,275	
Gains ⁽¹⁾	–	–	58	58	
Provision for loan losses, net	–	–	(37)	(37)	
Policy loans	–	–	422	422	6.3%
Bank loans					3.9%
Interest income	–	–	93	93	
Real estate					5.4%
Rental income, net of depreciation	–	–	346	346	
Losses ⁽¹⁾	–	–	(27)	(27)	
Derivatives					n/a
Interest income, net	–	–	2	2	
Losses ⁽¹⁾	–	–	(197)	(197)	
Recovery	–	–	1	1	
Other investments					6.8%
Interest income	–	–	125	125	
Oil and gas, timber, agriculture and other income	–	–	304	304	
Gains ⁽¹⁾	155	49	9	213	
Impairment (loss) recovery	–	(63)	6	(57)	
Total investment income	\$ 7,476	\$ 1,708	\$ 3,978	\$ 13,162	6.8%
Interest income	\$ 3,799	\$ 745	\$ 3,529	\$ 8,073	4.1%
Dividend, rental and other income	188	55	650	893	0.4%
Impairments and provisions for loan losses (note 10)	(52)	(128)	(65)	(245)	(0.1)%
Realized gains (losses) on assets backing surplus	20	995	(159)	856	0.4%
	\$ 3,955	\$ 1,667	\$ 3,955	\$ 9,577	
Realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities					
Bonds	\$ 2,500	\$ 4	\$ –	\$ 2,504	1.3%
Stocks	945	8	–	953	0.5%
Loans	–	–	82	82	0.0%
Real estate	–	–	(21)	(21)	0.0%
Other investments	76	29	9	114	0.1%
Derivatives	–	–	(47)	(47)	0.0%
	\$ 3,521	\$ 41	\$ 23	\$ 3,585	
Total investment income	\$ 7,476	\$ 1,708	\$ 3,978	\$ 13,162	6.8%

⁽¹⁾ Gains (losses) include realized and unrealized gains (losses) for securities and derivatives designated as FVTPL and realized gains (losses) for AFS securities, loans and other invested assets.

⁽²⁾ Other includes interest income, real estate rental income and derivative income as outlined in note 5 and earnings on other investments.

(g) Investment and interest expense

Investment expenses

For the years ended December 31,	2011	2010
Related to invested assets	\$ 381	\$ 391
Related to segregated, mutual and other funds	620	590
Total investment expenses	\$ 1,001	\$ 981

Interest expense

For the years ended December 31,	2011	2010
Interest expense on investment contracts	\$ 105	\$ 122
Other interest expense	1,144	922
Total interest expense	\$ 1,249	\$ 1,044

(h) Real estate

A summary of the Company's real estate assets by type is as follows.

As at	December 31,		January 1,
	2011	2010	2010
Own use property ⁽¹⁾	\$ 831	\$ 822	\$ 859
Investment property	6,635	5,531	5,129
	\$ 7,466	\$ 6,353	\$ 5,988

⁽¹⁾ Net of accumulated depreciation of \$244 (December 31, 2010 – \$231 and January 1, 2010 – \$216).

Own use real estate

Real estate held for own use consists of real estate and buildings, including buildings on leased land. Changes in own use real estate for the years ended December 31, 2011 and 2010 are summarized as follows.

For the years ended December 31,	2011	2010
Balance at January 1	\$ 822	\$ 859
Additions	25	10
Disposals	(8)	(5)
Depreciation	(20)	(19)
Impairment	(3)	–
Impact of changes in foreign exchange rates	15	(23)
Balance at December 31	\$ 831	\$ 822

Investment property

Investment property comprises a number of commercial properties that are leased to third parties. Investment property activity is summarized as follows.

For the years ended December 31,	2011	2010
Balance at January 1	\$ 5,531	\$ 5,129
Acquisitions	1,093	579
Disposals	(331)	(50)
Change in fair value	252	(30)
Impact of changes in foreign exchange rates	90	(97)
Balance at December 31	\$ 6,635	\$ 5,531

The following table identifies the amounts included in investment income relating to investment property:

For the years ended December 31,	2011	2010
Rental income from investment property	\$ 656	\$ 635
Direct operating expenses that generated rental income	(341)	(330)
Net income from investment property	\$ 315	\$ 305

(i) Mortgage securitization

The Company securitizes certain insured fixed and variable rate commercial and residential mortgages and Home Equity Lines of Credit ("HELOC") through creation of mortgage-backed securities under the Canadian Mortgage Bond Program ("CMB"), Government of Canada National Housing Act ("NHA") MBS program, as well as to other third party investors. Additionally, the Company mitigates credit risk on certain mortgages through transfers to third party investors. Under IFRS, these transactions remain "on-balance sheet" and are accounted for as secured borrowings, as described in note 1(d).

There are no expected credit losses on the mortgages that have been securitized under the Government of Canada CMB and NHA MBS programs and the HELOC securitization as they are government guaranteed. For the mortgages transferred to third party investors, credit risk is mitigated by the terms of the transfer arrangement. Benefits received from the transfers include interest spread between the asset and associated liability.

The carrying amount of securitized assets reflecting the Company's continuing involvement with the mortgages and the associated liabilities is as follows.

As at December 31, 2011	Securitized assets		Secured borrowing liabilities	
	Securitized mortgages	Restricted cash and short-term securities	Total	
Securitization program				
HELOC securitization ⁽¹⁾	\$ 750	\$ 4	\$ 754	\$ 747
CMB securitization	391	93	484	481
NHA MBS securitization ⁽²⁾	39	—	39	39
Other	16	—	16	16
As at December 31, 2010				
HELOC securitization ⁽¹⁾	\$ 500	\$ 3	\$ 503	\$ 497
CMB securitization	439	42	481	481
NHA MBS securitization ⁽²⁾	46	1	47	47
Other	16	—	16	16
As at January 1, 2010				
CMB securitization	\$ 389	\$ 18	\$ 407	\$ 407
NHA MBS securitization ⁽²⁾	56	1	57	57

⁽¹⁾ The restricted cash balance for the HELOC securitization reflects a cash reserve fund established in relation to the transactions. The reserve will be drawn upon only in the event of insufficient cash flows from the underlying HELOCs to satisfy the secured borrowing liability.

⁽²⁾ Under the Government of Canada programs, cash received on the mortgages is held in a restricted cash account for the payment of the liability under the terms of the program.

Note 5 Derivative and Hedging Instruments

Derivatives are financial contracts, the value of which is derived from underlying interest rates, foreign exchange rates, other financial instruments, commodity prices or indices. The Company uses derivatives including swaps, forward and futures agreements, and options to manage current and anticipated exposures to changes in interest rates, foreign exchange rates, commodity prices and equity market prices, and to replicate permissible investments.

Swaps are over-the-counter ("OTC") contractual agreements between the Company and a third party to exchange a series of cash flows based upon rates applied to a notional amount. For interest rate swaps, counterparties generally exchange fixed or floating interest rate payments based on a notional value in a single currency. Cross currency swaps involve the exchange of principal amounts between parties as well as the exchange of interest payments in one currency for the receipt of interest payments in another currency. Total return swaps are contracts that involve the exchange of payments based on changes in the values of a reference asset, including any returns such as interest earned on these assets, in return for amounts based on reference rates specified in the contract.

Forward and futures agreements are contractual obligations to buy or sell a financial instrument, foreign currency or other underlying commodity on a predetermined future date at a specified price. Forward contracts are OTC contracts negotiated between counterparties, whereas futures agreements are contracts with standard amounts and settlement dates that are traded on regulated exchanges.

Options are contractual agreements whereby the holder has the right, but not the obligation, to buy (call option) or sell (put option) a security, exchange rate, interest rate, or other financial instrument at a predetermined price/rate within a specified time.

See variable annuity guarantee dynamic hedging strategy in note 10(a) for an explanation of the Company's dynamic hedging strategy for its variable annuity product guarantees.

Hedging relationships

The Company uses derivatives for economic hedging purposes. In certain circumstances, these hedges also meet the requirements for hedge accounting. Hedging relationships eligible for hedge accounting are designated as fair value hedges, cash flow hedges or as net investment hedges, as described below.

Fair value hedges

The Company uses interest rate swaps to manage its exposure to changes in the fair value of fixed rate financial instruments caused by changes in interest rates. The Company also uses cross currency swaps to manage its exposure to foreign exchange rate fluctuations, interest rate fluctuations, or both.

The Company recognizes gains and losses on derivatives and the related hedged items in fair value hedges in investment income. These investment gains (losses) are shown in the following table.

Derivatives in fair value hedging relationships

	Hedged items in fair value hedging relationships	Gains (losses) recognized on derivatives	Gains (losses) recognized for hedged items	Ineffectiveness recognized in investment income
For the year ended December 31, 2011				
Interest rate swaps	Fixed rate assets	\$ (1,688)	\$ 1,470	\$ (218)
	Fixed rate liabilities	98	(97)	1
Foreign currency swaps	Fixed rate assets	(7)	9	2
	Floating rate liabilities	(1)	1	–
Total		\$ (1,598)	\$ 1,383	\$ (215)
For the year ended December 31, 2010				
Interest rate swaps	Fixed rate assets	\$ (226)	\$ 204	\$ (22)
	Fixed rate liabilities	(1)	–	(1)
Foreign currency swaps	Fixed rate assets	(33)	56	23
	Floating rate liabilities	–	(7)	(7)
Total		\$ (260)	\$ 253	\$ (7)

Cash flow hedges

The Company uses interest rate swaps to hedge the variability in cash flows from variable rate financial instruments and forecasted transactions. The Company also uses cross currency swaps and foreign currency forward contracts to hedge the variability from foreign currency financial instruments and foreign currency expenses.

The effects of derivatives in cash flow hedging relationships on the Consolidated Statements of Income (Loss) and the Consolidated Statements of Changes in Equity are shown in the following table.

Derivatives in cash flow hedging relationships

	Hedged items in cash flow hedging relationships	Gains (losses) deferred in AOCI on derivatives	Gains (losses) reclassified from AOCI into investment income	Ineffectiveness recognized in investment income
For the year ended December 31, 2011				
Interest rate swaps	Forecasted liabilities	\$ (12)	\$ (12)	\$ –
Foreign currency swaps	Fixed rate assets	(1)	–	1
Foreign currency forwards	Forecasted expenses	(24)	–	–
Total return swaps	Stock-based compensation	(24)	–	–
Total		\$ (61)	\$ (12)	\$ 1
For the year ended December 31, 2010				
Interest rate swaps	Forecasted liabilities	\$ (31)	\$ (14)	\$ –
Foreign currency swaps	Fixed rate assets	4	–	–
Foreign currency forwards	Forecasted expenses	(16)	–	–
Total return swaps	Stock-based compensation	(12)	–	–
Total		\$ (55)	\$ (14)	\$ –

The Company anticipates that net losses of approximately \$13 will be reclassified from AOCI to net income within the next twelve months.

The maximum time frame for which variable cash flows are hedged is 29 years.

Hedges of net investments in net foreign operations

The Company primarily uses forward currency contracts, cross currency swaps and non-functional currency denominated debt to manage its foreign currency exposures to net investments in net foreign operations.

The effects of derivatives in net investment hedging relationships on the Consolidated Statements of Income (Loss) and the Consolidated Statements of Changes in Equity are shown in the following table.

Hedging instruments in net investment hedging relationships

	Gains (losses) deferred in AOCI on derivatives	Gains (losses) reclassified from AOCI into investment income	Ineffectiveness recognized in investment income
For the year ended December 31, 2011			
Currency swaps	\$ (69)	\$ –	\$ –
Foreign currency forwards	–	–	–
Non-functional currency denominated debt	(25)	–	–
Total	\$ (94)	\$ –	\$ –
For the year ended December 31, 2010			
Currency swaps	\$ 87	\$ –	\$ –
Foreign currency forwards	119	–	–
Total	\$ 206	\$ –	\$ –

Derivatives not designated as hedging instruments

Derivatives used in portfolios supporting insurance contract liabilities are generally not designated as hedging instruments because the change in the value of the insurance contract liabilities hedged items in these portfolios is recorded through net income. Given the changes in fair value of these derivatives and related hedge risks are recognized in investment income as they occur, they generally offset the change in hedged risk to the extent the hedges are effective.

Interest rate and cross currency swaps are used in the portfolios supporting insurance contract liabilities to manage duration and currency risks.

The effects of derivatives in non-hedging relationships on the Consolidated Statements of Income (Loss) are shown in the following table.

	2011	2010
For the years ended December 31,		
Non-hedging relationships		
Investment income (loss)		
Interest rate swaps	\$ 8,673	\$ 686
Credit default swaps	–	(1)
Stock futures	(216)	(987)
Currency futures	75	67
Interest rate futures	(352)	(100)
Interest rate options	1	(1)
Total return swaps	(29)	13
Foreign currency swaps	(108)	82
Foreign currency forwards	(28)	52
Total investment income (loss) from derivatives in non-hedging relationships	\$ 8,016	\$ (189)

Fair value of derivatives

The pricing models used to value OTC derivatives are based on market standard valuation methodologies and the inputs to these models are consistent with what a market participant would use when pricing the instruments. Derivative valuations can be affected by changes in interest rates, currency exchange rates, financial indices, credit spreads, default risk (including the counterparties to the contract), and volatility. The significant inputs to the pricing models for most OTC derivatives are inputs that are observable or can be corroborated by observable market data. Inputs that are observable generally include: interest rates, foreign currency exchange rates and interest rate curves. However, certain OTC derivatives may rely on inputs that are significant to the fair value that are not observable in the market or cannot be derived principally from or corroborated by observable market data. Inputs that are unobservable generally include: broker quotes, volatilities and inputs that are outside of the observable portion of the interest rate curve or other relevant market measures. These unobservable inputs may involve significant management judgment or estimation. Even though unobservable, these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what market participants would use when pricing such instruments. The Company's use of unobservable inputs is limited and the impact on derivative fair values does not represent a material amount as evidenced by the limited amount of Level 3 derivatives in note 11. The credit risk of both the counterparty and the Company are considered in determining the fair value for all OTC derivatives after taking into account the effects of netting agreements and collateral arrangements.

The fair value of derivative instruments is summarized by term to maturity in the following tables. Fair values shown do not incorporate the impact of master netting agreements (see note 10).

Term to maturity	Less than 1	1 to 3	3 to 5	Over 5	
As at December 31, 2011	year	years	years	years	Total
Derivative assets	\$ 67	\$ 198	\$ 469	\$ 14,738	\$ 15,472
Derivative liabilities	115	342	387	6,783	7,627
As at December 31, 2010					
Derivative assets	\$ 153	\$ 179	\$ 182	\$ 3,486	\$ 4,000
Derivative liabilities	97	366	302	2,522	3,287
As at January 1, 2010					
Derivative assets	\$ 271	\$ 249	\$ 99	\$ 2,088	\$ 2,707
Derivative liabilities	163	410	278	1,600	2,451

	Remaining term to maturity (notional amounts)				Fair value				
	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Net	Credit risk equivalent ⁽¹⁾	Risk-weighted amount ⁽²⁾
As at December 31, 2011									
Interest rate contracts									
Swap contracts	\$ 6,301	\$ 22,726	\$ 99,494	\$ 128,521	\$ 15,378	\$ (7,185)	\$ 8,193	\$ 8,835	\$ 958
Futures	8,309	—	—	8,309	—	—	—	—	—
Options purchased	76	108	158	342	9	—	9	16	2
Subtotal	\$ 14,686	\$ 22,834	\$ 99,652	\$ 137,172	\$ 15,387	\$ (7,185)	\$ 8,202	\$ 8,851	\$ 960
Foreign exchange									
Swap contracts	561	1,884	5,169	7,614	522	(786)	(264)	1,516	159
Forward contracts	753	70	—	823	8	(2)	6	52	5
Futures	5,185	—	—	5,185	—	—	—	—	—
Credit derivatives	7	219	24	250	4	(1)	3	—	—
Equity contracts									
OTC contracts	116	67	7	190	3	(25)	(22)	72	7
Futures	16,320	—	—	16,320	—	—	—	—	—
Subtotal including accrued interest	\$ 37,628	\$ 25,074	\$ 104,852	\$ 167,554	\$ 15,924	\$ (7,999)	\$ 7,925	\$ 10,491	\$ 1,131
Less accrued interest	—	—	—	—	452	(372)	80	—	—
Total	\$ 37,628	\$ 25,074	\$ 104,852	\$ 167,554	\$ 15,472	\$ (7,627)	\$ 7,845	\$ 10,491	\$ 1,131
As at December 31, 2010									
Interest rate contracts									
Swap contracts	\$ 5,548	\$ 16,903	\$ 62,296	\$ 84,747	\$ 3,547	\$ (2,935)	\$ 612	\$ 1,640	\$ 171
Futures	2,596	—	—	2,596	—	—	—	—	—
Options purchased	—	180	—	180	—	—	—	1	—
Subtotal	\$ 8,144	\$ 17,083	\$ 62,296	\$ 87,523	\$ 3,547	\$ (2,935)	\$ 612	\$ 1,641	\$ 171
Foreign exchange									
Swap contracts	1,186	1,620	5,689	8,495	595	(556)	39	596	60
Forward contracts	1,069	—	—	1,069	39	(8)	31	24	2
Futures	3,643	—	—	3,643	—	—	—	—	—
Credit derivatives	—	7	24	31	—	(1)	(1)	—	—
Equity contracts									
OTC contracts	201	48	13	262	14	(3)	11	38	4
Futures	9,714	—	—	9,714	—	—	—	—	—
Subtotal including accrued interest	\$ 23,957	\$ 18,758	\$ 68,022	\$ 110,737	\$ 4,195	\$ (3,503)	\$ 692	\$ 2,299	\$ 237
Less accrued interest	—	—	—	—	195	(216)	(21)	—	—
Total	\$ 23,957	\$ 18,758	\$ 68,022	\$ 110,737	\$ 4,000	\$ (3,287)	\$ 713	\$ 2,299	\$ 237
As at January 1, 2010									
Interest rate contracts									
Swap contracts	\$ 3,561	\$ 13,989	\$ 46,326	\$ 63,876	\$ 2,227	\$ (1,800)	\$ 427	\$ 1,046	\$ 110
Futures	885	—	—	885	—	—	—	—	—
Options purchased	111	189	—	300	1	—	1	1	—
Subtotal	\$ 4,557	\$ 14,178	\$ 46,326	\$ 65,061	\$ 2,228	\$ (1,800)	\$ 428	\$ 1,047	\$ 110
Foreign exchange									
Swap contracts	1,617	2,065	6,230	9,912	440	(803)	(363)	569	58
Forward contracts	6,039	141	—	6,180	155	(14)	141	85	8
Futures	757	—	—	757	—	—	—	—	—
Embedded derivatives	—	—	—	—	—	(2)	(2)	—	—
Credit derivatives	21	8	25	54	—	(1)	(1)	—	—
Equity contracts									
OTC contracts	154	81	40	275	18	(1)	17	25	2
Futures	2,078	—	—	2,078	—	—	—	—	—
Subtotal including accrued interest	\$ 15,223	\$ 16,473	\$ 52,621	\$ 84,317	\$ 2,841	\$ (2,621)	\$ 220	\$ 1,726	\$ 178
Less accrued interest	—	—	—	—	134	(170)	(36)	—	—
Total	\$ 15,223	\$ 16,473	\$ 52,621	\$ 84,317	\$ 2,707	\$ (2,451)	\$ 256	\$ 1,726	\$ 178

⁽¹⁾ Credit risk equivalent is the sum of replacement cost and the potential future credit exposure. Replacement cost represents the current cost of replacing all contracts with a positive fair value. The amounts take into consideration legal contracts that permit offsetting of positions. The potential future credit exposure is calculated based on a formula prescribed by OSFI.

⁽²⁾ Risk-weighted amount represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

The gross notional amount and the fair value of derivative contracts by the underlying risk exposure for all derivatives in hedging and non-hedging relationships are summarized in the following table.

As at		December 31, 2011			December 31, 2010			January 1, 2010		
Type of hedge	Instrument type	Notional amount	Fair value		Notional amount	Fair value		Notional amount	Fair value	
			Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
Qualifying hedging relationships										
Fair value hedges	Interest rate swaps	\$ 8,294	\$ 150	\$ 1,905	\$ 2,903	\$ 58	\$ 223	\$ 1,951	\$ 14	\$ 73
	Foreign currency swaps	71	—	28	472	53	19	1,064	47	79
	Forward contracts	—	—	—	148	—	—	—	—	—
Cash flow hedges	Interest rate swaps	119	—	8	352	3	—	1,108	39	—
	Foreign currency swaps	8	1	—	13	1	—	67	—	4
	Forward contracts	205	4	—	139	29	—	278	45	—
Net investment hedges	Equity contracts	48	1	11	116	5	3	91	10	—
	Interest rate swaps	650	216	—	650	63	—	—	—	—
	Foreign currency swaps	810	—	225	972	19	76	322	—	43
	Forward contracts	—	—	—	202	3	4	5,377	110	13
Total derivatives in hedging relationships		\$ 10,205	\$ 372	\$ 2,177	\$ 5,967	\$ 234	\$ 325	\$ 10,258	\$ 265	\$ 212
Non-hedging relationships										
	Interest rate swaps	\$ 119,458	\$ 14,559	\$ 4,911	\$ 80,843	\$ 3,233	\$ 2,504	\$ 60,817	\$ 2,046	\$ 1,574
	Interest rate futures	8,309	—	—	2,596	—	—	885	—	—
	Interest rate options	342	9	—	180	—	—	300	2	—
	Foreign currency swaps	6,725	523	523	7,037	516	451	8,459	391	660
	Currency rate futures	5,185	—	—	3,643	—	—	757	—	—
	Forward contracts	618	3	2	580	7	4	525	—	2
	Equity contracts	142	2	13	146	10	2	184	3	—
	Credit default swaps	250	4	1	31	—	1	54	—	1
	Equity futures	16,320	—	—	9,714	—	—	2,078	—	—
	Embedded derivatives	—	—	—	—	—	—	—	—	2
Total derivatives in non-hedging relationships		\$ 157,349	\$ 15,100	\$ 5,450	\$ 104,770	\$ 3,766	\$ 2,962	\$ 74,059	\$ 2,442	\$ 2,239
Total derivatives		\$ 167,554	\$ 15,472	\$ 7,627	\$ 110,737	\$ 4,000	\$ 3,287	\$ 84,317	\$ 2,707	\$ 2,451

Embedded derivatives

Certain insurance contracts contain features that are classified as embedded derivatives and are measured separately at fair value through profit or loss including reinsurance contracts related to guaranteed minimum income benefits and contracts containing certain credit and interest rate features.

Certain reinsurance contracts related to guaranteed minimum income benefits are considered embedded derivatives requiring separate measurement at fair value through profit or loss as the financial component contained in the reinsurance contracts does not contain significant insurance risk. At December 31, 2011, reinsurance ceded guaranteed minimum income benefits had a fair value of \$1,682 (December 31, 2010 – \$1,111 and January 1, 2010 – \$1,093) and reinsurance assumed guaranteed minimum income benefits had a fair value of \$123 (December 31, 2010 – \$85 and January 1, 2010 – \$85). Claims recovered under reinsurance ceded contracts offset the claim expenses and claims paid on the reinsurance assumed are reported as contract benefits.

The Company's credit and interest rate embedded derivatives promise to pay the returns on a portfolio of assets to the contract holder and contain a credit and interest rate risk that is a financial risk embedded in the underlying insurance contract. At December 31, 2011, these embedded derivatives had a fair value of \$116 (December 31, 2010 – \$96 and January 1, 2010 – \$61).

Other financial instruments classified as embedded derivatives but exempt from separate measurement at fair value include variable universal life and variable life products, minimum guaranteed credited rates, no lapse guarantees, guaranteed annuitization options, CPI indexing of benefits, and segregated fund minimum guarantees other than reinsurance ceded/assumed guaranteed minimum income benefits. These embedded derivatives are measured and reported within insurance contract liabilities and are exempt from separate fair value measurement as they either contain insurance risk and/or are closely related to the insurance host contract.

Note 6 Income Taxes

Components of the income tax recovery are as follows.

For the years ended December 31,	2011	2010
Current tax		
Current year	\$ 184	\$ (133)
Adjustments to prior year	(71)	(192)
	\$ 113	\$ (325)
Deferred tax		
Reversal of temporary differences	(210)	(474)
Income tax recovery	\$ (97)	\$ (799)

Income (loss) before income taxes by jurisdiction is as follows.

For the years ended December 31,	2011	2010
Canada	\$ 524	\$ 593
U.S.	(779)	(4,063)
Other foreign countries	403	1,145
Income (loss) before income taxes	\$ 148	\$ (2,325)

Components of the income tax expense (recovery) are as follows.

For the years ended December 31,	2011	2010
Canadian income tax expense (recovery)		
Current	\$ 320	\$ (511)
Deferred	(370)	366
	\$ (50)	\$ (145)
U.S. income tax expense (recovery)		
Current	\$ (276)	\$ 135
Deferred	159	(948)
	\$ (117)	\$ (813)
Other foreign income tax expense		
Current	\$ 69	\$ 51
Deferred	1	108
	\$ 70	\$ 159
Income tax recovery	\$ (97)	\$ (799)

The effective income tax rate reported in the Consolidated Statements of Income (Loss) varies from the Canadian tax rate of 28 per cent for the year ended December 31, 2011 (2010 – 30 per cent) for the following reasons:

Reconciliation of income tax (recovery) expense

For the years ended December 31,	2011	2010
Net income (loss) before income taxes	\$ 148	\$ (2,325)
Income tax expense (recovery) at Canadian statutory tax rate	\$ 41	\$ (697)
Increase (decrease) in income taxes due to:		
Tax-exempt investment income	(166)	(131)
Differences in tax rate on income not subject to tax in Canada	(164)	(509)
General business tax credit	(54)	(58)
Goodwill impairment	233	810
Other adjustment to current tax related to current tax for prior year	(71)	(192)
Unused tax losses not recognized as deferred tax assets	14	21
Other differences	70	(43)
Income tax recovery	\$ (97)	\$ (799)

The amount of income taxes paid in cash during the year ended December 31, 2011 was \$255 (2010 – \$103).

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

For the years ended December 31,	2011	2010
Consolidated Statements of Income (Loss)		
Income tax recovery	\$ (97)	\$ (799)
Consolidated Statements of Changes in Equity		
Tax benefit of share issue cost	3	5
Consolidated Statements of Comprehensive Income (Loss)		
OCI on AFS and cash flow hedges	(73)	(192)
Impact of changes in foreign exchange rates	(12)	73
Income taxes	\$ (179)	\$ (913)

As at December 31, 2011, the Company has approximately \$1,034 of current tax payable included in other liabilities (December 31, 2010 – \$1,189 and January 1, 2010 – \$1,669) and a current tax recoverable of \$14 included in other assets (December 31, 2010 – \$12 and January 1, 2010 – \$10).

Unrecognized tax positions

Changes in the amount of unrecognized tax positions are as follows.

For the years ended December 31,	2011	2010
Balance, January 1	\$ 3,332	\$ 3,230
Additions based on tax positions related to the current year	343	341
Additions for tax positions of prior years	10	227
Reductions for tax positions of prior years	(97)	(353)
Impact of changes in foreign exchange rates	55	(113)
Balance, December 31	\$ 3,643	\$ 3,332

Included in the balance of unrecognized tax positions as at December 31, 2011 are \$1,367 (December 31, 2010 – \$1,273 and January 1, 2010 – \$1,331) of unrecognized benefits that, if recognized, would affect the Company's effective tax rate.

Also included in the balance of unrecognized tax positions as at December 31, 2011 are \$2,276 (December 31, 2010 – \$2,059 and January 1, 2010 – \$1,899) of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, the disallowance of the shorter deductibility period would not materially affect the annual effective tax rate but could accelerate the payment of cash to the taxing authorities to an earlier period.

The amount of change in unrecognized tax benefits over the next twelve months cannot be determined.

The Company recognizes interest accrued related to uncertain tax benefits in interest expense (part of other operating costs and expenses) and penalties in income tax expense. During the year ended December 31, 2011, the Company recognized approximately \$191 (December 31, 2010 – \$61 and January 1, 2010 – \$258) in interest expense. The Company has approximately \$1,216 of accrued interest as at December 31, 2011 (December 31, 2010 – \$1,036 and January 1, 2010 – \$983). The Company has not recognized any material amounts of penalties during the years ended December 31, 2011 and 2010.

The Company is an investor in a number of leasing transactions and has established provisions for possible disallowance of the tax treatment and for interest on past due taxes. The Company continues to believe that deductions originally claimed in relation to these arrangements are appropriate. Should the tax attributes of the Company's lease transactions be fully denied, the maximum after-tax exposure amounts to the interest and other charges are estimated to be an additional US\$127 as at December 31, 2011.

The Company files income tax returns for all its operations with the major jurisdictions being Canada and U.S. Canadian tax authorities have completed examinations of tax returns filed for all years prior to 2007 and there are no outstanding appeals for years prior to 1999. In the U.S., the Internal Revenue Services ("IRS") has completed and settled its examinations for the years prior to 2004. The Company has filed protests with the IRS Appeals Division of various adjustments raised by the IRS in its examinations for the years 2004 to 2007 and the appeal process continues. Examinations of Canadian tax returns for the year 2007 and U.S. income tax returns for the years 2008 to 2009 are currently ongoing. Returns for all subsequent years have not been examined.

Deferred taxes

(i) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and they relate to the same tax authority on the same taxable entity.

As at	December 31,		January 1,
	2011	2010	2010
Deferred tax assets			
Loss carry forward	\$ 733	\$ 1,190	\$ 1,024
Actuarial liabilities	4,495	1,768	1,673
Tax credits	497	545	475
Accrued interest	446	380	322
Deferred tax assets	\$ 6,171	\$ 3,883	\$ 3,494
Deferred tax liability			
Real estate	\$ (439)	\$ (424)	\$ (256)
Securities and other investments	(3,622)	(1,681)	(1,916)
Sale of investments	(323)	(373)	(430)
Intangible assets	(584)	(580)	(586)
Other	(212)	(92)	(77)
Deferred tax liability	\$ (5,180)	\$ (3,150)	\$ (3,265)
Net deferred tax asset	\$ 991	\$ 733	\$ 229

(ii) The movement in the net deferred tax asset (liability) was as follows.

Deferred tax assets and liabilities

	Real estate	Securities and other investments	Sales of investment assets	Intangible assets	Actuarial liabilities	Loss carry-forwards	Accrued interest	Tax credits	Other	Total
Balance at January 1, 2011	\$ (424)	\$ (1,681)	\$ (373)	\$ (580)	\$ 1,768	\$ 1,190	\$ 380	\$ 545	\$ (92)	\$ 733
Recognized in net income	(10)	(2,000)	50	7	2,802	(516)	60	(63)	(120)	210
Recognized in OCI	—	—	—	—	—	—	—	—	28	28
Recognized in equity	—	—	—	—	36	—	—	—	(20)	16
Impact of changes in foreign exchange rates	(5)	59	—	(11)	(111)	59	6	15	(8)	4
Balance at December 31, 2011	\$ (439)	\$ (3,622)	\$ (323)	\$ (584)	\$ 4,495	\$ 733	\$ 446	\$ 497	\$ (212)	\$ 991
Balance at January 1, 2010	\$ (256)	\$ (1,916)	\$ (430)	\$ (586)	\$ 1,673	\$ 1,024	\$ 322	\$ 475	\$ (77)	\$ 229
Recognized in net income	(174)	84	57	(18)	171	209	76	95	(26)	474
Recognized in OCI	—	111	—	—	—	—	—	—	54	165
Recognized in equity	—	—	—	—	4	—	—	—	(46)	(42)
Impact of changes in foreign exchange rates	6	40	—	24	(80)	(43)	(18)	(25)	3	(93)
Balance at December 31, 2010	\$ (424)	\$ (1,681)	\$ (373)	\$ (580)	\$ 1,768	\$ 1,190	\$ 380	\$ 545	\$ (92)	\$ 733

The aggregate of deferred tax assets where the Company has suffered losses in either the current or preceding year and where the recognition is dependent on future taxable profits and feasible management actions is \$1,144 as at December 31, 2011 (2010 – \$1,412). The Company's continuing recognition of these deferred tax assets are based on future taxable profits in the relevant jurisdictions.

As at December 31, 2011, the Company has approximately \$2,806 (December 31, 2010 – \$3,939 and January 1, 2010 – \$2,844) of tax loss carry forwards available of which \$2,800 expire between the years 2013 and 2030 while \$6 have no expiry date. Capital loss carry forwards in the amount of \$5 (December 31, 2010 – nil and January 1, 2010 – \$452) expire in the year 2030. A tax benefit related to these tax loss carry forwards, in the amount of \$733 (December 31, 2010 – \$1,190 and January 1, 2010 – \$1,024), has been recognized in deferred income taxes as at December 31, 2011, and a benefit of \$119 (December 31, 2010 – \$105 and January 1, 2010 – \$82) has not been recognized.

As at December 31, 2011, the Company has recognized approximately \$497 (December 31, 2010 – \$545 and January 1, 2010 – \$475) of tax credit carry forwards available which expire between the years 2021 and 2031.

As at December 31, 2011, the aggregate amount of taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized amounted to \$4,032 (2010 – \$5,900 and January 1, 2010 – \$8,936).

The Company is subject to income tax laws in various jurisdictions. Tax laws are complex and potentially subject to different interpretations by the taxpayer and the relevant tax authority. The provision for income taxes and deferred 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 year. The Company may be required to change its provision for income taxes or deferred income tax balances when the ultimate deductibility of certain items is successfully challenged by taxing authorities or if estimates used in determining the amount of deferred tax asset to recognize change significantly, or when receipt of new information indicates the need for adjustment in the amount of deferred income taxes to be recognized. Additionally, future events, such as changes in tax laws, tax regulations, or interpretations of such laws or regulations, could have an impact on the provision for income taxes, deferred tax balances and the effective tax rate. Any such changes could materially affect the amounts reported in the consolidated financial statements in the period these changes occur.

Note 7 Goodwill and Intangible Assets

Intangible assets include those with definite lives such as distribution networks, fund management contracts, capitalized software and other contractual rights and those with indefinite lives such as the John Hancock brand name and certain fund management contracts. Software intangible assets are amortized on a straight-line basis over their estimated useful lives of three to five years. Distribution networks and other finite life intangible assets are amortized over their estimated useful lives in relation to the associated gross margin from the related business. Indefinite life intangible assets are not amortized but are subject to an impairment test.

The following table outlines the carrying amounts of the goodwill and intangible assets

As at December 31, 2011	Gross carrying amount	Accumulated amortization	Net carrying amount
Goodwill	\$ 3,404	\$ –	\$ 3,404
Indefinite life intangible assets			
Brand	\$ 610	\$ –	\$ 610
Fund management contracts and other	464	–	464
	\$ 1,074	\$ –	\$ 1,074
Finite life intangible assets			
Distribution networks	\$ 639	\$ 96	\$ 543
Software	941	678	263
Other intangible assets	245	87	158
	\$ 1,825	\$ 861	\$ 964
Total intangible assets	\$ 2,899	\$ 861	\$ 2,038
Total goodwill and intangible assets	\$ 6,303	\$ 861	\$ 5,442

As at December 31, 2010			
Goodwill	\$ 3,990	\$ –	\$ 3,990
Indefinite life intangible assets			
Brand	\$ 597	\$ –	\$ 597
Fund management contracts and other	457	–	457
	\$ 1,054	\$ –	\$ 1,054
Finite life intangible assets			
Distribution networks	\$ 611	\$ 72	\$ 539
Software	809	576	233
Other intangible assets	169	78	91
	\$ 1,589	\$ 726	\$ 863
Total intangible assets	\$ 2,643	\$ 726	\$ 1,917
Total goodwill and intangible assets	\$ 6,633	\$ 726	\$ 5,907

As at January 1, 2010			
Goodwill	\$ 6,389	\$ –	\$ 6,389
Indefinite life intangible assets			
Brand	\$ 628	\$ –	\$ 628
Fund management contracts and other	471	–	471
	\$ 1,099	\$ –	\$ 1,099
Finite life intangible assets			
Distribution networks	\$ 630	\$ 55	\$ 575
Software	727	488	239
Other intangible assets	172	69	103
	\$ 1,529	\$ 612	\$ 917
Total intangible assets	\$ 2,628	\$ 612	\$ 2,016
Total goodwill and intangible assets	\$ 9,017	\$ 612	\$ 8,405

In the fourth quarter of 2011, the Company updated its 2012 business plan including in-force and new business embedded values. The Company uses these measures in determining the recoverable amount of its businesses in its annual goodwill impairment testing completed during the fourth quarter. The current economic environment, including the persistent low interest rates, reduced the recoverable amounts of the Company's life insurance businesses, principally in the U.S. In particular, these updates resulted in an impairment of the \$665 remaining goodwill allocated to the U.S. Life Insurance business.

In 2010, the Company recorded goodwill impairment charges of \$734 upon transition to IFRS on January 1, 2010 attributable to the U.S. Life Insurance CGU, and \$2,330 in the third quarter of 2010 attributable to the U.S. Life Insurance, U.S. Variable Annuity and Fixed Products and Canadian Individual Life CGUs.

The Company has 14 CGUs or groups of CGUs to which goodwill has been allocated and tested. The carrying value of goodwill for significant CGUs is identified separately in the table below.

CGU or Group of CGUs	Balance January 1, 2011	Goodwill impairment	Effect of changes in foreign exchange rates	Balance, December 31, 2011
Hong Kong Individual Life and Wealth	\$ –	\$ –	\$ –	\$ –
Other Asia	131	–	1	132
Japan Insurance, Variable Annuities and Wealth	430	–	33	463
Canadian Individual Life	355	–	–	355
Canadian Affinity Markets	83	–	–	83
Canadian Wealth (excluding Manulife Bank of Canada)	750	–	–	750
Manulife Bank of Canada	–	–	–	–
Canadian Group Benefits and Savings	826	–	–	826
U.S. Life Insurance	646	(665)	19	–
U.S. Long-Term Care	267	–	7	274
U.S. Variable Annuities and Fixed Products	–	–	–	–
U.S. Mutual Funds and Retirement Plan Services	360	–	8	368
Reinsurance International Group Program	67	–	1	68
Corporate and other	75	–	10	85
Total	\$ 3,990	\$ (665)	\$ 79	\$ 3,404

CGU or Group of CGUs	Balance, January 1, 2010	Acquisition of subsidiaries	Goodwill impairment	Effect of changes in foreign exchange rates	Balance, December 31, 2010
Hong Kong Individual Life and Wealth	\$ –	\$ –	\$ –	\$ –	\$ –
Other Asia	143	–	–	(12)	131
Japan Insurance, Variable Annuities and Wealth	394	–	–	36	430
Canadian Individual Life	505	–	(150)	–	355
Canadian Affinity Markets	83	–	–	–	83
Canadian Wealth (excluding Manulife Bank of Canada)	752	(2)	–	–	750
Manulife Bank of Canada	–	–	–	–	–
Canadian Group Benefits and Savings	826	–	–	–	826
U.S. Life Insurance	1,412	–	(727)	(39)	646
U.S. Long-Term Care	282	–	–	(15)	267
U.S. Variable Annuities and Fixed Products	1,464	–	(1,453)	(11)	–
U.S. Mutual Funds and Retirement Plan Services	379	–	–	(19)	360
Reinsurance International Group Program	70	–	–	(3)	67
Corporate and other	79	2	–	(6)	75
Total	\$ 6,389	\$ –	\$ (2,330)	\$ (69)	\$ 3,990

The valuation techniques, significant assumptions and sensitivities applied in the goodwill impairment testing are described below:

Valuation techniques

The recoverable value of each CGU or group of CGUs at December 31, 2011 was based on value-in-use for all of the U.S. based CGUs or groups of CGUs and the Canadian Individual Life CGU and fair value less costs to sell for all other CGUs or groups of CGUs (December 31, 2010 and January 1, 2010 – value-in-use for all of the U.S. based CGUs or groups of CGUs and the Canadian Individual Life CGU and fair value less costs to sell for all other CGUs or groups of CGUs).

(i) Income approach (value-in-use)

The Company has used an actuarial appraisal method for the purposes of goodwill testing. Under this approach, an appraisal value is determined from a projection of future distributable earnings derived from both the in-force business and new business expected to be sold in the future, and therefore, reflects the economic value for each CGU or group of CGUs' profit potential under a set of assumptions. This approach requires assumptions including sales and revenue growth rates, capital requirements, interest rates, equity returns, mortality, morbidity, policyholder behaviour, tax rates and discount rates.

Significant assumptions

Growth

The assumptions used were based on the Company's internal plan and Canadian actuarial valuation basis. To calculate the embedded value, the Company discounted projected earnings from each in-force contract and valued ten years of new business growing at expected Plan levels, consistent with the periods used for forecasting long-term businesses such as insurance. For goodwill impairment

testing purposes, in determining new business cash flows, the Company did not add a growth factor for those product lines not currently targeted for growth. In arriving at its projections, the Company considered past experience, economic trends such as interest rates, equity returns and product mix as well as industry and market trends. Where growth rate assumptions for new business cash flows were used in the embedded value calculations, they ranged from zero per cent to 10 per cent (December 31, 2010 – four per cent to 12 per cent and January 1, 2010 – seven per cent).

Interest rates

The Company uses a similar methodology for measuring insurance contracts in determining projected expected interest rates based on prevailing market rates at the valuation date.

Tax rates

The tax rates applied to the projections reflected intercompany transfer pricing agreements currently in effect which were assumed to be transferable to another market participant and amounted to 35 per cent (December 31, 2010 and January 1, 2010 – 26 per cent to 35 per cent). Tax assumptions are sensitive to changes in tax laws as well as assumptions about the jurisdictions in which profits are earned. It is possible that actual tax rates could differ from those assumed.

Discount rates

The discount rate assumed in determining the value-in-use, for applicable CGUs or groups of CGUs, was 10 per cent on an after-tax basis or 14 per cent on a pre-tax basis (December 31, 2010 and January 1, 2010 – 12 per cent and 14 per cent on a pre-tax basis for the Canadian and U.S. jurisdictions, respectively).

(ii) Fair values

Where applicable, the Company determined the fair value of the CGU or group of CGUs using an earnings-based approach which incorporated the forecasted earnings, excluding interest and equity market impacts and normalized new business expenses multiplied by an earnings multiple derived from the observable price-to-earnings multiples of comparable financial institutions. The price-to-earnings multiples used by the Company for testing ranged from 10 to 14 (December 31, 2010 – 10 to 16 and January 1, 2010 – 10 to 18).

The key assumptions described above may change as economic and market conditions change.

Going forward, the impact of economic conditions and changes in product mix suggest a lower margin of recoverable value in excess of carrying value attributable to the Company's Canadian Individual Life CGU. As a result of these factors and the granular level of goodwill testing under IFRS, more frequent impairment charges could occur in the future. Any material change in the discount rates, cash flow projections used in the determination of embedded values or reductions in market-based earnings multiples may result in further impairment charges, which could be material.

Finite life intangible assets

The estimated useful lives of the finite life intangible assets range from three to 68 years. Amortization expense was \$121 for the year ended December 31, 2011 (2010 – \$114). Amortization expense for existing finite life intangible assets is estimated to range from \$30 to \$150 in each of the next five years.

Note 8 Insurance Contract Liabilities and Reinsurance Assets

(a) Insurance contract liabilities and reinsurance assets

Insurance contract liabilities are reported gross of reinsurance ceded and the ceded liabilities are reported separately as a reinsurance asset. Insurance contract liabilities include actuarial liabilities as well as benefits payable, provision for unreported claims and policyholder amounts on deposit. The components of gross and net insurance contract liabilities are shown below.

As at	December 31,		January 1,
	2011	2010	2010
Gross actuarial liabilities	\$ 180,973	\$ 149,674	\$ 139,980
Gross benefits payable and provision for unreported claims	2,684	2,478	2,556
Gross policyholder amounts on deposit	6,709	6,160	5,407
Gross insurance contract liabilities	\$ 190,366	\$ 158,312	\$ 147,943
Impact of reinsurance asset	(10,728)	(7,832)	(8,044)
Net insurance contract liabilities	\$ 179,638	\$ 150,480	\$ 139,899

Net insurance contract liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends and refunds, taxes (other than income taxes) and expenses on policies in force.

Net insurance contract liabilities under IFRS retain the existing valuation methodology that was used under prior Canadian generally accepted accounting principles. Net actuarial liabilities are determined using CALM, as required by the Canadian Institute of Actuaries. Liabilities are set equal to the statement of financial position value of the assets required to support them.

The determination of net actuarial liabilities is based on an explicit projection of cash flows using current best estimate assumptions for each material cash flow item and contingency. Investment returns are projected using the current asset portfolios and projected re-investment strategies.

Each assumption is adjusted by a margin for adverse deviation. For fixed income returns, this margin is established by scenario testing that is generally done on a deterministic basis, testing a range of prescribed and company-developed scenarios. For minimum guarantees on segregated fund products, the margin for adverse deviation for investment returns is done stochastically. For other assumptions, this margin is established by directly adjusting the best estimate assumption.

Cash flows used in the net actuarial valuation adjust the gross policy cash flows to reflect the projected cash flows from ceded reinsurance. The cash flow impact of ceded reinsurance varies depending upon the amount of reinsurance, the structure of the reinsurance treaties, the expected economic benefit from the treaty cash flows and the impact of margins for adverse deviation. The gross actuarial liabilities are determined by discounting the gross policy cash flows using the same discount rate as the net CALM model discount rate.

The reinsurance asset is determined by taking the difference between the gross insurance contract liabilities and the net insurance contract liabilities. The reinsurance asset represents the benefit derived from reinsurance arrangements in force at the date of the Consolidated Statement of Financial Position.

The period used for the projection of cash flows is the policy lifetime for most individual insurance contracts. For other types of contracts a shorter projection period may be used, limiting the period to the term of the liability over which the Company is exposed to material insurance risk without the ability to adjust premiums or policy charges. Where the projection period is less than the policy lifetime, actuarial liabilities may be reduced by an allowance for acquisition expenses expected to be recovered from policy cash flows beyond the projection period used for the liabilities. Such allowances are tested for recoverability using assumptions that are consistent with other components of the actuarial valuation.

(b) Composition

The composition of insurance contract liabilities and reinsurance assets by line of business and reporting segment is as follows.

Gross insurance contract liabilities as at December 31, 2011	Individual insurance		Annuities and pensions	Other insurance contract liabilities ⁽¹⁾	Total, net of reinsurance ceded	Total reinsurance ceded	Total, gross of reinsurance ceded
	Participating	Non- participating					
Asia Division	\$ 16,033	\$ 5,270	\$ 3,957	\$ 1,473	\$ 26,733	\$ 306	\$ 27,039
Canadian Division	8,497	15,112	15,951	7,584	47,144	1,185	48,329
U.S. Insurance	20,257	28,306	19	24,020	72,602	5,976	78,578
U.S. Wealth Management	—	—	32,778	51	32,829	1,998	34,827
Corporate and other	—	178	97	55	330	1,263	1,593
Total, net of reinsurance ceded	\$ 44,787	\$ 48,866	\$ 52,802	\$ 33,183	\$ 179,638	\$ 10,728	\$ 190,366
Total reinsurance ceded	(5)	7,445	2,052	1,236	10,728		
Total, gross of reinsurance ceded	\$ 44,782	\$ 56,311	\$ 54,854	\$ 34,419	\$ 190,366		

December 31, 2010

Asia Division	\$ 14,239	\$ 3,792	\$ 2,310	\$ 1,038	\$ 21,379	\$ 288	\$ 21,667
Canadian Division	8,164	13,123	14,091	6,939	42,317	2,302	44,619
U.S. Insurance	19,398	20,974	23	17,424	57,819	3,591	61,410
U.S. Wealth Management	—	—	27,697	53	27,750	1,412	29,162
Corporate and other	—	1,186	—	29	1,215	239	1,454
Total, net of reinsurance ceded	\$ 41,801	\$ 39,075	\$ 44,121	\$ 25,483	\$ 150,480	\$ 7,832	\$ 158,312
Total reinsurance ceded	612	4,450	1,464	1,306	7,832		
Total, gross of reinsurance ceded	\$ 42,413	\$ 43,525	\$ 45,585	\$ 26,789	\$ 158,312		

January 1, 2010

Asia Division	\$ 13,209	\$ 2,383	\$ 1,381	\$ 295	\$ 17,268	\$ 209	\$ 17,477
Canadian Division	7,349	11,583	13,281	6,632	38,845	2,546	41,391
U.S. Insurance	20,540	19,012	27	14,277	53,856	3,614	57,470
U.S. Wealth Management	—	—	28,405	56	28,461	1,405	29,866
Corporate and other	—	1,204	—	265	1,469	270	1,739
Total, net of reinsurance ceded	\$ 41,098	\$ 34,182	\$ 43,094	\$ 21,525	\$ 139,899	\$ 8,044	\$ 147,943
Total reinsurance ceded	602	4,659	1,454	1,329	8,044		
Total, gross of reinsurance ceded	\$ 41,700	\$ 38,841	\$ 44,548	\$ 22,854	\$ 147,943		

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

Separate sub-accounts were established for participating policies in-force at the demutualization of MLI and John Hancock Life Insurance Company. These sub-accounts permit this participating business to be operated as separate “closed blocks” of participating policies. As at December 31, 2011, \$27,739 (December 31, 2010 – \$26,287 and January 1, 2010 – \$26,787) of both assets and insurance contract liabilities related to these closed blocks of participating policies.

In addition to the participating policies related to the in-force “closed blocks”, there are other participating insurance blocks. For these other participating insurance blocks, transfers to shareholders are governed by local regulations and the best estimate projections of policyholder dividends are provided for in the insurance contract liabilities. Actual dividend scales are managed consistent with the Company's participating policyholder dividend policy and are approved annually by each subsidiary's Board of Directors. Total policyholder dividends were \$1,317 in 2011 (2010 – \$1,354).

(c) Assets backing insurance contract 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 insurance contract liabilities which take into account the risk attributes of the liabilities supported by the assets and expectations of market performance. Liabilities with rate and term guarantees are predominantly backed by fixed-rate instruments on a cash flow matching basis for a targeted duration horizon. Longer duration cash flows on these liabilities as well as on adjustable products such as participating life insurance are backed by a broader range of asset classes, including equity and other non-fixed income investments. The Company's equity is invested in a range of debt and equity investments, both public and private.

Changes in the fair value of assets backing net insurance contract liabilities that are not judged by the Company to be other than temporary would have a limited impact on the Company's net income wherever there is an effective matching of the assets and liabilities, as these changes would be substantially offset by corresponding changes in the value of the actuarial liabilities. The fair value of assets backing net insurance contract liabilities as at December 31, 2011, excluding reinsurance assets, was estimated at \$183,126 (December 31, 2010 – \$152,992 and January 1, 2010 – \$141,458).

The fair value of assets backing capital and other liabilities as at December 31, 2011 was estimated at \$283,664 (December 31, 2010 – \$275,352 and January 1, 2010 – \$266,970).

The carrying value of total assets backing net insurance contract liabilities, other liabilities and capital was as follows.

As at December 31, 2011	Individual insurance		Annuities and pensions	Other insurance contract liabilities ⁽¹⁾	Other liabilities ⁽²⁾	Capital ⁽³⁾	Total
	Participating	Non-participating					
Assets							
Bonds	\$ 25,242	\$ 25,996	\$ 29,230	\$ 15,775	\$ 4,861	\$ 19,383	\$ 120,487
Stocks	4,433	2,844	204	466	386	1,910	10,243
Mortgages	4,430	4,252	7,707	3,803	14,192	639	35,023
Private placements	2,882	5,351	7,651	3,371	514	525	20,294
Real estate	2,088	2,824	803	1,526	101	124	7,466
Other	5,712	7,599	7,207	8,242	233,428	6,401	268,589
Total	\$ 44,787	\$ 48,866	\$ 52,802	\$ 33,183	\$ 253,482	\$ 28,982	\$ 462,102

As at December 31, 2010

Assets							
Bonds	\$ 21,876	\$ 21,069	\$ 23,117	\$ 12,673	\$ 6,406	\$ 16,419	\$ 101,560
Stocks	4,676	2,718	185	460	290	2,146	10,475
Mortgages	4,457	4,153	7,407	3,892	12,234	694	32,837
Private placements	2,759	4,711	7,851	3,215	521	520	19,577
Real estate	1,926	2,381	699	1,202	129	16	6,353
Other	6,107	4,043	4,862	4,041	225,973	8,939	253,965
Total	\$ 41,801	\$ 39,075	\$ 44,121	\$ 25,483	\$ 245,553	\$ 28,734	\$ 424,767

As at January 1, 2010

Assets							
Bonds	\$ 21,005	\$ 16,240	\$ 20,600	\$ 8,001	\$ 6,335	\$ 12,926	\$ 85,107
Stocks	4,211	2,447	107	392	288	2,243	9,688
Mortgages	4,526	4,040	7,617	3,855	10,519	601	31,158
Private placements	2,748	4,308	8,687	2,955	676	606	19,980
Real estate	2,081	2,235	728	803	121	20	5,988
Other	6,527	4,912	5,355	5,519	216,545	15,221	254,079
Total	\$ 41,098	\$ 34,182	\$ 43,094	\$ 21,525	\$ 234,484	\$ 31,617	\$ 406,000

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

⁽²⁾ Other liabilities are non-insurance contract liabilities which include bank deposits, long-term debt, deferred tax liabilities, derivatives, investment contracts, non-exempt embedded derivatives and other miscellaneous liabilities.

⁽³⁾ Capital is defined in note 15.

(d) Significant insurance contract liability valuation assumptions

The determination of insurance contract liabilities involves the use of estimates and assumptions. Insurance contract liabilities have two major components: a best estimate amount and a provision for adverse deviation. In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions are designed to minimize the Company's exposure to measurement uncertainty.

Best estimate assumptions

Best estimate assumptions are made with respect to mortality and morbidity, investment returns, rates of policy termination, operating expenses and certain taxes. Actual experience is monitored to ensure that the assumptions remain appropriate and assumptions are changed as warranted. Assumptions are discussed in more detail in the following table:

Nature of factor and assumption methodology	Risk management
<p>Mortality and morbidity</p> <p>Mortality relates to the occurrence of death. Mortality is a key assumption for life insurance and certain forms of annuities. Mortality assumptions are based on the Company's internal experience as well as past and emerging industry experience. Assumptions are differentiated by sex, underwriting class, policy type and geographic market. For North American insurance products, assumptions are made for future mortality improvements.</p> <p>Morbidity relates to the occurrence of accidents and sickness for insured risks. Morbidity is a key assumption for long-term care insurance, disability insurance, critical illness and other forms of individual and group health benefits. Morbidity assumptions are based on the Company's internal experience as well as industry past and emerging experience and are established for each type of morbidity risk and geographic market.</p>	<p>The Company maintains 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.</p> <p>Mortality is monitored monthly and the overall 2011 experience was favourable when compared to the Company's assumptions. Morbidity is also monitored monthly and the overall 2011 experience was unfavourable when compared to the Company's assumptions, primarily related to long-term care experience in the United States.</p>
<p>Investment returns</p> <p>The Company segments assets to support liabilities by business segment and geographic market and establishes investment strategies 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 future years. The 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.</p> <p>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.</p> <p>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.</p>	<p>The Company's policy of closely matching the cash flows of assets with those of the corresponding liabilities is designed to mitigate the Company's exposure to future changes in interest rates. The interest rate risk positions in business segments are monitored on an ongoing basis. Under CALM, the re-investment rate is developed using interest rate scenario testing and reflects the interest rate risk positions.</p> <p>In 2011, the movement in interest rates adversely impacted the Company's net income.</p> <p>The exposure to credit losses is managed against policies that limit concentrations by issuer, corporate connections, ratings, sectors and geographic regions. On participating policies and some non-participating policies, credit loss experience is passed back to policyholders through the investment return crediting formula. For other policies, the premiums and benefits reflect the Company's assumed level of future credit losses at contract inception or most recent contract adjustment date. The Company holds explicit provisions in actuarial liabilities for credit risk including provisions for adverse deviation.</p> <p>In 2011, credit loss experience on bonds and mortgages was favourable when compared to the Company's assumptions.</p> <p>Stocks, real estate and other non-fixed income assets are used to support liabilities where investment return experience is passed back to policyholders through dividends or credited investment return adjustments. Stocks, real estate, oil and gas and other non-fixed income assets are also used to support long-dated obligations in the Company's annuity and pensions businesses and for long-dated insurance obligations on contracts where the investment return risk is borne by the Company.</p> <p>In 2011, investment experience on common stocks backing policyholder liabilities was unfavourable but this was offset by favourable experience on real estate, oil and gas and other non-fixed income assets.</p> <p>In 2011, investment experience for segregated fund businesses from changes in the market value of funds under management was unfavourable.</p> <p>In 2011, investment expense experience was favourable when compared to the Company's assumptions.</p>

Nature of factor and assumption methodology		Risk management
Policyholder behaviour	Policies are terminated through lapses and surrenders, where lapses represent the termination of policies due to non-payment of premiums and surrenders represent the voluntary termination of policies by policyholders. Premium persistency represents the level of ongoing deposits on contracts where there is policyholder discretion as to the amount and timing of deposits. Policy termination and premium persistency assumptions are primarily based on the Company's recent experience adjusted for expected future conditions. Assumptions reflect differences by type of contract within each geographic market.	The Company seeks to design products that minimize financial exposure to lapse, surrender and other policyholder behaviour risk. The Company monitors lapse, surrender and other policyholder behaviour experience. In aggregate, 2011 policyholder behaviour experience 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 grow. 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 2011 were unfavourable 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 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 policyholder 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 foreign exchange rates.	The Company generally matches the currency of its assets with the currency of the liabilities they support, with the objective of mitigating the risk of loss arising from currency 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 8(h)). Where changes are made to assumptions (see section h) the full impact is recognized in income immediately.

(e) Sensitivity of insurance contract liabilities to changes in non-economic assumptions

The sensitivity of after-tax income to changes in non-economic assumptions underlying policy liabilities is shown below, assuming that there is a simultaneous change in the assumption across all business units.

In practice, experience for each assumption will frequently vary by geographic market and business and assumption updates are made on a business/geographic specific basis. Actual results can differ materially from these estimates for a variety of reasons including the interaction among these factors when more than one changes, changes in actuarial and investment return and future investment activity assumptions, changes in business mix, effective tax rates and other market factors, and the general limitations of internal models.

Most participating business is excluded from this analysis because of the ability to pass both favourable and adverse experience to the policyholders through the participating dividend adjustment.

Sensitivity of insurance contract liabilities to changes in non-economic assumptions

As at December 31,	Decrease in after-tax income	
	2011	2010
Policy related assumptions		
2% adverse change in future mortality rates ^{(1),(3)}		
Products where an increase in rates increases insurance contract liabilities	\$ (200)	\$ (300)
Products where a decrease in rates increases insurance contract liabilities	(300)	(300)
5% adverse change in future morbidity rates ^{(2),(3)}	(1,200)	(1,100)
10% adverse change in future termination rates ⁽³⁾	(1,200)	(1,000)
5% increase in future expense levels	(300)	(300)

⁽¹⁾ An increase in mortality rates will generally increase policy liabilities for life insurance contracts whereas a decrease in mortality rates will generally increase policy liabilities for policies with longevity risk such as payout annuities.

⁽²⁾ No amounts related to morbidity risk are included for policies where the policy liability provides only for claims costs expected over a short period, generally less than one year, such as Group Life and Health.

⁽³⁾ The impacts of the sensitivities on long-term care for morbidity, mortality and lapse are assumed to be moderated by partial offsets from the Company's ability to contractually raise premium rates in such events, subject to state regulatory approval.

(f) Provision for adverse deviation assumptions

The assumptions made in establishing insurance contract liabilities reflect expected best estimates of future experience. To recognize the uncertainty in these best estimate assumptions, to allow for possible mis-estimation of and deterioration in experience and to provide a greater degree of assurance that the insurance contract liabilities are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

Under Canadian IFRS reporting new business profits are capitalized at issue of a policy decreasing the income that would be recognized at inception of the policy and releasing it into future earnings as the policy is released from risk. Minimum requirements are prescribed by the Canadian Institute of Actuaries for determining margins related to interest rate risk. Specific guidance is also provided for other risks such as market, credit, mortality and morbidity risks. For other risks which are not specifically addressed by the Canadian Institute of Actuaries, a range is provided of five per cent to 20 per cent of the expected experience assumption. The Company uses assumptions within the permissible ranges, with the determination of the level set taking into account the risk profile of the business. On occasion, in specific circumstances for additional prudence, a margin may exceed the high end of the range, which is permissible under the Standards of Practice.

Each margin is reviewed annually for continued appropriateness.

(g) Change in insurance contract liabilities

The change in insurance contract liabilities was a result of the following business activities and changes in actuarial estimates.

	Net actuarial liabilities	Other insurance contract liabilities ⁽¹⁾	Net insurance contract liabilities	Reinsurance asset	Gross insurance contract liabilities
For the year ended December 31, 2011					
Balance at January 1	\$ 142,446	\$ 8,034	\$ 150,480	\$ 7,832	\$ 158,312
New policies	2,350	—	2,350	192	2,542
Normal in-force movement	21,284	533	21,817	2,626	24,443
Changes in methods and assumptions	1,545	3	1,548	(91)	1,457
Impact of changes in foreign exchange rates	3,224	219	3,443	169	3,612
Balance at December 31	\$ 170,849	\$ 8,789	\$ 179,638	\$ 10,728	\$ 190,366
For the year ended December 31, 2010					
Balance at January 1	\$ 132,519	\$ 7,380	\$ 139,899	\$ 8,044	\$ 147,943
New policies	3,133	—	3,133	399	3,532
Normal in-force movement	7,817	888	8,705	538	9,243
Changes in methods and assumptions	2,888	(9)	2,879	(879)	2,000
Impact of changes in foreign exchange rates	(3,911)	(225)	(4,136)	(270)	(4,406)
Balance at December 31	\$ 142,446	\$ 8,034	\$ 150,480	\$ 7,832	\$ 158,312

⁽¹⁾ Other insurance contract liabilities is comprised of benefits payable and provision for unreported claims and policyholder amounts on deposit.

(h) Changes in actuarial methods and assumptions

The Company examines the assumptions used in determining insurance contract liabilities on an ongoing basis to ensure they appropriately reflect emerging experience and changes in risk profile. Annually the Company conducts a comprehensive review of all actuarial methods and assumptions. Changes to actuarial methods and assumptions used in determining insurance contract liabilities will result in a change to the projected value of policy cash flows and, therefore, to insurance contract liabilities. The net impact of changes in actuarial methods and assumptions was an increase in reserves backing policyholder liabilities of \$1,515 (2010 – \$2,876). These amounts are net of the impact of the reinsurance assets on policy liabilities of \$91 (2010 – \$879). These pre-tax amounts were reported in the Corporate and other segment.

In 2011, the \$1,515 impact on actuarial liabilities for changes in assumptions and model enhancements included increases for policyholder behaviour assumptions, investment returns, expenses and refinements in modeling of liability cash flows and net decreases in policy liabilities for mortality. Actuarial liabilities decreased by \$412 for updates to mortality assumptions, including a release for updates to most mortality assumptions and the implementation of mortality and morbidity improvements for non-annuity business, offset by updates to older age U.S. life mortality. Actuarial liabilities increased by \$549 for updates to policyholder behaviour assumptions on variable annuity and segregated fund guarantee products as well as updated lapse rates and premium persistency assumptions for several insurance businesses. Actuarial liabilities increased by \$997 for updates to investment return assumptions, most notably for updates to the ultimate re-investment rate assumption, updates to interest rates used in the commutation of guaranteed minimum withdrawal benefit business in Canada and updates to certain non-fixed income assumptions (including future non-fixed income acquisitions). Actuarial liabilities increased by \$141 for updates to expenses, mainly related to U.S. Life maintenance expenses and updated modeling for the anticipated costs of letters of credit. A number of offsetting modeling items resulted in a reserve increase of \$240 and included reserve increases for updates to the modeling of certain payout annuities and refinements to the modeling of guaranteed minimum withdrawal benefit amounts, with offset for the impact of system conversions in the U.S.

In 2010, the \$2,876 impact on actuarial liabilities for changes in assumptions and model enhancements included increases for mortality/morbidity, policyholder behaviour, investment returns and refinements in modeling of liability cash flows, with decreases in policy liabilities for expenses. Actuarial liabilities increased by \$903 for changes to mortality/morbidity assumptions, driven by morbidity increases in the Long-Term Care business that were partially offset by mortality updates in Canadian Individual Insurance. Actuarial liabilities increased by \$650 for updates to policyholder behaviour assumptions, most significantly for policyholder behaviour assumptions on variable annuity and segregated fund guarantee products, and in Canadian Individual Insurance for renewable term business. Actuarial liabilities increased by \$1,459 for updates to volatility and mean return assumptions for variable annuity business and from reductions in the ultimate re-investment rates and for spread assumptions on corporate bonds. Actuarial liabilities were reduced by \$153 from updates to investment and policy maintenance expenses. A number of business specific modeling refinements were made to improve the projection of the future cash flows on in-force business, resulting in a net increase in insurance contract liabilities of \$17. Included in these amounts were refinements to modeling of liability cash flows offset by model refinements for the calculation of deferred tax provisions for asset timing differences in the U.S.

(i) Insurance contracts contractual obligations

Insurance contracts give rise to obligations fixed by agreement. As at December 31, 2011, the Company's contractual obligations and commitments relating to insurance contracts are as follows:

Payments due by period	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Insurance contract liabilities ⁽¹⁾	\$ 8,713	\$ 9,178	\$ 11,758	\$ 477,508	\$ 507,157

⁽¹⁾ Insurance contract 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 insurance contract liabilities. These amounts are undiscounted and reflect recoveries from reinsurance agreements. Due to the use of assumptions, actual cash flows may differ from these estimates. Cash flows include embedded derivatives measured separately at fair value.

Note 9 Investment Contract Liabilities

Investment contract liabilities are contractual obligations made by the Company that do not contain significant insurance risk and are measured either at fair value or at amortized cost.

Investment contract liabilities measured at fair value

Investment contract liabilities measured at fair value comprise certain investment savings and pension products sold primarily in Hong Kong, Japan, China, Taiwan and U.S. Fixed Products. The carrying value of investment contract liabilities measured at fair value are reflected below.

As at	December 31,		January 1,
	2011	2010	2010
Asia	\$ 743	\$ 812	\$ 877
United States	5	5	5
Investment contract liabilities	\$ 748	\$ 817	\$ 882

The change in investment contract liabilities measured at fair value was a result of the following.

For the years ended December 31,	2011	2010
Balance at January 1	\$ 817	\$ 882
New policies	4	2
Changes in methods and assumptions	(1)	1
Redemptions, surrenders and maturities	(91)	(43)
Impact of changes in foreign exchange rates	19	(25)
Balance at December 31	\$ 748	\$ 817

For the year ended December 31, 2011, the net gain relating to investment contract liabilities at fair value was \$1 (2010 – loss of \$1).

Investment contract liabilities measured at amortized cost

Investment contract liabilities measured at amortized cost comprise medium term notes sold in the U.S. and several annuity certain products sold in Canada and the U.S. Annuity certain products considered investment contracts are those that provide guaranteed income payments for a contractually determined period of time and are not contingent on survivorship.

Investment contract liabilities measured at amortized cost are shown below. The fair value associated with these contracts is also shown for comparative purposes.

As at	December 31,				January 1,	
	2011		2010		2010	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
U.S. medium term notes	\$ 463	\$ 495	\$ 1,078	\$ 1,123	\$ 1,966	\$ 2,060
U.S. annuity certain products	1,073	1,005	836	769	655	667
Canadian annuity certain products	256	277	259	288	275	289
Investment contract liabilities	\$ 1,792	\$ 1,777	\$ 2,173	\$ 2,180	\$ 2,896	\$ 3,016

The change in investment contract liabilities measured at amortized cost was a result of the following business activities.

For the years ended December 31,	2011	2010
Balance at January 1	\$ 2,173	\$ 2,896
New policy deposits	269	293
Interest	105	122
Withdrawals	(793)	(1,035)
Fees	2	3
Other	10	(2)
Impact of changes in foreign exchange rates	26	(104)
Balance at December 31	\$ 1,792	\$ 2,173

For the year ended December 31, 2011, the net loss relating to investment contracts measured at amortized cost was \$117 (2010 – \$123).

Medium term notes offer a specified guaranteed fixed or floating rate of return based on external market indices and are comprised of the following contractual terms.

As at	Issue date	Maturity date	December 31,		January 1,
			2011	2010	2010
			Carrying value		Carrying value
2.050% JPY Medium term notes	June 8, 2000	June 8, 2010	\$ –	\$ –	\$ 227
7.900% USD Medium term notes	June 30, 2000	July 2, 2010	–	–	544
4.125% USD Medium term notes	October 8, 2003	October 15, 2010	–	–	53
4.280% SGD Medium term notes	February 22, 2001	February 22, 2011	–	79	76
6.500% USD Medium term notes	February 28, 2001	March 1, 2011	–	305	320
6.000% GBP Medium term notes	May 11, 2001	July 12, 2011	–	239	261
EURIBOR3 + 35bps EUR Medium term notes	June 26, 2002	June 25, 2012	68	69	78
5.000% USD Medium term notes	September 24, 2003	September 30, 2013	51	50	53
4.670% HKD Medium term notes	March 16, 2004	March 17, 2014	33	32	34
5.250% USD Medium term notes	February 18, 2003	February 25, 2015	311	304	320
Total carrying value			\$ 463	\$ 1,078	\$ 1,966
Fair value			\$ 495	\$ 1,123	\$ 2,060

The carrying value of the medium term notes is amortized at the effective interest rates which exactly discount the contractual cash flows to the net carrying amount of the liabilities at the date of issue.

The fair value of the medium term notes is determined using a discounting cash flow approach based on current market interest rates adjusted for the Company's own credit standing.

The carrying value of annuity certain products is amortized at a rate that exactly discounts the projected actual cash flows to the net carrying amount of the liability at the date of issue.

The fair value of annuity certain products is determined by projecting cash flows according to the contract terms and discounting the cash flows at current market rates adjusted for the Company's own credit standing.

Investment contracts contractual obligations

Investment contracts give rise to obligations fixed by agreement. As at December 31, 2011, the Company's contractual obligations and commitments relating to investment contracts are as follows:

Payments due by period	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Investment contract liabilities ⁽¹⁾	\$ 272	\$ 641	\$ 575	\$ 2,261	\$ 3,749

⁽¹⁾ Due to the nature of the products, the timing of net cash flows may be before contract maturity. Cash flows are undiscounted.

Note 10 Risk Management

Manulife Financial is a financial institution offering insurance, wealth and asset management products and services, which subjects the Company to a broad range of risks. The Company manages these risks within an enterprise-wide risk management framework. The Company's goal in managing risk is to strategically optimize risk taking and risk management to support long-term revenue, earnings and capital growth. The Company 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, measuring and monitoring key risks taken, and by executing risk control and mitigation programs.

(a) Market risk

Market risk management strategy overview

The Company's overall strategy to manage its market risks incorporates several component strategies, each targeted to manage one or more of the market risks arising from the Company's businesses. The following table outlines the Company's key market risks and identifies the risk management strategies which contribute to managing these risks. At an enterprise level, these strategies are designed to manage the Company's aggregate exposures to market risks against economic capital, regulatory required capital and earnings at risk targets.

	Publicly traded equity performance risk	Interest rate risk	Alternative non-fixed income asset performance risk	Foreign exchange risk
Product design and pricing	X	X	X	X
Variable annuity guarantee dynamic hedging	X	X		X
Macro equity risk hedging	X			X
Asset liability management	X	X	X	X
Foreign exchange management				X

Market risk factors

Publicly traded equity performance risk

Publicly traded equity performance risk arises from a variety of sources, including guarantees associated with certain variable annuity and segregated fund products, asset based fees, and investments in publicly traded equities supporting both general fund products and surplus segment.

The Company's most significant source of equity risk arises from variable annuity and segregated funds with guarantees, where the guarantees are linked to the performance of the underlying funds. Guaranteed benefits are contingent and only payable upon death, maturity, permitted withdrawal or annuitization. If equity markets decline or even if they increase by an amount lower than that assumed in the Company's actuarial valuation, additional liabilities may need to be established to cover the contingent liabilities, resulting in a reduction in shareholders' net income and regulatory capital ratios. Further, if equity markets do not recover to the amount of the guarantees by the dates the liabilities are due, the accrued liabilities will need to be paid out in cash. In addition, a sustained flat or decline in public equity markets would likely reduce asset based fee revenues related to variable annuities and segregated funds with guarantees and related to other wealth and insurance products.

If equity market volatility remains high, the costs of hedging the guarantees would likely increase. Further, the variable annuity dynamic hedging strategy is designed to hedge public equity and bond fund performance and interest rate movements. However, the Company has chosen to maintain certain risks unhedged (such as the realized market volatility), and therefore higher levels of equity and interest rate volatility will create losses on dynamically hedged business.

Where publicly traded equity investments are used to support policy liabilities, the policy valuation incorporates projected investment returns on these assets. If actual returns are lower than the expected returns, the Company's policy liabilities will increase, reducing net income attributed to shareholders.

Further, for products where the investment strategy applied to future cash flows in the policy valuation includes investing a specified portion of future cash flows in publicly traded equities, a decline in the value of publicly traded equities relative to other assets could require the Company to change the investment mix assumed for future cash flows, increasing policy liabilities and reducing net income attributed to shareholders. In addition, a reduction in the outlook for expected future returns for publicly traded equities, which could result from a fundamental change in future expected economic growth, would increase policy liabilities and reduce net income attributed to shareholders. In addition, to the extent publicly traded equities are held as AFS, other than temporary impairments that arise will reduce income.

Interest rate and spread risk

Interest rate and spread risk arises from general fund guaranteed benefit products, general fund adjustable benefit products with minimum rate guarantees, general fund products with guaranteed surrender values, segregated fund products with minimum benefit guarantees and from surplus fixed income investments.

Interest rate and spread risk arises within the general fund primarily due to the uncertainty of future returns on investments to be made as assets mature and as recurring premiums are received and must be re-invested to support longer dated liabilities. Interest rate risk also arises due to minimum rate guarantees and guaranteed surrender values on products where investment returns are generally passed through to policyholders.

A general decline in interest rates, without a change in corporate bond spreads and swap spreads, will reduce the assumed yield on future investments used in the valuation of policy liabilities, resulting in an increase in policy liabilities and a reduction in net income. A general increase in interest rates, without a change in corporate bond spreads and swap spreads, will result in a decrease in policy liabilities and an increase in net income. In addition, decreases in corporate bond spreads and increases in swap spreads will result in an increase in policy liabilities and a reduction in net income. An increase in corporate bond spreads and a decrease in swap spreads will have the opposite impact. The impact of changes in interest rates and in spreads may be partially offset by changes to credited rates on adjustable products that pass through investment returns to policyholders.

For segregated fund and variable annuity products, a sustained increase in interest rate volatility or a decline in interest rates would also likely increase the costs of hedging the benefit guarantees provided.

Alternative non-fixed income asset performance risk

Alternative non-fixed income asset performance risk arises from general fund investments in commercial real estate, timber properties, agricultural properties, oil and gas properties, and private equities.

Where these assets are used to support policy liabilities, the policy valuation incorporates projected investment returns on these assets. Non-fixed income assumptions vary by asset class and generally have a similar impact on policy liabilities as public equities would. If actual returns are lower than the expected returns, the Company's policy liabilities will increase, reducing net income attributed to shareholders. Further, for products where the investment strategy applied to future cash flows in the policy valuation includes investing a specified portion of future policy cash flows in alternative non-fixed income assets, a decline in the value of these assets relative to other assets could require the Company to change the investment mix assumed for future cash flows, increasing policy liabilities and reducing net income. In addition, a reduction in the outlook for expected future returns for alternative non-fixed income assets, which could result from a fundamental change in future expected economic growth, would increase policy liabilities and reduce net income attributed to shareholders.

Foreign exchange risk

The Company's results are reported in Canadian dollars. A substantial portion of its business is transacted in currencies other than Canadian dollars, mainly U.S. dollars, Hong Kong dollars and Japanese yen. If the Canadian dollar strengthens, reported earnings would decline and the Company's reported shareholders' equity would decline. Further, to the extent that the resultant change in available capital is not offset by a change in required capital, the Company's regulatory capital ratios would be reduced. A weakening of the Canadian dollar against the foreign currencies in which the Company does business would have the opposite effect, and would increase reported Canadian dollar earnings and shareholders' equity, and would potentially increase the Company's regulatory capital ratios.

Market risk management strategies

Product design and pricing

The Company's product design and pricing standards and guidelines are designed with the objective of aligning its product offerings with its risk taking philosophy and tolerances, and in particular, that incremental risk generated from new sales aligns with its strategic

risk objectives and risk targets. The specific design features of its product offerings, including level of benefit guarantees, policyholder options, fund offerings and availability restrictions as well as its associated investment strategies help to mitigate the level of underlying risk. The Company regularly reviews and modifies all key features within its product offerings, including premiums and fee charges with a goal of meeting both profit and risk targets. New product initiatives, new business reinsurance arrangements and material insurance underwriting initiatives must be reviewed and approved by the Chief Risk Officer or key individuals within Credit Risk Management.

Variable annuity guarantee dynamic hedging strategy

The variable annuity dynamic hedging strategy is designed to hedge the sensitivity of variable annuity guarantee policy liabilities and available capital, to both public equity and bond fund performance and interest rate movements. The objective of the dynamic hedging strategy is to offset as closely as possible, the change in the Company's internally defined economic value of guarantees with the profit and loss from its hedge asset portfolio. The internal economic value of guarantees moves in close tandem with, but not exactly as, the variable annuity guarantee policy liabilities, as it reflects best estimate liabilities and does not include any liability provisions for adverse deviations.

The Company's current hedging approach is to short exchange-traded equity index and government bond futures and execute currency futures and lengthening interest rate swaps to hedge sensitivity of policy liabilities to fund performance and interest rate movements arising from variable annuity guarantees. The Company dynamically rebalances these hedge instruments as market conditions change, in order to maintain the hedged position within established limits. The Company may consider the use of additional hedge instruments opportunistically in the future.

The Company's variable annuity guarantee dynamic hedging strategy is not designed to completely offset the sensitivity of policy liabilities to all risks associated with the guarantees embedded in these products. The profit (loss) on the hedge instruments will not completely offset the underlying losses (gains) related to the guarantee liabilities hedged because:

- Policyholder behaviour and mortality experience are not hedged;
- Provisions for adverse deviation in the policy liabilities are not hedged;
- A portion of interest rate risk is not hedged;
- Fund performance on a small portion of the underlying funds is not hedged due to lack of availability of effective exchange-traded hedge instruments;
- Performance of the underlying funds hedged may differ from the performance of the corresponding hedge instruments;
- Correlations between interest rates and equity markets could lead to unfavourable material second order impacts;
- Unfavourable hedge rebalancing costs can be incurred during periods of high volatility from equity markets, bond markets and/or interest rates. The impact is magnified when these impacts occur concurrently; and
- Not all other risks are hedged.

Macro equity risk hedging strategy

The macro equity risk hedging strategy is designed to hedge a portion of the Company's earnings sensitivity to public equity market movements arising from the following sources in order to maintain its overall earnings sensitivity to public equity market movements below targeted levels:

- General fund equity holdings backing non-participating liabilities;
- Variable life insurance;
- Variable annuity guarantees not dynamically hedged;
- Unhedged provisions for adverse deviation related to variable annuity guarantees dynamically hedged;
- Variable annuity fees not associated with guarantees; and
- Fees on segregated funds without guarantees, mutual funds and institutional assets managed.

The Company currently executes its macro equity risk hedging strategy by shorting equity futures and executing currency futures, and rolling them over at maturity. The Company may consider the use of alternative long maturity instruments opportunistically in the future. The notional value of equity futures contracts that were shorted as part of the Company's macro equity risk hedging strategy as at December 31, 2011 was approximately \$5.6 billion. Management intends to increase the amount of macro equity hedges on a time-scheduled and market-trigger basis. Management also intends to increase the amount of hedges in order to maintain its overall earnings sensitivity to equity market movements below targeted levels should markets decline.

Asset liability management strategy

The Company's asset liability management strategy is designed to help ensure the market risks embedded in its assets and liabilities held in the Company's general fund are effectively managed and that risk exposures arising from these assets and liabilities are maintained below targeted levels. The embedded market risks include risks related to the level and movement of interest rates and credit spreads, publicly traded equity performance, alternative non-fixed income asset performance and foreign exchange rate movements.

General fund product liabilities are segmented into groups with similar characteristics that are supported by specific asset segments. Each segment is managed to a target investment strategy appropriate for the premium and benefit pattern, policyholder options and guarantees, and crediting rate strategies of the products they support. Similar strategies are established for assets in the Company's surplus account. The strategies are set using portfolio analysis techniques intended to optimize returns, subject to considerations

related to regulatory and economic capital requirements, and risk tolerances. They are designed to achieve broad diversification across asset classes and individual investment risks while being suitably aligned with the liabilities they support. The strategies encompass asset mix, quality rating, term profile, liquidity, currency and industry concentration targets.

Foreign exchange risk management strategy

The Company's foreign exchange risk management strategy is designed to hedge the sensitivity of its regulatory capital ratios to movements in foreign exchange rates. In particular, the objective of the strategy is to offset, within acceptable tolerance levels, changes in required capital with changes in available capital that result from movements in foreign exchange rates. These changes occur when assets and liabilities related to business conducted in currencies other than Canadian dollars are translated to Canadian dollars at year end exchange rates.

The Company's policy is to generally match the currency of its assets with the currency of the liabilities they support, and similarly, the Company has a policy of generally matching the currency of the assets in its shareholders' equity account to the currency of its required capital. Where assets and liabilities are not matched, forward contracts are used to stabilize the Company's capital ratios and its capital adequacy relative to economic capital when foreign exchange rates change.

Sensitivities and risk exposure measures

Caution related to sensitivities: In these consolidated financial statements, the Company has provided sensitivities and risk exposure measures for certain risks. These include the sensitivity due to specific changes in market prices and interest rate levels projected using internal models as at a specific date, and are measured relative to a starting level reflecting the Company's assets and liabilities at that date and the actuarial factors, investment returns and investment activity assumed in the future. The risk exposures measure the impact of changing one factor at a time and assume that all other factors remain unchanged. Actual results can differ significantly from these estimates for a variety of reasons including the interaction among these factors when more than one changes, changes in actuarial and investment return and future investment activity assumptions, actual experience differing from the assumptions, changes in business mix, effective tax rates and other market factors, and the general limitations of its internal models. For these reasons, these sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined below. Given the nature of these calculations, the Company cannot provide assurance that the actual impact on net income attributed to shareholders will be as indicated.

Variable annuity and segregated fund guarantees

The table below provides information related to the Company's variable annuities and segregated funds products with guarantees. Under IFRS, the guarantees associated with these products are considered to be embedded derivatives. However, as these guarantees either contain significant insurance risk and/or are closely related to the host contract, the embedded derivatives are not required to be accounted for separately at fair value in the Company's consolidated financial statements. Variable annuity and segregated fund guarantees make up the most material portion of the embedded derivatives exempt from separate measurement at fair value.

Variable annuity products with Guaranteed Minimum Death Benefit ("GMDB") features guarantee the contract holder a minimum payment on death of, depending on the contract features: (a) the total deposits made to the contract adjusted for any partial withdrawals; (b) the total deposits made to the contract adjusted for any partial withdrawals plus a minimum return; or (c) the highest contract fund value on a prior specified anniversary date adjusted for any withdrawals following that specified anniversary date.

Variable annuity products with Guaranteed Minimum Accumulation Benefit ("GMAB") features guarantee the contract holder a minimum payment at the end of a specified term of either, depending on the contract features: (a) the total deposits made to the contract adjusted for any partial withdrawals; or (b) the highest contract fund valued on a prior specified anniversary date adjusted for any withdrawals following that specified anniversary date.

Variable annuity products with Guaranteed Minimum Income Benefit ("GMIB") features provide a guaranteed minimum lifetime annuity, which may be elected by the contract holder after a stipulated waiting year (seven to 15 years). The Company ceased selling products with this guarantee in 2004.

Variable annuity products with Guaranteed Minimum Withdrawal Benefit ("GMWB") features provide contract holders a minimum annual withdrawal amount over a specified time period or in some cases for as long as they live or as long as either they or their spouse lives, of a specified percentage of a benefit base, equaling total deposits adjusted for prior withdrawals in excess of specified allowed amounts. In some cases, depending on contract features, the benefit base may be increased at specified dates either (a) to the contract fund value if higher, or (b) by specified amounts in the case where no withdrawals are made by the contract holder.

Variable annuity and segregated fund guarantees

As at December 31,

	2011			2010		
	Guarantee value	Fund value	Amount at risk ⁽⁴⁾	Guarantee value	Fund value	Amount at risk ⁽⁴⁾
Guaranteed minimum income benefit ⁽¹⁾	\$ 7,518	\$ 5,358	\$ 2,163	\$ 8,202	\$ 6,359	\$ 1,856
Guaranteed minimum withdrawal benefit	66,655	56,954	9,907	62,382	57,331	6,391
Guaranteed minimum accumulation benefit	23,509	23,030	2,813	23,902	25,152	1,980
Gross living benefits ⁽²⁾	\$ 97,682	\$ 85,342	\$ 14,883	\$ 94,486	\$ 88,842	\$ 10,227
Gross death benefits ⁽³⁾	15,202	11,614	3,232	16,279	12,736	2,813
Total gross of reinsurance and dynamic hedging	\$ 112,884	\$ 96,956	\$ 18,115	\$ 110,765	\$ 101,578	\$ 13,040
Living benefits reinsured	\$ 6,491	\$ 4,622	\$ 1,871	\$ 7,108	\$ 5,506	\$ 1,611
Death benefits reinsured	4,360	3,430	1,104	4,924	4,070	1,052
Total reinsured	\$ 10,851	\$ 8,052	\$ 2,975	\$ 12,032	\$ 9,576	\$ 2,663
Total, net of reinsurance	\$ 102,033	\$ 88,904	\$ 15,140	\$ 98,733	\$ 92,002	\$ 10,377
Living benefits dynamically hedged	\$ 55,522	\$ 50,550	\$ 6,346	\$ 44,606	\$ 44,827	\$ 2,685
Death benefits dynamically hedged	5,133	3,461	739	4,685	3,032	424
Total dynamically hedged	\$ 60,655	\$ 54,011	\$ 7,085	\$ 49,291	\$ 47,859	\$ 3,109
Living benefits retained	\$ 35,669	\$ 30,170	\$ 6,666	\$ 42,772	\$ 38,509	\$ 5,931
Death benefits retained	5,709	4,723	1,389	6,670	5,634	1,337
Total, net of reinsurance and dynamic hedging	\$ 41,378	\$ 34,893	\$ 8,055	\$ 49,442	\$ 44,143	\$ 7,268

⁽¹⁾ Contracts with guaranteed long-term care benefits are included in this category.

⁽²⁾ Where a policy includes both living and death benefits, the guarantee in excess of the living benefit is included in the death benefit category as outlined in footnote (3).

⁽³⁾ Death benefits include stand-alone guarantees and guarantees in excess of living benefit guarantees where both death and living benefits are provided on a policy.

⁽⁴⁾ Amount at risk (in-the-money amount) is the excess of guarantee values over fund values on all policies where the guarantee value exceeds the fund value. This amount is not currently payable. For GMDB, the net amount at risk is defined as the current GMDB in excess of the current account balance. For GMIB, the net amount at risk is defined as the excess of the current annuitization income base over the current account value. For all guarantees, the net amount at risk is floored at zero at the single contract level.

The insurance and investment contract liability established for these benefits was \$10,021 at December 31, 2011 (2010 – \$3,101). These insurance and investment contract liabilities include the liabilities for both the hedged and the unhedged business. For unhedged business, insurance and investment contract liabilities were \$3,586 at December 31, 2011 (2010 – \$2,083). The insurance and investment contract liabilities for the hedged block were \$6,435 at December 31, 2011 (2010 – \$1,018). The increase in the liabilities for the hedged business was primarily due to the adverse impact of interest rate movements on the cost of hedging associated with the dynamic hedging program that is reflected in IFRS hedged reserves and the adverse impact from basis changes. The year-over-year increase in liabilities related to the unhedged block was due primarily to the adverse impacts from basis changes and interest rate movements, offset by the favourable impact of improved public equity markets.

Variable life insurance guarantees

Deposits related to variable life insurance contracts are invested in segregated fund accounts and for certain policies, the Company guarantees a minimum death benefit if certain specified premiums are paid by the policyholder, regardless of segregated fund account performance.

The following table shows selected information regarding the variable life insurance contracts referred to above.

As at December 31,

Life insurance contracts with guaranteed benefits	2011	2010
<i>In the event of death</i>		
Account value	\$ 7,930	\$ 7,920
Net amount at risk ⁽¹⁾	\$ 366	\$ 359
Average attained age of contract holders	52	51

⁽¹⁾ The net amount at risk for these policies is defined as the excess of the sum insured over the current account value, when the account value is zero or where contracts specify guarantees to cover the cost of insurance in the event of insufficient account value.

Investment categories for variable contracts with guarantees

Variable contracts with guarantees are invested, at the policyholder's discretion subject to contract limitations, in various fund types within the segregated fund accounts and other investments. The account balances by investment category are set out below.

As at December 31,

Investment category	2011	2010
Equity funds	\$ 34,123	\$ 37,400
Balanced funds	55,921	57,411
Bond funds	10,296	10,430
Money market funds	3,027	2,805
Other fixed interest rate investments	1,519	1,452
Total	\$ 104,886	\$ 109,498

Benefits incurred and paid for variable contracts with guarantees

For the year ended December 31, 2011, the Company incurred and paid death benefits of \$108 (2010 – \$160) and living benefits of \$100 (2010 – \$202).

Publicly traded equity performance risk – risk exposure measures

The tables below show the potential impact on net income attributed to shareholders resulting from an immediate 10, 20 and 30 per cent changes in market values of publicly traded equities followed by a return to the expected level of growth assumed in the valuation of insurance and investment contract liabilities, including embedded derivatives. The potential impact is shown before and after taking into account the impact of the change in markets on the hedge assets. While the Company cannot reliably estimate the amount of the change in dynamically hedged variable annuity liabilities that will not be offset by the profit or loss on the dynamic hedge assets, the Company makes certain assumptions for the purposes of estimating the impact on net income attributed to shareholders. The Company assumes that for a 10, 20 and 30 per cent decrease in the market value of equities, the profit from the hedge assets is assumed to offset 80, 75 and 70 per cent, respectively, of the loss arising from the change in the liabilities associated with the guarantees dynamically hedged. For a 10, 20 and 30 per cent market increase in the market value of equities, the loss on the dynamic hedges is assumed to be 120, 125 and 130 per cent of the gain from the dynamically hedged variable annuity liabilities, respectively.

Potential impact on net income attributed to shareholders arising from changes to public equity returns⁽¹⁾

As at December 31, 2011	-30%	-20%	-10%	+10%	+20%	+30%
Net impact assuming the change in the value of the hedge assets completely offsets the change in the dynamically hedged variable annuity guarantee liabilities ⁽²⁾	\$ (2,050)	\$ (1,280)	\$ (600)	\$ 500	\$ 910	\$ 1,220
Impact of assuming the change in value of the dynamic hedge assets does not completely offset the change in the dynamically hedged variable annuity guarantee liabilities ⁽³⁾	(950)	(500)	(180)	(140)	(300)	(480)
Net impact assuming the change in value of the dynamic hedge assets does not completely offset the change in the dynamically hedged variable annuity guarantee liabilities ^{(2), (3)}	\$ (3,000)	\$ (1,780)	\$ (780)	\$ 360	\$ 610	\$ 740

As at December 31, 2010

Net impact assuming the change in the value of the hedge assets completely offsets the change in the dynamically hedged variable annuity guarantee liabilities ⁽²⁾	\$ (2,430)	\$ (1,470)	\$ (660)	\$ 520	\$ 920	\$ 1,040
Impact of assuming the change in value of the dynamic hedge assets does not completely offset the change in the dynamically hedged variable annuity guarantee liabilities ⁽³⁾	(500)	(240)	(80)	(60)	(110)	(170)
Net impact assuming the change in value of the dynamic hedge assets does not completely offset the change in the dynamically hedged variable annuity guarantee liabilities ^{(2), (3)}	\$ (2,930)	\$ (1,710)	\$ (740)	\$ 460	\$ 810	\$ 870

⁽¹⁾ See "Caution related to sensitivities" above.

⁽²⁾ The impact for component related to general fund equities is at a point-in-time and does not include: (i) any potential impact on public equity weightings; (ii) any gains or losses on public equities held in the Corporate and other segment; or (iii) any gains or losses on public equity investments held in Manulife Bank of Canada. The sensitivities assume that the participating policy funds are self-supporting and generate no material impact on net income attributed to shareholders as a result of changes in equity markets.

⁽³⁾ For a 10, 20 and 30 per cent market decrease the gain on the dynamic hedge assets is assumed to be 80, 75 and 70 per cent of the loss from the dynamically hedged variable annuity liabilities associated with insurance contracts, respectively. For a 10, 20 and 30 per cent market increase, the loss on the dynamic hedges is assumed to be 120, 125 and 130 per cent of the gain from the dynamically hedged variable annuity insurance and investment contract liabilities, respectively.

Exposures at December 31, 2011 increased as compared to December 31, 2010 primarily due to the underperformance of equity markets in 2011 relative to returns assumed in the valuation models, offset by additional hedging of in-force business.

Interest rate risk – risk exposure measures

The following table shows the potential impact on net income attributed to shareholders of a change of one per cent, in current government, swap and corporate rates for all maturities across all markets with no change in credit spreads between government, swap and corporate rates, and with a floor of zero on government rates, relative to the rates assumed in the valuation of insurance and investment contract liabilities, including embedded derivatives. The Company assumes no change to the URR.

Potential impact on annual net income attributed to shareholders of an immediate one per cent parallel change in interest rates relative to rates assumed in the valuation of insurance and investment contract liabilities, including embedded derivatives⁽¹⁾

As at December 31,

	2011		2010	
	-100bp	+100bp	-100bp	+100bp
General fund products ⁽²⁾	\$ (500)	\$350	\$ (1,400)	\$1,200
Variable annuity guarantees ⁽³⁾	(500)	350	(400)	300
Total	\$ (1,000)	\$ 700	\$ (1,800)	\$ 1,500

⁽¹⁾ See "Caution related to sensitivities" above.

⁽²⁾ The sensitivities assume that the participating insurance and investment contract funds are self-supporting and generate no material impact on net income attributed to shareholders as a result of changes in interest rates.

⁽³⁾ For variable annuity liabilities that are dynamically hedged, it is assumed that interest rate hedges are rebalanced at 20 basis point intervals.

The decline in exposures was primarily driven by the actions to extend the duration of the Company's fixed income investments supporting insurance contract liabilities.

The potential impact on annual net income attributed to shareholders provided in the table above does not include any impact arising from the sale of fixed income assets held in the Company's surplus segment. Changes in the market value of these assets may provide a natural economic offset to the interest rate risk arising from the Company's product liabilities. In order for there to also be an accounting offset, the Company would need to realize a portion of the AFS fixed income unrealized gains or losses.

Reserves are determined by testing a range of future interest rate scenarios, including those prescribed by actuarial standards of practice. These future scenarios are derived from interest rates and spreads at the end of the quarter. The scenario that produces the highest reserve requirement determines the reserve held at the end of the quarter and is called the booking scenario. Following changes in interest rates and corporate spreads during 2011, should interest rates and spreads further decline in parallel and by the amounts indicated, the future interest rate scenario that would produce the highest reserve, or booking scenario, could change in some jurisdictions to a scenario where then current interest rates, spreads and investment in corporate bonds prevail for the lifetime of the business. This compares to the Company's current booking scenario which begins with current rates grading to a URR with corporate bond spreads that grade to an expected long-term level over five years and a linear reduction in future investment in corporate bonds to zero over 20 years.

The impact of the change in the booking scenario, should interest rates and spreads decline in parallel and by the amounts indicated, is incorporated into the earnings sensitivities shown above. For this reason, the impact of changes less than the amounts indicated are unlikely to be linear relative to this estimate. The change in booking scenario added approximately \$500 to the impact of a 100 basis point decline in interest rates and \$300 to the impact of a 50 basis point reduction in corporate spreads. Actual results in the future will be affected by a wide variety of factors and no simple formula can accurately predict the potential impact.

Potential impact on annual net income attributed to shareholders arising from changes to corporate spreads^{(1),(2)}

As at December 31,

	2011		2010	
	-50bp	+50bp	-50bp	+50bp
Corporate spreads ^{(3),(4),(5)}	\$ (900)	\$ 500	\$ (500)	\$ 400

⁽¹⁾ See "Caution related to sensitivities" above.

⁽²⁾ The sensitivity was estimated as 50% of the sensitivity to a 100 basis point change. Actual results may differ materially from these estimates.

⁽³⁾ The impact on net income attributed to shareholders assumes no gains or losses are realized on AFS fixed income assets held in the surplus segment and excludes the impact arising from changes in off-balance sheet bond fund value arising from changes in credit spreads. The sensitivities assume that the participating policy funds are self-supporting and generate no material impact on net income attributed to shareholders as a result of changes in corporate spreads.

⁽⁴⁾ Corporate spreads are assumed to grade to the long term average over five years.

⁽⁵⁾ Sensitivities are based on projected asset and liability cash flows at the beginning of the quarter adjusted for the estimated impact of new business and investment market and activities during the quarter. Any true-up to these estimates, as a result of the final asset and liability cash flows to be used in the next quarter's projection, are reflected in the next quarter's sensitivities.

Potential impact on annual net income attributed to shareholders arising from changes to swap spreads^{(1),(2),(3)}

As at December 31,

	2011		2010	
	-20bp	+20bp	-20bp	+20bp
Swap spreads	\$ 600	\$ (600)	\$ 200	\$ (200)

⁽¹⁾ See "Caution related to sensitivities" above.

⁽²⁾ The impact on net income attributed to shareholders assumes no gains or losses are realized on AFS fixed income assets held in the surplus segment and excludes the impact arising from changes in off-balance sheet bond fund value arising from changes in swap spreads. The sensitivities assume that the participating policy funds are self-supporting and generate no material impact on net income attributed to shareholders as a result of changes in swap spreads.

⁽³⁾ Sensitivities are based on projected asset and liability cash flows at the beginning of the quarter adjusted for the estimated impact of new business and investment market and activities during the quarter. Any true-up to these estimates, as a result of the final asset and liability cash flows to be used in the next quarter's projection, are reflected in the next quarter's sensitivities.

Alternative non-fixed income asset performance risk – risk exposure measures

The following table shows the potential impact on net income attributed to shareholders resulting from changes in market values of alternative non-fixed income assets different than the expected levels assumed in the valuation of insurance and investment contract liabilities.

Potential impact on net income attributed to shareholders arising from changes in alternative non-fixed income asset returns^{(1),(2)}

As at December 31,	2011		2010	
	-10%	+10%	-10%	+10%
Real estate, agriculture and timber assets	\$ (750)	\$ 750	\$ (500)	\$ 600
Private equities and other non-fixed income assets	(550)	550	(400)	400
Alternative non-fixed income assets	\$ (1,300)	\$ 1,300	\$ (900)	\$ 1,000

⁽¹⁾ See "Caution related to sensitivities" above.

⁽²⁾ This impact is calculated as at a point-in-time and does not include: (i) any potential impact on non-fixed income asset weightings; (ii) any gains or losses on non-fixed income investments held in the Corporate and other segment; or (iii) any gains or losses on non-fixed income investments held in Manulife Bank of Canada.

The increased sensitivity from December 31, 2010 to December 31, 2011 is primarily related to the drop in fixed income rates (reducing the rate at which funds can reinvest) as well as the change in foreign exchange rates.

(b) Foreign currency risk for financial instruments

The Company generally matches the currency of its assets with the currency of the insurance and investment contract liabilities they support, with the objective of mitigating risk of loss arising from currency exchange rate changes. The Company's unmatched currency exposure was primarily limited to its foreign denominated AFS bonds and private equity investments. As at December 31, 2011, the Company did not have a material unmatched currency exposure related to these foreign denominated AFS bonds and private equity investments.

(c) Liquidity risk

Liquidity risk is the risk that sufficient funds are not available to meet both expected and unexpected cash and/or collateral demands in a timely and cost-effective manner. Under stressed conditions, unexpected cash demands could arise primarily from an increase in the level of policyholders either systemically terminating policies with cash surrender values or not renewing policies when they mature, deposit withdrawals and from an increase in the level of borrowers renewing or extending their loans when they mature.

The Company's liquidity risk management strategies are designed to ensure that sufficient funds are readily available to meet its financial obligations as they come due. Liquidity risk is mitigated through the Company's holdings of cash or cash equivalents, investment grade marketable securities and its broad access to various funding sources. The Company maintains centralized pools of high quality liquid assets and investment grade marketable securities to support its operations and contingent liquidity demands. Funding is obtained through premiums, deposits, asset securitization, and bank credit and other funding programs.

The Company mitigates liquidity risk by maintaining operating and strategic liquidity levels above minimum internal requirements. Minimum operating liquidity is set at a level of one month's operating cash outflows. Strategic liquidity is established based on immediate and longer term liquidity requirements under stress conditions whereby policyholder liabilities and unencumbered liquid assets are risk-adjusted for their potential for withdrawals and convertibility to cash respectively. Pledged assets are not considered as available liquid assets to support obligations in either operating or strategic liquidity measures.

The following table outlines the maturity of the Company's significant financial liabilities.

Maturity of financial liabilities^{(1),(2)}

As at December 31, 2011	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Long-term debt	\$ 12	\$ 1,348	\$ 2,053	\$ 2,090	\$ 5,503
Capital instruments	—	—	—	3,668	3,668
Derivative liabilities	115	342	387	6,783	7,627
Bank deposits	15,073	1,253	1,684	—	18,010

⁽¹⁾ The amounts shown above are net of the related unamortized deferred issue costs.

⁽²⁾ Class A preferred shares, Series 1 are redeemable by the Company by payment of cash or issuance of MFC common shares and are convertible at the option of the holder into MFC common shares on or after December 15, 2015. These shares have not been included in the above table.

(d) Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a borrower or counterparty to fulfill its payment obligation to the Company. Worsening or continued poor economic conditions could result in defaults or downgrades, and could lead to increased provisions or impairments related to the Company's general fund invested assets, reinsurance and other receivables, and an increase in provisions for future credit impairments to be included in actuarial liabilities. Counterparty credit exposure arises primarily from derivatives and reinsurance activities.

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

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

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

Credit risk associated with derivative counterparties is discussed in note 10(h).

Credit exposure

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

As at	December 31,		January 1,
	2011	2010	2010
Bonds			
FVTPL	\$ 99,682	\$ 84,339	\$ 70,937
AFS	20,805	17,221	14,170
Loans			
Mortgages	35,023	32,837	31,158
Private placements	20,294	19,577	19,980
Policy loans	6,827	6,486	6,609
Bank loans	2,288	2,353	2,457
Derivative assets	15,472	4,000	2,707
Accrued investment income	1,802	1,642	1,583
Other financial assets	2,802	2,361	2,402
Total	\$ 204,995	\$ 170,816	\$ 152,003

Credit quality

For mortgages and private placements, the Company evaluates credit quality through regular monitoring of credit related exposures, considering both qualitative and quantitative factors in assigning an internal risk rating. These ratings are updated at least annually.

A write-off is recorded when internal risk ratings indicate that a loss represents the most likely outcome. The assets are designated as non-accrual and an allowance is established based on an analysis of the security and repayment sources.

The following table summarizes the recorded investment by credit quality indicator.

As at December 31, 2011	AAA	AA	A	BBB	BB	B & lower	Total
Loans (excluding Manulife Bank of Canada)							
Private placements	\$ 608	\$ 2,436	\$ 5,902	\$ 8,977	\$ 1,178	\$ 1,193	\$ 20,294
Mortgages	2,262	1,802	3,835	12,546	714	419	21,578
Total	\$ 2,870	\$ 4,238	\$ 9,737	\$ 21,523	\$ 1,892	\$ 1,612	\$ 41,872

As at December 31, 2010

Loans (excluding Manulife Bank of Canada)							
Private placements	\$ 422	\$ 2,150	\$ 5,653	\$ 9,099	\$ 1,002	\$ 1,251	\$ 19,577
Mortgages	2,454	1,736	3,229	12,762	810	359	21,350
Total	\$ 2,876	\$ 3,886	\$ 8,882	\$ 21,861	\$ 1,812	\$ 1,610	\$ 40,927

As at January 1, 2010

Loans (excluding Manulife Bank of Canada)							
Private placements	\$ 420	\$ 2,273	\$ 5,333	\$ 9,313	\$ 931	\$ 1,710	\$ 19,980
Mortgages	2,522	1,892	3,321	12,608	788	368	21,499
Total	\$ 2,942	\$ 4,165	\$ 8,654	\$ 21,921	\$ 1,719	\$ 2,078	\$ 41,479

For loans and mortgages held by Manulife Bank of Canada, the Company assigns an internal risk rating ranging from “1 – little or no risk” to “8 – doubtful”. The internal risk ratings are updated at least annually and reflect the credit quality of the lending asset including such factors as original credit score and product characteristics.

Full or partial write-offs of loans are recorded when management believes there is no realistic prospect of full recovery. Write-offs, net of recoveries, are deducted from the allowance for credit losses. All impairments are captured in the allowance for credit losses.

The following table summarizes the recorded investment by credit quality indicator.

As at December 31, 2011	1	2	3	4 & lower	Total
Manulife Bank of Canada					
Mortgages	\$ –	\$ 9,766	\$ 3,605	\$ 74	\$ 13,445
Bank loans	–	414	1,840	34	2,288
Total	\$ –	\$ 10,180	\$ 5,445	\$ 108	\$ 15,733
As at December 31, 2010					
Manulife Bank of Canada					
Mortgages	\$ –	\$ 9,424	\$ 2,011	\$ 52	\$ 11,487
Bank loans	–	443	1,878	32	2,353
Total	\$ –	\$ 9,867	\$ 3,889	\$ 84	\$ 13,840
As at January 1, 2010					
Manulife Bank of Canada					
Mortgages	\$ –	\$ 7,360	\$ 2,269	\$ 30	\$ 9,659
Bank loans	–	502	1,921	34	2,457
Total	\$ –	\$ 7,862	\$ 4,190	\$ 64	\$ 12,116

Past due or credit impaired financial assets

The Company provides for credit risk by establishing allowances against the carrying value of impaired loans and recognizing impairment losses on AFS bonds. Impairment losses on AFS bonds are recognized in income on an individual basis when there is objective evidence of impairment. Impairment is considered to have occurred when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the bond. In addition, the Company reports as an impairment certain declines in the fair value of bonds designated as FVTPL which it deems represent an impairment.

The following table summarizes the carrying value, or impaired value, in the case of impaired bonds, of the Company’s financial assets that are considered past due or impaired.

As at December 31, 2011	Past due but not impaired			Total impaired
	Less than 90 days	90 days and greater	Total	
Bonds				
FVTPL	\$ –	\$ –	\$ –	\$ 166
AFS	1	–	1	43
Loans				
Private placements	117	–	117	182
Mortgages and bank loans	139	67	206	91
Other financial assets	21	56	77	4
Total	\$ 278	\$ 123	\$ 401	\$ 486
As at December 31, 2010				
Bonds				
FVTPL	\$ 1	\$ 3	\$ 4	\$ 152
AFS	–	–	–	34
Loans				
Private placements	304	–	304	265
Mortgages and bank loans	53	64	117	83
Other financial assets	16	24	40	2
Total	\$ 374	\$ 91	\$ 465	\$ 536
As at January 1, 2010				
Bonds				
FVTPL	\$ 50	\$ –	\$ 50	\$ 139
AFS	78	3	81	7
Loans				
Private placements	152	1	153	361
Mortgages and bank loans	56	49	105	118
Other financial assets	4	32	36	–
Total	\$ 340	\$ 85	\$ 425	\$ 625

The following table summarizes the Company's loans that are considered impaired.

Impaired loans

As at and for the year ended December 31, 2011	Recorded investment ⁽¹⁾	Unpaid principal balance	Related allowance	Average recorded investment ⁽¹⁾	Interest income recognized
Private placements	\$ 223	\$ 336	\$ 41	\$ 251	\$ –
Mortgages and bank loans	144	143	53	163	–
Total	\$ 367	\$ 479	\$ 94	\$ 414	\$ –

As at and for the year ended December 31, 2010

Private placements	\$ 349	\$ 421	\$ 84	\$ 445	\$ –
Mortgages and bank loans	117	124	34	186	–
Total	\$ 466	\$ 545	\$ 118	\$ 631	\$ –

⁽¹⁾ Recorded investment is the carrying amount of the investment after any direct write-offs, but before deducting any related allowance for impairment.

Allowance for loan losses

For the years ended December 31,

	2011			2010		
	Mortgages and bank loans	Private placements	Total	Mortgages and bank loans	Private placements	Total
Balance, January 1	\$ 34	\$ 84	\$ 118	\$ 55	\$ 128	\$ 183
Provisions	45	18	63	45	70	115
Recoveries	(21)	(46)	(67)	(11)	(33)	(44)
Write-offs ⁽¹⁾	(5)	(15)	(20)	(55)	(81)	(136)
Balance, December 31	\$ 53	\$ 41	\$ 94	\$ 34	\$ 84	\$ 118

⁽¹⁾ Includes disposals and impact of changes in foreign exchange rates.

Troubled debt restructurings

The Company may from time to time grant concessions or agree to modified terms with a borrower experiencing financial difficulty, which constitutes troubled debt restructurings. The revised terms of these troubled debt restructurings may include an extension of the maturity date, a reduced interest rate, a deferral of interest due, or covenant modifications and waivers. These loans are considered for impairment in accordance with the Company's normal and customary credit review process, and any changes in terms from the restructurings are considered in determining whether any adjustments to allowances for credit losses are needed. Recording of impairment may not always be required, particularly if the loan has been impaired in a prior period. If the loan has been previously impaired and the Company expects the borrower to perform in accordance with the restructured terms, the resultant financial impact to the Company is generally not material.

For the year ended December 31, 2011, the Company had four mortgages and three unsecured private placements modified in restructurings, with total pre-modification and post-modification recorded investment amounts of \$82 and \$79, respectively.

(e) Concentration risk

The geographic concentration of the Company's insurance and investment contract liabilities, including embedded derivatives, is shown below. The disclosure is based on the countries in which the business is written.

As at December 31, 2011	Gross liabilities	Reinsurance assets	Net liabilities
United States and Canada	\$ 163,819	\$ (10,545)	\$ 153,274
Asia and other	29,327	(183)	29,144
Total insurance and investment contract liabilities, including embedded derivatives	\$ 193,146	\$ (10,728)	\$ 182,418

As at December 31, 2010

United States and Canada	\$ 137,859	\$ (7,517)	\$ 130,342
Asia and other	23,624	(315)	23,309
Total insurance and investment contract liabilities, including embedded derivatives	\$ 161,483	\$ (7,832)	\$ 153,651

As at January 1, 2010

United States and Canada	\$ 132,747	\$ (7,809)	\$ 124,938
Asia and other	19,119	(235)	18,884
Total insurance and investment contract liabilities, including embedded derivatives	\$ 151,866	\$ (8,044)	\$ 143,822

(f) Securities lending, repurchase and reverse repurchase transactions

The Company engages in securities lending to generate fee income. Collateral, which exceeds the market value of the loaned securities, is retained by the Company until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the underlying loaned securities fluctuates. As at December 31, 2011, the Company had loaned securities (which are included in invested assets) with a market value of \$1,274 (December 31, 2010 – \$1,650 and January 1, 2010 – \$1,221). The Company holds collateral with a current market value that exceeds the value of securities lent in all cases.

The Company engages in repurchase and reverse repurchase transactions to generate fee income and to take possession of securities to cover short positions in similar instruments. As at December 31, 2011, the Company had engaged in reverse repurchase transactions of \$64 (December 31, 2010 – \$578 and January 1, 2010 – \$2,590) which are recorded as a short-term receivable. There were outstanding repurchase agreements of \$624 as at December 31, 2011 (December 31, 2010 – \$461 and January 1, 2010 – nil).

(g) Credit default swaps

The Company replicates exposure to specific issuers by selling credit protection via credit default swaps (“CDSs”) in order to complement its cash bond investing. The Company will not employ CDS to leverage in its CDS program and, therefore, will not write CDS protection in excess of its government bond holdings. A CDS is a derivative instrument representing an agreement between two parties to exchange the credit risk of a single specified entity or an index based on the credit risk of a group of entities (all commonly referred to as the “reference entity” or a portfolio of “reference entities”), in return for a periodic premium. CDS contracts typically have a five year term.

The following table provides details of the credit default swap protection sold by type of contract and external agency rating for the underlying reference security.

As at December 31, 2011	Notional amount ⁽²⁾	Fair value	Weighted average maturity (in years) ⁽³⁾
Single name CDSs ⁽¹⁾			
Corporate debt			
AAA	\$ 25	\$ 1	5.0
AA	87	2	5.0
A	107	1	5.0
Total single name CDSs	\$ 219	\$ 4	5.0
Total CDS protection sold	\$ 219	\$ 4	5.0

⁽¹⁾ The rating agency designations are based on S&P where available followed by Moody's, DBRS, and Fitch. If no rating is available from a rating agency, then an internally developed rating is used.

⁽²⁾ Notional amounts represent the maximum future payments the Company would have to pay its counterparties assuming a default of the underlying credit and zero recovery on the underlying issuer obligation.

⁽³⁾ The weighted average maturity of the credit default swaps is weighted based on notional amounts.

The Company has also purchased credit protection with a total notional amount of \$32 and a fair value of \$(1). The average credit rating of the counterparties guaranteeing the underlying credit is A+ and the weighted average maturity is 5.5 years.

(h) Derivatives

The Company's exposure to loss on derivatives is limited to the amount of any net gains that may have accrued with a particular counterparty. Gross derivative counterparty exposure is measured as the total fair value (including accrued interest) of all outstanding contracts in a gain position excluding any offsetting contracts in negative positions and the impact of collateral on hand. The Company seeks to limit the risk of credit losses from derivative counterparties by: establishing a minimum acceptable counterparty credit rating of A- from external rating agencies; entering into master netting arrangements which permit the offsetting of contracts in a loss position in the case of a counterparty default; and entering into Credit Support Annex agreements, whereby collateral must be provided when the exposure exceeds a certain threshold. All contracts are held with counterparties rated A- or higher. As at December 31, 2011, the percentage of the Company's derivative exposure which was with counterparties rated AA- or higher amounted to 26 per cent (December 31, 2010 – 33 per cent and January 1, 2010 – 28 per cent). The Company's exposure to credit risk was mitigated by \$8,922 fair value of collateral held as security as at December 31, 2011 (December 31, 2010 – \$1,226 and January 1, 2010 – \$1,150).

As at December 31, 2011, the largest single counterparty exposure, without taking into account the impact of master netting agreements or the benefit of collateral held, was \$3,029 (December 31, 2010 – \$954 and January 1, 2010 – \$561). The net exposure to this counterparty, after taking into account master netting agreements and the fair value of collateral held, was \$7 (December 31, 2010 – \$31 and January 1, 2010 – \$9). As at December 31, 2011, the total maximum credit exposure related to derivatives across all counterparties, without taking into account the impact of master netting agreements and the benefit of collateral held, was \$15,924 (December 31, 2010 – \$4,195 and January 1, 2010 – \$2,841). Net exposure across all counterparties, after taking into account master netting agreements and the benefit of fair value of collateral held, was \$293 (December 31, 2010 – \$239 and January 1, 2010 – \$154).

(i) Risk concentrations

The Company establishes enterprise-wide investment portfolio level targets and limits with the objective of ensuring that portfolios are diversified across asset classes and individual investment risks. The Company monitors actual investment positions and risk exposures for concentration risk and reports such findings to the Executive Risk Committee and the Risk Committee of the Board of Directors.

As at	December 31,		January 1,
	2011	2010	2010
Bonds and private placements rated as investment grade BBB or higher ⁽¹⁾	95%	95%	95%
Government bonds as a per cent of total bonds	47%	42%	31%
Government private placements as a per cent of total private placements	11%	10%	8%
Highest exposure to a single non-government bond and private placement issuer	\$ 723	\$ 622	\$ 696
Largest single issuer as a per cent of the total stock portfolio	1%	2%	7%
Income producing commercial office properties (2011 – 82% of total real estate, December 31, 2010 – 81% and January 1, 2010 – 81%)	\$ 6,127	\$ 5,134	\$ 4,862
Largest concentration of mortgages and real estate ⁽²⁾ – Ontario, Canada (2011 – 26%, December 31, 2010 – 27% and January 1, 2010 – 26%)	\$ 11,230	\$ 10,477	\$ 9,749

⁽¹⁾ Investment grade bonds and private placements include 28% rated A, 19% rated AA and 30% rated AAA (December 31, 2010 – 29%, 17% and 28% and January 1, 2010 – 32%, 17% and 20%, respectively) based on external ratings where available.

⁽²⁾ Mortgages and real estate are diversified geographically and by property type.

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

Bonds and private placements

As at	December 31,				January 1,	
	2011		2010		2010	
	Carrying value	% of total	Carrying value	% of total	Carrying value	% of total
Government and agency	\$ 58,904	42	\$ 44,926	37	\$ 27,789	26
Financial	21,161	15	20,544	17	21,457	20
Utilities	20,114	14	17,503	14	16,805	16
Energy	9,158	6	8,477	7	8,272	8
Industrial	7,116	5	6,405	5	5,870	6
Consumer (non-cyclical)	6,686	5	5,496	5	5,407	5
Securitized	5,734	4	6,787	6	7,692	7
Other	11,908	9	10,999	9	11,795	12
Total	\$ 140,781	100	\$ 121,137	100	\$ 105,087	100

(j) Insurance risk

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses. A variety of assumptions are made related to the future level of claims, policyholder behaviour, expenses and sales levels when products are designed and priced as well as in the determination of actuarial liabilities. The development of assumptions for future claims is based on Company and industry experience and predictive models; assumptions for policyholder behaviours are based on Company experience and predictive models. Such assumptions require a significant amount of professional judgment and, therefore, actual experience may be materially different than the assumptions made by the Company. Claims may be impacted by the unusual onset of disease or illness, natural disasters, large-scale manmade disasters and acts of terrorism. Policyholder premium payment patterns, policy renewal, withdrawal and surrender activity is influenced by many factors including market and general economic conditions, and the availability and price of other products in the marketplace.

Manulife Financial manages insurance risk through global product design, pricing standards and guidelines and a global life underwriting manual. Each business unit establishes underwriting policies and procedures, including criteria for approval of risks and claims adjudication policies and procedures. Effective June 29, 2010, the Company increased its global retention limit for individual life insurance from US\$20 to US\$30 and for survivorship life insurance from US\$25 to US\$35. Lower limits are applied in some markets and jurisdictions. Manulife Financial further reduces exposure to claims concentrations by applying geographical aggregate retention limits for certain covers.

(k) 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.

Note 11 Fair Value of Financial Instruments

Financial instruments refer to both on- and off-balance sheet instruments and may be assets or liabilities. These assets or liabilities are contracts that ultimately give rise to a right for one party to receive an asset and an obligation for another party to deliver an asset. Fair values reflect management's best estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties and are generally calculated based on the characteristics of the instrument and the current economic and competitive environment.

The fair values and the basis for determining the fair values of invested assets, derivatives, long-term debt and liabilities for preferred shares and capital instruments are disclosed in notes 4, 5, 12 and 13, respectively.

The fair value of bank deposits is estimated at \$18,100 as at December 31, 2011 (December 31, 2010 – \$16,380 and January 1, 2010 – \$14,752), compared to a carrying value of \$18,010 as at December 31, 2011 (December 31, 2010 – \$16,300 and January 1, 2010 – \$14,734). 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.

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.

Financial instruments measured at fair value on the Consolidated Statements of Financial Position

The Company categorizes its fair value measurements according to a three level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques for determining the fair value of the financial instrument. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 – Fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date. Valuations are based on quoted prices reflecting market transactions involving assets or liabilities identical to those being measured.

Level 2 – Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc.) and inputs that are derived from or corroborated by observable market data. Most bonds are classified within Level 2. Also, included in the Level 2 category are derivative instruments that are priced using models with observable market inputs, including interest rate swaps, equity swaps, and foreign currency forward contracts.

Level 3 – Fair value measurements using significant non-market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable, including assumptions about risk. Level 3 securities include less liquid securities such as structured asset-backed securities, commercial mortgage-backed securities ("CMBS") and other securities that have little or no price transparency. Embedded and complex derivative financial instruments are also included in Level 3.

In determining the fair value of its financial instruments, the Company uses observable market data, when available, and minimizes the use of unobservable inputs to the extent possible when determining fair value.

The following table presents the Company's assets and liabilities that are carried at fair value, categorized by level under the fair value hierarchy.

Fair value of financial instruments

As at December 31, 2011	Total fair value	Level 1	Level 2	Level 3
ASSETS				
Cash and short-term securities				
FVTPL	\$ 568	\$ –	\$ 568	\$ –
AFS	8,473	–	8,473	–
Other	3,772	3,772	–	–
Bonds				
FVTPL				
Canadian government & agency	11,030	–	10,813	217
U.S. government & agency	20,108	–	19,895	213
Other government & agency	10,318	–	9,650	668
Corporate	53,091	–	51,090	2,001
Residential mortgage/asset-backed securities	313	–	17	296
Commercial mortgage/asset-backed securities	3,170	–	2,898	272
Other securitized assets	1,652	–	1,505	147
AFS				
Canadian government & agency	5,517	–	5,380	137
U.S. government & agency	7,904	–	7,902	2
Other government & agency	1,844	–	1,780	64
Corporate	5,017	–	4,738	279
Residential mortgage/asset-backed securities	94	–	13	81
Commercial mortgage/asset-backed securities	240	–	194	46
Other securitized assets	189	–	145	44
Stocks				
FVTPL	8,778	8,778	–	–
AFS	1,465	1,465	–	–
Other invested assets⁽¹⁾				
Private stocks FVTPL	4,062	1	–	4,061
Private stocks AFS	121	–	1	120
Derivative assets				
Interest rate contracts	14,934	–	14,848	86
Foreign exchange contracts	531	–	530	1
Equity contracts	3	–	–	3
Credit default swaps	4	–	–	4
Segregated funds net assets⁽²⁾	196,058	191,336	2,534	2,188
Total assets carried at fair value	\$ 359,256	\$ 205,352	\$ 142,974	\$ 10,930
LIABILITIES				
Derivative liabilities				
Interest rate contracts	\$ 6,824	\$ –	\$ 6,748	\$ 76
Foreign exchange contracts	778	–	739	39
Equity contracts	24	–	–	24
Credit default swaps	1	–	–	1
Investment contract liabilities	748	–	748	–
Total liabilities carried at fair value	\$ 8,375	\$ –	\$ 8,235	\$ 140

⁽¹⁾ Only private stocks that are carried at fair value are included.

⁽²⁾ Segregated funds net assets are recorded at fair value. Investment performance related to segregated funds net assets is fully offset by corresponding amounts credited to contract holders whose interest in the segregated funds net assets is recorded by the Company as segregated funds net liabilities.

Fair value of financial instruments

As at December 31, 2010	Total fair value	Level 1	Level 2	Level 3
ASSETS				
Cash and short-term securities				
FVTPL	\$ 668	\$ —	\$ 668	\$ —
AFS	8,827	—	8,827	—
Other	2,354	2,354	—	—
Bonds				
FVTPL				
Canadian government & agency	10,044	—	9,884	160
U.S. government & agency	13,109	—	12,945	164
Other government & agency	7,591	—	6,994	597
Corporate	47,648	—	45,943	1,705
Residential mortgage/asset-backed securities	384	—	24	360
Commercial mortgage/asset-backed securities	4,127	—	3,697	430
Other securitized assets	1,436	—	1,276	160
AFS				
Canadian government & agency	5,177	—	5,143	34
U.S. government & agency	5,587	—	5,582	5
Other government & agency	1,417	—	1,357	60
Corporate	4,367	—	4,108	259
Residential mortgage/asset-backed securities	98	—	5	93
Commercial mortgage/asset-backed securities	438	—	366	72
Other securitized assets	137	—	85	52
Stocks				
FVTPL	8,892	8,891	1	—
AFS	1,583	1,583	—	—
Other invested assets⁽¹⁾				
Private stocks FVTPL	3,283	1	—	3,282
Private stocks AFS	80	—	—	80
Derivative assets				
Interest rate contracts	3,420	—	3,352	68
Foreign exchange contracts	565	—	565	—
Equity contracts	15	—	—	15
Credit default swaps	—	—	—	—
Segregated funds net assets⁽²⁾	199,120	194,805	2,194	2,121
Total assets carried at fair value	\$ 330,367	\$ 207,634	\$ 113,016	\$ 9,717
LIABILITIES				
Derivative liabilities				
Interest rate contracts	\$ 2,727	\$ —	\$ 2,691	\$ 36
Foreign exchange contracts	554	—	511	43
Equity contracts	5	—	—	5
Credit default swaps	1	—	—	1
Investment contract liabilities	817	—	817	—
Total liabilities carried at fair value	\$ 4,104	\$ —	\$ 4,019	\$ 85

⁽¹⁾ Only private stocks that are carried at fair value are included.

⁽²⁾ Segregated funds net assets are recorded at fair value. Investment performance related to segregated funds net assets is fully offset by corresponding amounts credited to contract holders whose interest in the segregated funds net assets is recorded by the Company as segregated funds net liabilities.

Fair value of financial instruments

As at January 1, 2010	Total fair value	Level 1	Level 2	Level 3
ASSETS				
Cash and short-term securities				
FVTPL	\$ 651	\$ —	\$ 651	\$ —
AFS	16,124	—	16,124	—
Other	2,030	2,030	—	—
Bonds				
FVTPL				
Canadian government & agency	8,131	—	8,002	129
U.S. government & agency	5,365	—	5,044	321
Other government & agency	5,105	—	4,638	467
Corporate	45,780	—	44,164	1,616
Residential mortgage/asset-backed securities	421	—	32	389
Commercial mortgage/asset-backed securities	4,578	—	4,179	399
Other securitized assets	1,557	—	1,390	167
AFS				
Canadian government & agency	4,337	—	4,288	49
U.S. government & agency	2,230	—	2,228	2
Other government & agency	1,022	—	971	51
Corporate	5,690	—	5,447	243
Residential mortgage/asset-backed securities	105	—	6	99
Commercial mortgage/asset-backed securities	532	—	462	70
Other securitized assets	254	—	212	42
Stocks				
FVTPL	7,730	7,730	—	—
AFS	1,958	1,958	—	—
Other invested assets⁽¹⁾				
Private stocks FVTPL	2,544	—	—	2,544
Private stocks AFS	124	—	—	124
Derivative assets				
Interest rate contracts	2,101	—	2,029	72
Foreign exchange contracts	593	—	593	—
Equity contracts	13	—	2	11
Credit default swaps	—	—	—	—
Segregated funds net assets⁽²⁾	190,783	185,850	2,693	2,240
Total assets carried at fair value	\$ 309,758	\$ 197,568	\$ 103,155	\$ 9,035
LIABILITIES				
Derivative liabilities				
Interest rate contracts	\$ 1,647	\$ —	\$ 1,623	\$ 24
Foreign exchange contracts	801	—	780	21
Equity contracts	—	—	—	—
Credit default swaps	1	—	—	1
Embedded derivatives – insurance contracts	2	—	—	2
Investment contract liabilities	882	—	882	—
Total liabilities carried at fair value	\$ 3,333	\$ —	\$ 3,285	\$ 48

⁽¹⁾ Only private stocks that are carried at fair value are included.

⁽²⁾ Segregated funds net assets are recorded at fair value. Investment performance related to segregated funds net assets is fully offset by corresponding amounts credited to contract holders whose interest in the segregated funds net assets is recorded by the Company as segregated funds net liabilities.

Assets and liabilities measured at fair value on the Consolidated Statements of Financial Position using significant unobservable inputs (Level 3)

The table below provides a fair value roll forward of the financial instruments for which significant unobservable inputs (Level 3) are used in the fair value measurement. The Company classifies the fair values of financial instruments within Level 3 if there are no observable markets for the instruments or, in the absence of active markets, the majority of the inputs used to determine fair value are based on the Company's own assumptions about market participant assumptions. The Company prioritizes the use of market-based inputs over entity-based assumptions in determining Level 3 fair values and, therefore, the gains and losses in the tables below include changes in fair value due partly to observable and unobservable factors.

Roll forward of financial instruments measured at fair value using significant unobservable inputs (Level 3)

The following table presents a roll forward for all financial instruments measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2011.

	Balance as at January 1, 2011	Net realized / unrealized gains (losses) included in:				Transfers			Balance as at December 31, 2011	Change in unrealized gains (losses) on instruments still held
		Net income ⁽¹⁾	OCI ⁽²⁾	Purchases	Sales	Into Level 3	Out of Level 3 ⁽³⁾	Currency movement		
Bonds										
FVTPL										
Canadian government & agency	\$ 160	\$ 31	\$ –	\$ 35	\$ –	\$ –	\$ (10)	\$ 1	\$ 217	\$ 30
U.S. government & agency	164	26	–	111	(32)	–	(59)	3	213	23
Other government & agency	597	(43)	–	132	(28)	1	–	9	668	(42)
Corporate	1,705	108	–	561	(381)	57	(118)	69	2,001	113
Residential mortgage/ asset-backed securities	360	15	–	–	(91)	5	–	7	296	15
Commercial mortgage/ asset-backed securities	430	(26)	–	–	(142)	2	–	8	272	2
Other securitized assets	160	6	–	–	(32)	15	(5)	3	147	22
	\$ 3,576	\$ 117	\$ –	\$ 839	\$ (706)	\$ 80	\$ (192)	\$ 100	\$ 3,814	\$ 163
AFS										
Canadian government & agency	\$ 34	\$ 47	\$ 14	\$ 495	\$ (468)	\$ 14	\$ –	\$ 1	\$ 137	\$ –
U.S. government & agency	5	–	–	2	–	–	(5)	–	2	–
Other government & agency	60	(2)	(1)	18	(25)	13	–	1	64	–
Corporate	259	(1)	9	71	(89)	46	(26)	10	279	–
Residential mortgage/ asset-backed securities	93	–	2	–	(18)	2	–	2	81	–
Commercial mortgage/ asset-backed securities	72	(4)	(2)	–	(21)	–	–	1	46	–
Other securitized assets	52	(7)	14	–	(2)	1	(15)	1	44	–
	\$ 575	\$ 33	\$ 36	\$ 586	\$ (623)	\$ 76	\$ (46)	\$ 16	\$ 653	\$ –
Other invested assets										
Private stocks FVTPL	\$ 3,282	\$ 182	\$ –	\$ 879	\$ (346)	\$ –	\$ (3)	\$ 67	\$ 4,061	\$ 152
Private stocks AFS	80	1	(21)	57	(1)	–	–	4	120	–
	\$ 3,362	\$ 183	\$ (21)	\$ 936	\$ (347)	\$ –	\$ (3)	\$ 71	\$ 4,181	\$ 152
Net derivatives	\$ (2)	\$ (2)	\$ (21)	\$ 13	\$ –	\$ –	\$ (39)	\$ 5	\$ (46)	\$ 8
Segregated funds net assets	2,121	38	–	22	(41)	–	–	48	2,188	44
	\$ 9,632	\$ 369	\$ (6)	\$ 2,396	\$ (1,717)	\$ 156	\$ (280)	\$ 240	\$ 10,790	\$ 367

⁽¹⁾ These amounts are included in investment income on the Consolidated Statement of Income (Loss), except for the segregated funds amount which is included in the investment related section of the changes in net assets for segregated funds (note 23).

⁽²⁾ These amounts are included in accumulated other comprehensive income (loss) on the Consolidated Statement of Financial Position.

⁽³⁾ For financial assets that are transferred into and/or out of Level 3, the Company uses the fair value of the assets at the beginning of the year.

The following table presents a roll forward for all financial instruments measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2010.

	Balance as at January 1, 2010	Net realized / unrealized gains (losses) included in:				Transfers			Balance as at December 31, 2010	Change in unrealized gains (losses) on instruments still held
		Net income ⁽¹⁾	OCI ⁽²⁾	Purchases	Sales	Into Level 3 ⁽³⁾	Out of Level 3 ⁽³⁾	Currency movement		
Bonds										
FVTPL										
Canadian government & agency	\$ 129	\$ 12	\$ –	\$ 22	\$ –	\$ –	\$ –	\$ (3)	\$ 160	\$ 12
U.S. government & agency	321	(5)	–	387	–	–	(534)	(5)	164	(5)
Other government & agency	467	33	–	151	(49)	–	–	(5)	597	34
Corporate	1,616	100	–	247	(112)	46	(244)	52	1,705	46
Residential mortgage/ asset-backed securities	389	89	–	–	(100)	–	–	(18)	360	122
Commercial mortgage/ asset-backed securities	399	107	–	–	(52)	–	(1)	(23)	430	118
Other securitized assets	167	44	–	–	(41)	–	(1)	(9)	160	74
	\$ 3,488	\$ 380	\$ –	\$ 807	\$ (354)	\$ 46	\$ (780)	\$ (11)	\$ 3,576	\$ 401
AFS										
Canadian government & agency	\$ 49	\$ 16	\$ (8)	\$ –	\$ (21)	\$ –	\$ –	\$ (2)	\$ 34	\$ –
U.S. government & agency	2	–	–	5	–	–	(2)	–	5	–
Other government & agency	51	–	2	15	(10)	–	–	2	60	–
Corporate	243	(1)	15	14	(52)	50	(15)	5	259	–
Residential mortgage/ asset-backed securities	99	(12)	34	–	(23)	–	–	(5)	93	–
Commercial mortgage/ asset-backed securities	70	2	7	–	(3)	–	–	(4)	72	–
Other securitized assets	42	(1)	16	–	(2)	–	–	(3)	52	–
	\$ 556	\$ 4	\$ 66	\$ 34	\$ (111)	\$ 50	\$ (17)	\$ (7)	\$ 575	\$ –
Other invested assets										
Private stocks FVTPL	\$ 2,544	\$ 190	\$ –	\$ 1,121	\$ (443)	\$ –	\$ –	\$ (130)	\$ 3,282	\$ 207
Private stocks AFS	124	(28)	6	8	(27)	–	–	(3)	80	–
	\$ 2,668	\$ 162	\$ 6	\$ 1,129	\$ (470)	\$ –	\$ –	\$ (133)	\$ 3,362	\$ 207
Net derivatives										
Segregated funds net assets	\$ 35	\$ (14)	\$ (9)	\$ –	\$ –	\$ –	\$ (9)	\$ (5)	\$ (2)	\$ (11)
	2,240	(13)	(2)	18	(75)	63	–	(110)	2,121	7
	\$ 8,987	\$ 519	\$ 61	\$ 1,988	\$ (1,010)	\$ 159	\$ (806)	\$ (266)	\$ 9,632	\$ 604

⁽¹⁾ These amounts are included in investment income on the Consolidated Statement of Income (Loss), except for the segregated funds amount which is included in the investment related section of the changes in net assets for segregated funds (note 23).

⁽²⁾ These amounts are included in accumulated other comprehensive income (loss) on the Consolidated Statement of Financial Position.

⁽³⁾ For financial assets that are transferred into and/or out of Level 3, the Company uses the fair value of the assets at the beginning of the year.

The Company may hedge positions with offsetting positions that are classified in a different level. For example, the gains and losses for assets and liabilities in the Level 3 category presented in the tables above may not reflect the effect of offsetting gains and losses on hedging instruments that have been classified by the Company in the Level 1 and Level 2 categories.

The transfers into Level 3 primarily result from securities that were impaired during the year or securities where a lack of observable market data (versus the previous year) resulted in reclassifying assets into Level 3. The transfers from Level 3 primarily result from observable market data now being available from the entire term structure of the bond, thus eliminating the need to extrapolate market data beyond observable points.

Note 12 Long-Term Debt

As at	December 31,		January 1,
	2011	2010	2010
3.40% Senior notes (US\$600)	\$ 607	\$ 593	\$ –
4.90% Senior notes (US\$500)	505	493	–
4.079% Medium term notes	897	896	–
4.896% Medium term notes	998	997	996
7.768% Medium term notes	597	597	597
5.161% Medium term notes	549	549	548
5.505% Medium term notes	399	399	399
4.67% Medium term notes	350	350	349
4.448% fixed/floating Senior debentures	575	548	548
Other notes payable	26	419	419
Total long-term debt⁽¹⁾	\$ 5,503	\$ 5,841	\$ 3,856
Fair value	\$ 5,728	\$ 6,081	\$ 4,130

⁽¹⁾ Carrying values have been adjusted for those instruments designated as hedged items in fair value hedge relationships.

The fair value of long-term debt is determined using quoted market prices where available. For debt instruments that do not have quoted prices, the fair value is determined with reference to quoted prices of a debt instrument with similar characteristics or utilizing a model to discount cash flows based on current market interest rates.

The carrying value of the long-term debt reflects an unamortized fair value increment of nil (December 31, 2010 – US\$4 and January 1, 2010 – US\$7), which arose as a result of the acquisition of John Hancock. 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, 2011 was \$289 (2010 – \$215). Issue costs are amortized over the term of the debt.

(a) 3.40% Senior notes

On September 17, 2010, MFC issued US\$600 in 3.40% senior notes which mature September 17, 2015 and are redeemable in whole or in part by MFC at any time at the greater of par or the fair value of the debt calculated as the sum of the present values of the remaining scheduled payments of principal and interest to be redeemed discounted from their respective scheduled payment dates at the U.S. Government treasury bond yield plus 30 basis points, in each case together with accrued and unpaid interest.

These US\$ senior notes have been designated as a hedge of the Company's net investment in its U.S. operations to reduce the earnings volatility that would otherwise arise from the translation of the U.S. denominated debt into Canadian dollars.

(b) 4.90% Senior notes

On September 17, 2010, MFC issued US\$500 in 4.90% senior notes which mature September 17, 2020 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 calculated as the sum of the present values of the remaining scheduled payments of principal and interest to be redeemed discounted from their respective scheduled payment dates at the U.S. Government treasury bond yield plus 35 basis points, in each case together with accrued and unpaid interest.

These US\$ senior notes have been designated as a hedge of the Company's net investment in its U.S. operations to reduce the earnings volatility that would otherwise arise from the translation of the U.S. denominated debt into Canadian dollars.

(c) 4.079% Medium term notes

On August 20, 2010, MFC issued \$900 in 4.079% medium term notes which mature August 20, 2015 and are redeemable in whole or in part by MFC at any time at the greater of par or the fair value of the debt based on the yield on Government of Canada bonds plus 46 basis points, in each case together with accrued and unpaid interest.

(d) 4.896% Medium term notes

On June 2, 2009, MFC issued \$1,000 in 4.896% medium term notes which mature June 2, 2014 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 57.5 basis points, in each case together with accrued and unpaid interest.

(e) 7.768% Medium term notes

On April 8, 2009, MFC issued \$600 in 7.768% medium term notes which mature April 8, 2019 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 125 basis points, in each case together with accrued and unpaid interest.

(f) 5.161% Medium term notes

On June 26, 2008, MFC issued \$550 in 5.161% medium term notes which mature June 26, 2015 and are redeemable in whole or in part by MFC at any time at the greater of par or the fair value of the debt based on the yield on Government of Canada bonds plus 36 basis points, in each case together with accrued and unpaid interest.

(g) 5.505% Medium term notes

Also on June 26, 2008, MFC issued \$400 in 5.505% medium term notes which mature on June 26, 2018 and are redeemable in whole or in part by MFC at any time at the greater of par or the fair value of the debt based on the yield on Government of Canada bonds plus 39 basis points, in each case together with accrued and unpaid interest.

(h) 4.67% Medium term notes

On March 28, 2006, MFC issued \$350 in 4.67% medium term 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.

(i) 4.448 % fixed/floating senior debentures

On December 14, 2006, Manulife Finance (Delaware) L.P. ("MFLP"), a wholly owned partnership, issued \$550 of senior debentures which mature on December 15, 2026 and 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 1.50%, payable quarterly.

The senior debentures are redeemable in whole or in part, prior to December 15, 2016 at the greater of par or the fair value of the debt based on the yield on Government of Canada bonds plus 14 basis points and on or after December 15, 2016 at par, in each case together with accrued and unpaid interest. Upon certain tax changes, the senior debentures are redeemable as a whole, at the fair market value, together with accrued and unpaid interest.

(j) Other notes payable

Other notes payable are comprised of fixed rate notes bearing interest at rates ranging from 5.8% to 12.1% and maturing in varying amounts to 2017. A 6.822% senior note issued April 26, 2001, with face value of \$220, matured May 31, 2011. A 6.646% senior note issued October 16, 2001, with face value of \$175, matured November 30, 2011.

(k) Aggregate maturities of long-term debt

As at	December 31,		January 1,
	2011	2010	2010
Less than one year	\$ 12	\$ 407	\$ 6
One to two years	350	–	403
Two to three years	998	350	–
Three to four years	2,053	997	349
Four to five years	–	2,050	996
Greater than five years	2,090	2,037	2,102
Total	\$ 5,503	\$ 5,841	\$ 3,856

Note 13 Liabilities for Preferred Shares and Capital Instruments

As at	December 31,		January 1,
	2011	2010	2010
Preferred shares – Class A Shares, Series 1	\$ 344	\$ 344	\$ 344
Manulife Financial Capital Securities – Series A	60	60	60
Manulife Financial Capital Securities – Series B	940	940	940
Manulife Financial Capital Trust II Notes – Series 1	993	991	989
Surplus notes – 7.375% U.S. dollar	481	471	497
Subordinated debentures – 4.21% fixed/floating Canadian dollar	547	–	–
Subordinated debentures – 6.24% fixed/floating Canadian dollar	–	550	550
Subordinated debentures – 5.059% fixed/floating Canadian dollar	647	648	642
Total	\$ 4,012	\$ 4,004	\$ 4,022
Fair value	\$ 4,077	\$ 4,105	\$ 4,166

The fair value of liability instruments is determined using quoted market prices.

The carrying value of the surplus notes reflects an unamortized fair value increment of US\$39 (December 31, 2010 – US\$41 and January 1, 2010 – US\$43), which arose as a result of the acquisition of John Hancock Financial Services, Inc. The amortization of the fair value adjustment is recorded in interest expense.

The cash amount of interest, including dividends on the Class A, Series 1 preferred shares, paid during the year ended December 31, 2011 was \$238 (2010 – \$257).

Issue costs are amortized over the term of the underlying instruments.

Maturity profile of capital instruments

There are no scheduled maturities for any of the outstanding capital instruments within the next five years.

Preferred shares

On June 19, 2003, MFC issued 14 million Class A Shares, Series 1 ("Series 1 Preferred Shares") at a price of \$25.00 per share, for an aggregate amount of \$350. The Series 1 Preferred Shares are non-voting and are entitled to non-cumulative preferential cash dividends payable quarterly, if and when declared, at a per annum rate of 4.10%. With regulatory approval, the Series 1 Preferred Shares may be redeemed by MFC, in whole or in part, at declining premiums that range from \$1.25 to nil per Series 1 Preferred Share, by either payment of cash or the issuance of MFC common shares. On or after December 19, 2015, the Series 1 Preferred Shares will be convertible at the option of the holder into MFC common shares, the number of which is determined by a prescribed formula, and is subject to the right of MFC prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares. The prescribed formula is the face amount of the Series 1 Preferred Shares divided by the greater of \$2.00 and 95% of the then market price of MFC common shares.

Manulife Financial Capital Securities

On December 10, 2001, Manulife Financial Capital Trust (the "Trust"), a wholly owned open-end trust, issued 60,000 Manulife Financial Capital Securities ("MaCS") – Series A and 940,000 MaCS – Series B.

Each MaCS – Series A entitles the holder to receive fixed cash distributions payable semi-annually in the amount of \$35.00 representing an annual yield of 7%. Each MaCS – Series B entitles the holder to receive fixed cash distributions payable semi-annually in the amount of \$33.50 representing an annual yield of 6.70%.

On any distribution date prior to June 30, 2012, the Trust may redeem, with regulatory approval, any outstanding MaCS series, in whole or in part, at the greater of par or the present value of the debt based on the yield on uncalled Government of Canada bonds plus 0.40% in the case of MaCS – Series A and 0.32% in the case of MaCS – Series B. On or after June 30, 2012, the Trust may redeem any outstanding MaCS series at par, together with any unpaid interest.

Each MaCS is exchangeable at the option of the holder into 40 newly issued MLI Class A Shares Series 2, in the case of MaCS – Series A, or 40 newly issued MLI Class A Shares Series 4, in the case of MaCS – Series B, under certain circumstances.

Under certain circumstances, each MaCS will be automatically exchanged, without the consent of the holders, for 40 MLI Class A Shares Series 3, in the case of MaCS – Series A, and 40 MLI Class A Shares Series 5, in the case of MaCS – Series B.

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

On or after June 30, 2051, the MLI Class A Shares Series 2 and Series 3 will be convertible at the option of the holder into MFC common shares. On or after December 31, 2012, the MLI Class A Shares Series 4 and Series 5 will be convertible at the option of the holder into MFC common shares. In each case, the number of MFC common shares is determined by the face amount of the MLI Class A Shares divided by the greater of \$1.00 and 95% of the then market price of MFC common shares.

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

The Trust is consolidated in the Company's consolidated financial statements (see note 18).

Manulife Financial Capital Trust II Notes – Series 1

On July 10, 2009, Manulife Financial Capital Trust II ("Trust II") issued \$1,000 in subordinated notes. The notes mature on December 31, 2108 and interest is payable semi-annually on June 30 and December 31. From July 10, 2009 to December 30, 2019, the rate of interest is 7.405% per annum. On December 31, 2019 and on every fifth anniversary after December 31, 2019 (the "Interest Reset Date"), the rate of interest will be reset to the yield on five year Government of Canada bonds plus 5%.

On or after December 31, 2014, Trust II may redeem the notes, with regulatory approval, in whole or in part, on any day that is not an Interest Reset Date, at the greater of the par or the present value of the debt based on the yield on uncalled Government of Canada bonds plus 1% if the redemption is prior to December 31, 2019, or 2% if the redemption date is after December 31, 2019, in each case together with accrued and unpaid interest. Trust II may redeem the notes, on or after December 31, 2019, with regulatory approval, on an Interest Reset Date at par, together with accrued and unpaid interest.

Trust II is consolidated in the Company's consolidated financial statements (see note 18).

Under certain circumstances, each note will be automatically exchanged, without the consent of the holders, for 40 Class 1 Series 1 MLI preferred shares. The notes constitute Tier I regulatory capital.

U.S. dollar surplus notes

On February 25, 1994, John Hancock Mutual Life Insurance Company, now John Hancock Life Insurance Company (U.S.A.), issued US\$450 of 7.375% surplus notes maturing on February 15, 2024. Any payment of interest or principal on the surplus notes requires prior approval from the Commissioner of the Office of Financial and Insurance Regulation of the State of Michigan.

Subordinated debentures 4.21% fixed/floating Canadian dollar

On November 18, 2011, MLI issued \$550 in subordinated fixed/floating debentures, which mature November 18, 2021. The debentures bear interest at a fixed rate of 4.21% per annum, payable semi-annually for five years and thereafter at the 90-day Bankers' Acceptance rate plus 2.65% payable quarterly. With regulatory approval, MLI may redeem the debentures, in whole or in part, on or after November 18, 2016, at par, together with accrued and unpaid interest. The subordinated debentures form part of the Company's Tier 2B regulatory capital.

Subordinated debentures 6.24% fixed/floating Canadian dollar

On February 16, 2011, debentures bearing interest at a fixed rate of 6.24% for 10 years and thereafter at the 90-day Bankers' Acceptance rate plus 1% were redeemed at par plus accrued interest to the date of redemption.

Subordinated debentures 5.059% fixed/floating Canadian dollar

On December 14, 2006, MFLP issued \$650 of subordinated debentures which mature December 15, 2041. 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.

With regulatory approval, MFLP may redeem the subordinated debentures, in whole or in part, at any time prior to December 15, 2036 at the greater of par or the present value of the debt based on the yield on Government of Canada bonds plus 26.5 basis points or on any interest payment date, on or after December 15, 2036 at par, in each case together with accrued and unpaid interest.

Upon certain tax changes, the subordinated debentures are redeemable as a whole, with regulatory approval, at the fair market value, together with accrued and unpaid interest.

The subordinated debentures form part of the Company's Tier 2B regulatory capital.

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, Class B and Class 1 preferred shares without nominal or par value, issuable in series.

Preferred shares

On December 6, 2011 MFC issued 8 million Class 1 Shares Series 5 ("Class 1 Series 5 Preferred Shares") at a price of \$25 per share, for an aggregate amount of \$200. The Class 1 Series 5 Preferred Shares are entitled to non-cumulative preferential cash dividends, payable quarterly, if and when declared, at a per annum rate of 4.40% until December 19, 2016 after which the dividend rate will be reset every five years at a rate equal to the Government of Canada bond yield plus 2.90%. On December 19, 2016 and on December 19 every five years thereafter, the Class 1 Series 5 Preferred Shares will be convertible at the option of the holder into Class 1 Shares Series 6 ("Class 1 Series 6 Preferred Shares"). The Class 1 Series 6 Preferred Shares are entitled to non-cumulative preferential cash dividends, payable quarterly, if and when declared, at a rate equal to the three month Government of Canada Treasury Bill yield plus 2.90%. Subject to regulatory approval, MFC may redeem Class 1 Series 5 Preferred Shares, in whole or in part, at par, on December 19, 2016 and on December 19 every five years thereafter.

On March 11, 2011, MFC issued 8 million Class 1 Shares Series 3 ("Class 1 Series 3 Preferred Shares") at a price of \$25 per share, for an aggregate amount of \$200. The Class 1 Series 3 Preferred Shares are entitled to non-cumulative preferential cash dividends, payable quarterly, if and when declared, at a per annum rate of 4.20% until June 19, 2016, after which the dividend rate will be reset every five years at a rate equal to the five year Government of Canada bond yield plus 1.41%. On June 19, 2016 and on June 19 every five years thereafter, the Class 1 Series 3 Preferred Shares will be convertible at the option of the holder into Class 1 Shares Series 4 ("Class 1 Series 4 Preferred Shares"). The Class 1 Series 4 Preferred Shares are entitled to non-cumulative preferential cash dividends, payable quarterly, if and when declared, at a rate equal to the three month Government of Canada Treasury Bill yield plus 1.41%. Subject to regulatory approval, MFC may redeem Class 1 Series 3 Preferred Shares, in whole or in part, at par, on June 19, 2016 and on June 19 every five years thereafter.

On June 3, 2009, MFC issued 14 million Class 1 Shares Series 1 ("Class 1 Series 1 Preferred Shares") at a price of \$25 per share, for an aggregate amount of \$350. The Class 1 Series 1 Preferred Shares are entitled to non-cumulative preferential cash dividends, payable quarterly, if and when declared, at a per annum rate of 5.6% until September 19, 2014, after which the dividend rate will be reset every five years at a rate equal to the five year Government of Canada bond yield plus 3.23%. On September 19, 2014 and on September 19 every five years thereafter, the Class 1 Series 1 Preferred Shares will be convertible at the option of the holder into Class 1 Shares Series 2 ("Class 1 Series 2 Preferred Shares"). The Class 1 Series 2 Preferred Shares are entitled to non-cumulative preferential cash dividends, payable quarterly, if and when declared, at a rate equal to the three month Government of Canada Treasury Bill yield plus 3.23%. Subject to regulatory approval, MFC may redeem the Class 1 Series 1 Preferred Shares, in whole or in part, at par on September 19, 2014 and on September 19 every five years thereafter.

On March 4, 2009, MFC issued 18 million Class A Shares, Series 4 ("Series 4 Preferred Shares") at a price of \$25 per share, for an aggregate amount of \$450. The Series 4 Preferred Shares are entitled to non-cumulative preferential cash dividends, payable quarterly, if and when declared, at a per annum rate of 6.6% until June 19, 2014, after which the dividend rate will be reset every five

years at a rate equal to the five year Government of Canada bond yield plus 4.56%. On June 19, 2014 and on June 19 every five years thereafter, the Series 4 Preferred Shares will be convertible at the option of the holder into Class A Shares, Series 5 ("Series 5 Preferred Shares"). The Series 5 Preferred Shares are entitled to non-cumulative preferential cash dividends, payable quarterly, if and when declared, at a rate equal to the three month Government of Canada Treasury Bill yield plus 4.56%. Subject to regulatory approval, MFC may redeem the Series 4 Preferred Shares, in whole or in part, at par on June 19, 2014 and on June 19 every five years thereafter.

On January 3, 2006, MFC issued 12 million Class A Shares, Series 3 ("Series 3 Preferred Shares") at a price of \$25.00 per share, for an aggregate amount of \$300. The Series 3 Preferred Shares are non-voting and entitled to non-cumulative preferential cash dividends payable quarterly, if and when declared, at a per annum rate of 4.50%. With regulatory approval, the Series 3 Preferred Shares may be redeemed by MFC on or after March 19, 2011, in whole or in part, for cash, at declining premiums that range from \$1.00 to nil per share.

On February 18, 2005, MFC issued 14 million Class A Shares, Series 2 ("Series 2 Preferred Shares") at a price of \$25.00 per share, for an aggregate amount of \$350. The Series 2 Preferred Shares are non-voting and are entitled to non-cumulative preferential cash dividends payable quarterly, if and when declared, at a per annum rate of 4.65%. With regulatory approval, the Series 2 Preferred Shares may be redeemed by MFC on or after March 19, 2010, in whole or in part, for cash, at declining premiums that range from \$1.00 to nil per share.

Common shares

On November 30, 2009, MFC issued 132 million common shares at \$19.00 per share. Net cash proceeds, after deducting commissions and fees of the issue, were \$2,413. Net proceeds including tax benefits were \$2,435.

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

On May 7, 2009, MFC announced amendments to its dividend reinvestment and share purchase plans. These plans provide registered common shareholders with a means to automatically reinvest the cash dividends paid on their common shares in the purchase of additional common shares. These plans are open to registered shareholders residing in Canada or the United States. MFC has the flexibility to fund the plans through open market purchases and treasury issuances.

For the years ended December 31,	2011		2010	
	Number of shares (in millions)	Amount	Number of shares (in millions)	Amount
Common shares				
Balance, January 1	1,778	\$ 19,254	1,758	\$ 18,937
Issued on exercise of stock options and deferred share units	–	2	1	3
Issued under dividend reinvestment and share purchase plans	23	304	19	314
Balance, December 31	1,801	\$ 19,560	1,778	\$ 19,254

On February 9, 2012, the Company's Board of Directors approved a quarterly dividend of \$0.13 per share on the common shares of MFC, payable on and after March 19, 2012 to shareholders of record at the close of business on February 22, 2012.

The Board also declared dividends on the following non-cumulative preferred shares, payable on or after March 19, 2012 to shareholders of record at the close of business on February 22, 2012.

- Class A Shares Series 1 – \$0.25625 per share
- Class A Shares Series 2 – \$0.29063 per share
- Class A Shares Series 3 – \$0.28125 per share
- Class A Shares Series 4 – \$0.4125 per share
- Class 1 Shares Series 1 – \$0.35 per share
- Class 1 Shares Series 3 – \$0.2625 per share
- Class 1 Shares Series 5 – \$0.313425 per share

Note 15 Capital Management

Manulife Financial manages its capital on a total company basis as well as at each regulated entity level. Manulife Financial seeks to manage its capital with the objectives of:

- Operating with sufficient capital to be able to honour all policyholder and other obligations with a high degree of confidence;
- Securing stability and flexibility to operate, ensuring best access to capital markets and maintaining target credit ratings; and
- Seeking to optimize return on capital to meet shareholders' expectations, subject to constraints and considerations of adequate levels of capital established to meet the first two objectives.

In its assessments of capital adequacy, the Company typically adopts regulatory capital definitions and measures applicable to any given entity and jurisdiction in which an entity operates. These are supplemented by an internal capital measurement framework that reflects the Company's view of risk.

Annually the Board of Directors reviews and approves the Company's capital management policies. Each quarter, the Audit Committee reviews the Company's capital position. In addition, the Appointed Actuary discusses with the Board of Directors key sensitivities of the Company's capital ratios as assessed in the context of annual capital planning and Dynamic Capital Adequacy Testing ("DCAT") analysis. Operational oversight of capital management is provided by the Finance Committee, consisting of senior finance, risk management and investment executives and chaired by the Chief Actuary. The committee reviews issues and initiatives that affect the capital position of MFC's subsidiaries and the Company as a whole.

As part of its annual DCAT, the Company assesses the strength of its capital position under severe shock scenarios. The scenarios are determined each year to ensure their ongoing relevance to the Company's business and risk profile. The Company's DCAT typically includes assessments of shocks related to economic risks pertaining to the performance of equity markets, credit and interest rates, among others. The 2011 DCAT results demonstrate that the Company has sufficient assets to discharge policy liabilities in the various adverse scenarios tested. In addition to DCAT the Company periodically quantifies impacts of various stress scenarios the results of which inform its ongoing proactive capital management.

The measure of available capital in the table below serves as the foundation of the Company's capital management activities at the consolidated level. For regulatory reporting purposes, the numbers are further adjusted for various additions or deductions to capital as mandated by the guidelines issued by OSFI. The Company remains well within regulatory constraints on the composition of capital between equity and other instruments.

Consolidated capital

As at

	December 31,		January 1,
	2011	2010	2010
Total equity ⁽¹⁾	\$ 24,879	\$ 24,675	\$ 27,576
Less AOCI (loss) on cash flow hedges	(91)	(55)	(19)
Total equity less AOCI (loss) on cash flow hedges	\$ 24,970	\$ 24,730	\$ 27,595
Liabilities for preferred shares and capital instruments	4,012	4,004	4,022
Total capital	\$ 28,982	\$ 28,734	\$ 31,617

⁽¹⁾ Total equity includes unrealized gains and losses on AFS bonds and AFS equities, net of taxes. Starting in 2009, the current year net unrealized gain or loss on AFS bonds is not part of OSFI regulatory capital. As at December 31, 2011, the gain on AFS bonds, net of taxes, was \$193 (2010 – \$168).

In 2011, the Company's capital increased by \$248 compared to the prior year. The increase was primarily due to \$400 of preferred shares issued, the \$547 impact of a weaker Canadian dollar and \$245 of net income, partially offset by \$717 of shareholder dividends paid in cash and a \$229 decrease in unrealized gains on AFS securities. The \$550 of MLI subordinated debentures issued in the fourth quarter of 2011 offset the \$550 of MLI subordinated debentures redeemed in the first quarter of 2011. See note 13.

MFC issued senior debt of Canadian \$900 and US\$1,100 in 2010. While such funding may be deployed in subsidiaries as capital, at the MFC consolidated level senior indebtedness is typically not considered capital, consistent with the current OSFI guidelines.

Note 16 Stock-Based Compensation

Under MFC's Executive Stock Option Plan ("ESOP"), stock options are granted to selected individuals. Options provide the holder with the right to purchase common shares of MFC at an exercise price equal to the higher of the prior day or prior five day average closing market price of common shares on the Toronto Stock Exchange on 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 vest over a three year period and each DSU entitles the holder to receive one common share on retirement or termination of employment. When dividends are paid on common shares, holders of DSUs are deemed to receive dividends at the same rate, payable in the form of additional DSUs. The number of these DSUs outstanding was 1.6 million as at December 31, 2011 (2010 – 1.8 million).

In addition, for certain new employees and 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 2011, the Company did not grant any DSUs (2010 – 17,000) to certain new hires which vest over a maximum period of five years. In 2011, 13,000 DSUs (2010 – 35,000) were granted to certain employees who elected to defer receipt of all or part of their annual bonus. These DSUs vested immediately. Also, in 2011, 49,000 DSUs (2010 – 20,000) were granted to certain employees to defer payment of all or part of their Restricted Share Units ("RSUs") and/or Performance Share Units ("PSUs"). These DSUs also vested immediately.

The fair values of the 0.2 million DSUs issued in the year were \$10.85 per unit, as at December 31, 2011 (0.2 million issued at \$17.15 per unit on December 31, 2010).

MFC's Global Share Ownership Plan ("GSOP") allows qualifying employees to choose to apply up to five per cent of their annual base earnings toward the purchase of common shares. MFC matches a percentage of the employee's eligible contributions up to a maximum amount. MFC's contributions vest immediately. All contributions are used to purchase common shares in the open market.

Under the Stock Plan for Non-Employee Directors, each eligible director may elect to receive his or her annual director's retainer and fees in DSUs or common shares in lieu of cash. Upon termination of Board service, an eligible director who has elected to receive DSUs will be entitled to receive cash equal to the value of the DSUs accumulated in his or her account or, at his or her direction, an equivalent number of common shares. A total of one million common shares have been reserved for issuance under this plan.

For the years ended December 31,

	2011	2010
	Number of DSUs (in thousands)	
Outstanding, January 1	3,098	4,943
Issued	173	157
Reinvested	121	157
Redeemed	(382)	(2,159)
Outstanding, December 31	3,010	3,098

Of the DSUs outstanding as at December 31, 2011, 1,580,000 (2010 – 1,813,000) entitle the holder to receive common shares, 874,000 (2010 – 859,000) entitle the holder to receive payment in cash and 556,000 (2010 – 426,000) entitle the holder to receive payment in cash or common shares, at the option of the holder.

MFC previously granted stock options to directors under the Director Equity Incentive Plan ("DEIP"). No stock options were granted under this plan in 2011, as a result of a decision made by the Board of Directors in 2004 to permanently discontinue stock option grants to directors. The number of options outstanding under the DEIP was 54,000 as at December 31, 2011 (2010 – 70,000).

For the year ended December 31, 2011, 4.5 million RSUs (2010 – 3.0 million) and 0.6 million PSUs (2010 – 0.7 million) were granted to certain eligible employees under MFC's Restricted Share Unit Plan. The fair values of the RSUs and PSUs granted in the year were \$10.85 per unit, as at December 31, 2011 (2010 – \$17.15 per unit). Each RSU/PSU entitles the recipient to receive payment equal to the market value of one common share, plus credited dividends, at the time of vesting, subject to any performance conditions.

RSUs granted in February 2011 vest on the date that is 34 months from the grant date (December 15, 2013), and the related compensation expense is recognized over this period, except where the employee is eligible to retire prior to a 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 \$51 for the year ended December 31, 2011 (2010 – \$45).

PSUs granted in February 2011 vest on the date that is 34 months from the grant date (December 15, 2013), subject to performance conditions over the performance period. The related compensation expense is recognized over this period, except where the employee is eligible to retire prior to a 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 PSUs was \$(3) for the year ended December 31, 2011 (2010 – \$9).

	2011		2010	
	Number of options (in millions)	Weighted average exercise price	Number of options (in millions)	Weighted average exercise price
Options outstanding				
For the years ended December 31,				
Outstanding, January 1	36	\$ 24.68	35	\$ 24.72
Granted	4	\$ 18.90	6	\$ 19.40
Expired	(4)	\$ 23.10	(4)	\$ 17.81
Forfeited	(1)	\$ 21.77	(1)	\$ 21.54
Outstanding, December 31	35	\$ 24.24	36	\$ 24.68
Exercisable, December 31	22	\$ 26.95	22	\$ 26.97

	Options outstanding			Options exercisable		
	Number of options (in millions)	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of options (in millions)	Weighted average exercise price	Weighted average remaining contractual life (in years)
As at December 31, 2011						
\$14.79 - \$19.52	18	\$ 17.74	7.32	6	\$ 17.05	5.73
\$19.53 - \$25.45	6	\$ 22.41	1.54	6	\$ 22.42	1.17
\$25.46 - \$40.38	11	\$ 35.83	3.82	10	\$ 35.68	3.71
Total	35	\$ 24.24	5.21	22	\$ 26.95	3.64

The weighted average fair value of each option granted in 2011 has been estimated at \$4.52 (2010 – \$4.99) using the Black-Scholes option-pricing model. The pricing model uses the following assumptions for these options: risk-free interest rate of 2.9% (2010 –

3.0%), dividend yield of 3.25% (2010 – 2.75%), expected volatility of 30% (2010 – 30%) and expected life of 6.9 (2010 – 6.7) years. Expected volatility is estimated by evaluating a number of factors including historical volatility of the share price over multi-year periods.

The stock-based compensation expense recognized is shown in the following table.

For the years ended December 31,	2011	2010
Expense arising from equity-settled stock-based payment transactions	\$ 23	\$ 25
Expense arising from cash-settled stock-based payment transactions	48	59
Total stock-based compensation expense	\$ 71	\$ 84

The carrying amount of the liability relating to the cash-settled awards at December 31, 2011 is \$49 (2010 – \$96) and is included within other liabilities.

Dilutive effect of stock-based compensation awards

For the years ended December 31,	2011	2010
Diluted earnings (loss) per common share	\$ 0.02	\$ (0.99)
Net income (loss) available to common shareholders	\$ 44	\$ (1,742)
Weighted average number of common shares (in millions)	1,786	1,765
Dilutive stock-based awards ⁽¹⁾ (in millions)	3	–
Dilutive convertible instruments ⁽²⁾ (in millions)	–	–
Weighted average number of diluted common shares⁽³⁾ (in millions)	1,789	1,765

⁽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 year. Excluded from the calculation were an average of 36 million (2010 – 41 million) anti-dilutive stock-based awards.

⁽²⁾ The holders of the convertible preferred shares and MaCS series A and B have the right to redeem those instruments for MFC shares prior to the conversion date. However, these convertible instruments have been excluded from the calculation, as the conversions are anti-dilutive for the years ended December 31, 2011 and 2010.

⁽³⁾ For the year ended December 31, 2010, the dilutive effect calculation utilizes the basic weighted average number of common shares because the loss for the year results in all awards being anti-dilutive.

Note 17 Employee Future Benefits

The Company maintains a number of pension plans, both defined benefit and defined contribution, and post-employment benefit plans for its eligible employees and agents. These plans include broad-based pension plans for employees that are funded, supplemental pension plans for executives that are primarily unfunded, and other post-employment benefit plans that are also primarily unfunded.

The Company's funding policy for all applicable plans is to make at least the minimum annual contributions required by regulations of the countries in which the plans are offered. Actuarial valuations to determine employer required annual contributions for Canadian based registered pension plans are generally required at least once every three years. The most recent actuarial valuation of the main Canadian staff pension plan was performed as at December 31, 2010. The date of the next required actuarial valuation of the Canadian staff pension plan for funding purposes is December 31, 2013. Pension plans based in the United States require annual valuations, with the most recent valuation performed as at January 1, 2011. For 2012, the required funding for the Company's largest Canadian and U.S. pension plans is expected to be approximately \$40 million.

Assumptions and methods prescribed for regulatory funding purposes differ from those used for accounting purposes. The Company measures its defined benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year.

Pension and post-employment benefit plans

For the years ended December 31,	Pension benefits		Post-employment benefits	
	2011	2010	2011	2010
Changes in defined benefit obligation:				
Ending balance prior year	\$ 3,743	\$ 3,637	\$ 785	\$ 801
Current service cost	62	63	8	7
Past service cost	–	–	(38)	–
Interest cost	174	194	37	42
Plan participants' contributions	1	1	5	5
Actuarial (gains) losses	199	228	24	53
Benefits paid	(265)	(251)	(59)	(62)
Impact of changes in foreign exchange rates	66	(129)	12	(30)
Curtailments	–	–	–	(31)
Defined benefit obligation, December 31	\$ 3,980	\$ 3,743	\$ 774	\$ 785

	Pension benefits		Post-employment benefits	
	2011	2010	2011	2010
For the years ended December 31,				
Changes in plan assets:				
Fair value of plan assets, ending balance prior year	\$ 2,869	\$ 2,755	\$ 345	\$ 321
Expected return on plan assets	190	184	25	25
Employer contributions	107	99	54	58
Plan participants' contributions	1	1	5	5
Benefits paid	(265)	(251)	(59)	(62)
Actuarial gains (losses)	(19)	186	(18)	16
Impact of changes in foreign exchange rates	48	(105)	8	(18)
Fair value of plan assets, December 31⁽¹⁾	\$ 2,931	\$ 2,869	\$ 360	\$ 345

⁽¹⁾ The fair value of plan assets does not include the rabbi trust assets that support the non-qualified U.S. retirement plan obligations for certain executives and retired executives in respect of service prior to May 1, 2008. In the event of insolvency of the Company, the rabbi trust assets can be used to satisfy claims of general creditors. At December 31, 2011, assets in the rabbi trust with respect to these defined benefit obligations were \$351 (2010 – \$343) compared to the defined benefit obligations under the merged plan of \$360 (2010 – \$356).

	Pension benefits		Post-employment benefits	
	2011	2010	2011	2010
As at December 31,				
Deficit	\$ 1,049	\$ 874	\$ 414	\$ 440
Unrecognized net actuarial losses	(1,011)	(839)	(58)	(25)
Unrecognized prior service credit	–	–	19	–
Effect of asset limit	6	3	–	–
Net defined benefit liability	\$ 44	\$ 38	\$ 375	\$ 415

	Pension benefits		Post-employment benefits	
	2011	2010	2011	2010
As at January 1, 2010				
Deficit		\$ 882		\$ 480
Unrecognized net actuarial gains (losses)		(896)		10
Net defined benefit (asset) liability		\$ (14)		\$ 490

Amounts recognized in the Consolidated Statements of Financial Position

	Pension benefits		Post-employment benefits	
	2011	2010	2011	2010
As at December 31,				
Defined benefit liability	\$ 619	\$ 600	\$ 375	\$ 415
Defined benefit asset	(575)	(562)	–	–
Net defined benefit liability	\$ 44	\$ 38	\$ 375	\$ 415

	Pension benefits		Post-employment benefits	
	2011	2010	2011	2010
As at January 1, 2010				
Defined benefit liability		\$ 589		\$ 490
Defined benefit asset		(603)		–
Net defined benefit (asset) liability		\$ (14)		\$ 490

The following disclosures will be built up over time to give a five year history

	Pension benefits		Post-employment benefits	
	2011	2010	2011	2010
As at and for the years ended December 31,				
Defined benefit obligation	\$ 3,980	\$ 3,743	\$ 774	\$ 785
Fair value of plan assets	2,931	2,869	360	345
Deficit (surplus)	\$ 1,049	\$ 874	\$ 414	\$ 440
Experience (gain) loss adjustments on defined benefit obligation	\$ 4	\$ 4	\$ (2)	\$ (13)
Experience gain (loss) adjustment on assets	\$ (19)	\$ 186	\$ (18)	\$ 16

As at December 31, 2011, the Company's broad-based and funded defined benefit pension plans consisted of assets of \$2,917 (December 31, 2010 – \$2,855 and January 1, 2010 – \$2,741) and obligations of \$3,169 (December 31, 2010 – \$2,974 and January 1, 2010 – \$2,909), which results in a deficit of \$252 (December 31, 2010 – \$119 and January 1, 2010 – \$168).

The Company's executive supplemental pension plans are primarily unfunded and, as at December 31, 2011, consisted of assets of \$14 (December 31, 2010 – \$14 and January 1, 2010 – \$14) and obligations of \$811 (December 31, 2010 – \$769 and January 1, 2010 – \$728), which results in a deficit of \$797 (December 31, 2010 – \$755 and January 1, 2010 – \$714). Of this deficit,

\$565 (December 31, 2010 – \$544 and January 1, 2010 – \$534) has been charged to earnings to date. Further, the rabbi trust assets that support a portion of these obligations amounted to \$351 as at December 31, 2011 (December 31, 2010 – \$343 and January 1, 2010 – \$368). 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 but are not separately segregated.

Assets and defined benefit obligations for the various pension plans by category, including rabbi trust assets, were as follows.

As at	Pension benefits		
	December 31,		January 1,
	2011	2010	2010
Broad-based funded defined benefit pension plans			
Defined benefit obligation	\$ 3,169	\$ 2,974	\$ 2,909
Fair value of plan assets	2,917	2,855	2,741
Deficit	\$ 252	\$ 119	\$ 168
Executive supplemental pension plans			
Defined benefit obligation	\$ 811	\$ 769	\$ 728
Fair value of plan assets	14	14	14
Deficit	\$ 797	\$ 755	\$ 714
Other			
Rabbi trust assets	\$ 351	\$ 343	\$ 368
Total			
Defined benefit obligation	\$ 3,980	\$ 3,743	\$ 3,637
Fair value of plan assets	3,282	3,212	3,123
Deficit	\$ 698	\$ 531	\$ 514

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

Overall, the Company's funded or partially funded defined benefit pension and other post-employment benefit plans consist of assets of \$3,291 (December 31, 2010 – \$3,214 and January 1, 2010 – \$3,076) and obligations of \$3,720 (December 31, 2010 – \$3,525 and January 1, 2010 – \$3,499). Obligations for unfunded pension plans and other post-employment benefit plans total \$1,034 (December 31, 2010 – \$1,003 and January 1, 2010 – \$939).

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

As at	Actual allocation		
	December 31,		January 1,
	2011	2010	2010
Equity securities ⁽¹⁾	40%	47%	51%
Debt securities	53%	45%	41%
Real estate	3%	3%	3%
Other	4%	5%	5%
Total	100%	100%	100%

⁽¹⁾ Included are investments in MFC common shares of \$0.2 (December 31, 2010 – \$0.3 and January 1, 2010 – \$0.8).

Net benefit cost

Components of the net benefit cost for the pension plans and other post-employment benefit plans were as follows.

For the years ended December 31,	Pension benefits		Post-employment benefits	
	2011	2010	2011	2010
Defined benefit current service cost	\$ 62	\$ 63	\$ 8	\$ 7
Defined contribution current service cost	70	67	–	–
Interest cost	174	194	37	42
Expected return on plan assets	(190)	(184)	(25)	(25)
Past service cost	–	–	(19)	–
Amortization of actuarial losses	64	64	9	2
Curtailment	–	–	–	(31)
Effect of asset limit	3	3	–	–
Net benefit cost	\$ 183	\$ 207	\$ 10	\$ (5)

Key weighted average assumptions

The weighted average assumptions used by the Company to determine the defined benefit obligation and net benefit cost for the defined benefit pension plans and other post-employment benefit plans were as follows.

For the years ended December 31,	Pension benefits		Post-employment benefits	
	2011	2010	2011	2010
To determine the accrued benefit obligation at end of year:				
Discount rate	4.4%	4.9%	4.5%	5.1%
Rate of compensation increase	3.4%	3.9%	3.3%	3.4%
Initial health care cost trend rate ⁽¹⁾	n/a	n/a	8.0%	8.0%
To determine the net benefit cost for the year:				
Discount rate	4.9%	5.5%	5.1%	5.8%
Expected return on plan assets ⁽²⁾	6.9%	7.0%	7.3%	7.8%
Rate of compensation increase	3.8%	4.1%	3.4%	3.3%
Initial health care cost trend rate ⁽¹⁾	n/a	n/a	8.0%	8.0%

⁽¹⁾ The health care cost trend rate used to measure the U.S. based post-employment benefit obligation was 8.5% grading to 5.0% for 2028 and years thereafter (2010 – 8.5% grading to 5.0% for 2028) and to measure the net benefit cost was 8.5% grading to 5.0% for 2028 and years thereafter (2010 – 8.5% grading to 5.0% for 2028). In Canada, the rate used to measure the post-employment benefit obligation was 6.8% grading to 4.8% for 2026 and years thereafter (2010 – 6.8% grading to 4.8% for 2026) and to measure the net benefit cost was 6.8% grading to 4.8% for 2026 and years thereafter (2010 – 6.5% grading to 4.8% for 2020).

⁽²⁾ The expected return on pension plan assets for U.S. based plans was 7.8% (2010 – 7.8%). Plans based in Canada had an expected return on plan assets of 5.2% (2010 – 5.5%). Other pension plans had an expected return of 4.1% (2010 – 4.5%).

The overall expected long-term rate of return is 6.9% (2010 – 7.1%) on the combined assets for all of the funded defined benefit pension and other post-employment benefit plans. The expected long-term rate of return is based on the future return expectations in each country for each asset class and on the target asset allocation of the portfolio for each plan.

Assumptions regarding future mortality are based on published statistics and mortality tables. The current longevities underlying the values of the obligations in the defined benefit pension and other post-employment benefit plans are as follows.

As at December 31, 2011	Canada	U.S.
Longevity at age 65 for current pensioners		
Males	19.6	20.1
Females	22.1	21.8
Longevity at age 65 for current members aged 45		
Males	21.1	21.5
Females	22.9	22.7

Sensitivity of key assumptions

Assumptions adopted can have a significant effect on the obligations and net benefit cost reported for defined benefit pension and other post-employment benefit plans. The sensitivity of the obligations and costs to changes in the key assumptions is set out in the following table.

As at and for the year ended December 31, 2011	Pension benefits		Post-employment benefits	
	Obligation	Net benefit cost	Obligation	Net benefit cost
Discount rate:				
Impact of a 1% increase	\$ (373)	\$ (56)	\$ (74)	\$ (2)
Impact of a 1% decrease	446	66	89	9
Expected return on plan assets:				
Impact of a 1% increase	n/a	(26)	n/a	(3)
Impact of a 1% decrease	n/a	26	n/a	3
Rate of compensation increase:				
Impact of a 0.25% increase	4	1	–	–
Impact of a 0.25% decrease	(3)	(1)	–	–
Health care cost trend rate:				
Impact of a 1% increase	n/a	n/a	39	4
Impact of a 1% decrease	n/a	n/a	(33)	(3)

The impact on the aggregate of service and interest cost of a 1% increase (or decrease) in the health care cost trend rate is a \$2 increase (or \$2 decrease) in cost.

The calculation of the defined benefit obligation is sensitive to the mortality assumptions. As the actuarial estimates of mortality continue to be refined, the effect of an increase of one year in longevity would be an increase in the defined benefit obligation of \$142.

Cash flows – contributions

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

For the years ended December 31,	Pension benefits		Post-employment benefits	
	2011	2010	2011	2010
Defined benefit plans	\$ 107	\$ 99	\$ 54	\$ 58
Defined contribution plans	70	67	–	–
Total	\$ 177	\$ 166	\$ 54	\$ 58

The Company's best estimate of expected payments for employee future benefits for the year ending December 31, 2012 is \$124 for defined benefit pension plans, \$74 for defined contribution pension plans and \$36 for post-employment benefit plans.

Cash flows – estimated benefit payments

The future benefit payments under the defined benefit pension plans and other post-employment benefit plans are estimated to be as follows.

For the years ended December 31,	Pension benefits	Post-employment benefits
2012	\$ 293	\$ 56
2013	289	57
2014	291	57
2015	289	58
2016	282	59
2017 – 2021	1,359	298

Investment policy and strategy

The Company's overall investment strategy for the funded defined benefit pension and other post-employment benefit plans varies by country and also by plan, depending on several factors including legislative requirements, types of benefit provided, plan demographics and plan funded status. The investment policies and strategies of the plans have been developed primarily to diversify the plan assets and to manage risks. Overall, investments are allocated primarily between the major asset classes of fixed income and equity, with a relatively smaller proportion of investments in alternative asset classes. Currently, the overall target asset allocation is set at approximately the following: for Canada, fixed income 68% and public equity 32%; for the U.S., fixed income 41%, public equity 50% and other types of investments 9%.

Fair value measurements

Fair value measurements of defined benefit pension and other post-employment benefit plan assets are categorized according to a three level hierarchy, as described in note 11. The fair values of these assets by asset category are as follows.

As at December 31, 2011	Total fair value	Level 1 ⁽¹⁾	Level 2 ⁽¹⁾	Level 3 ⁽¹⁾
Defined benefit pension plans				
Cash and cash equivalents	\$ 43	\$ 43	\$ –	\$ –
Equities ⁽²⁾	1,168	663	505	–
Fixed income ⁽²⁾	1,534	465	1,001	68
Other investments ⁽³⁾	186	2	–	184
Total defined benefit pension plan assets	\$ 2,931	\$ 1,173	\$ 1,506	\$ 252
Post-employment benefit plans				
Cash and cash equivalents	\$ 26	\$ 26	\$ –	\$ –
Equities ⁽²⁾	170	49	121	–
Fixed income ⁽²⁾	159	24	133	2
Other investments ⁽³⁾	5	–	–	5
Total post-employment benefit plan assets	\$ 360	\$ 99	\$ 254	\$ 7

As at December 31, 2010

Defined benefit pension plans				
Cash and cash equivalents	\$ 49	\$ 49	\$ –	\$ –
Equities ⁽²⁾	1,360	772	588	–
Fixed income ⁽²⁾	1,260	547	642	71
Other investments ⁽³⁾	200	2	–	198
Total defined benefit pension plan assets	\$ 2,869	\$ 1,370	\$ 1,230	\$ 269
Post-employment benefit plans				
Cash and cash equivalents	\$ 24	\$ 24	\$ –	\$ –
Equities ⁽²⁾	172	50	122	–
Fixed income ⁽²⁾	144	23	119	2
Other investments ⁽³⁾	5	–	–	5
Total post-employment benefit plan assets	\$ 345	\$ 97	\$ 241	\$ 7

As at January 1, 2010

Defined benefit pension plans				
Cash and cash equivalents	\$ 39	\$ 39	\$ –	\$ –
Equities ⁽²⁾	1,395	755	640	–
Fixed income ⁽²⁾	1,090	731	276	83
Other investments ⁽³⁾	231	3	–	228
Total defined benefit pension plan assets	\$ 2,755	\$ 1,528	\$ 916	\$ 311
Post-employment benefit plans				
Cash and cash equivalents	\$ 24	\$ 24	\$ –	\$ –
Equities ⁽²⁾	160	27	133	–
Fixed income ⁽²⁾	132	27	103	2
Other investments ⁽³⁾	5	–	–	5
Total post-employment benefit plan assets	\$ 321	\$ 78	\$ 236	\$ 7

⁽¹⁾ See note 11 for a description of the categorization of assets under the three level fair value hierarchy.

⁽²⁾ Includes investments in mutual funds, common/collective trusts, separate accounts, and separate accounts of Company annuity contracts that share exposure to equities or fixed income securities respectively.

⁽³⁾ Includes investments in private equity, timber and agriculture and other assets.

The changes in Level 3 defined benefit pension and other post-employment benefit plan assets measured at fair value on a recurring basis are summarized as follows.

	Private equity	Timber, agriculture and other
Balance as at January 1, 2011	\$ 119	\$ 157
Actual return on plan assets		
Relating to assets still held at the reporting date	15	28
Relating to assets sold during the year	1	(12)
Purchases, sales and settlements	(36)	(17)
Impact of changes in foreign exchange rates	2	2
Balance as at December 31, 2011	\$ 101	\$ 158
Balance as at January 1, 2010	\$ 138	\$ 180
Actual return on plan assets		
Relating to assets still held at the reporting date	11	(2)
Relating to assets sold during the year	12	7
Purchases, sales and settlements	(36)	(20)
Impact of changes in foreign exchange rates	(6)	(8)
Balance as at December 31, 2010	\$ 119	\$ 157

Note 18 Consolidated Investments

In its capacities as an investor and as an investment manager, the Company has relationships with various types of entities, some of which are considered SPEs. The Company also has relationships with SPEs used to arrange certain of the Company's financings.

Where the Company is deemed to control an SPE, in accordance with IAS 27 and SIC 12, the SPE is consolidated, with interests of other parties classified as either liabilities or non-controlling interests. The Company is deemed to control an SPE where the Company owns the majority of the SPE's voting interests, or has the power to govern the financial and operating policies of the SPE through other means than voting rights, and obtains significant benefits from its activities. The Company receives benefits from its relationships with SPEs in the form of investment returns from investment entities, and in the form of advantageous access to capital markets from financing entities.

The Company assesses the materiality of its relationship with the SPE to determine if it obtains significant benefits from the SPE, which requires disclosure. This assessment considers the nature of the relationship with the SPE and the materiality of the relationship to the Company as, among other factors, a percentage of total investments, percentage of total net investment income and percentage of total funds under management. For purposes of assessing materiality and disclosing relationships with SPEs, the Company aggregates similar entities.

(a) Investment entities that are SPEs

Investment SPEs that are consolidated in the Company's general fund

Timber Companies

The Company acts as an investment manager of timberland companies and the Company's general fund and segregated funds invest in many of them. In its capacity as investment manager to the timberland companies, 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 many of the timber companies are SPEs.

The Company has determined that as at December 31, 2011 and 2010 and January 1, 2010, it has control over one Timber Company which it manages, Hancock Victoria Plantations ("HVP"), based on ownership of majority voting rights via MFC's general and segregated fund ownership interests. As at January 1, 2010, the Company also had control over Taumata Plantations, Ltd. ("Taumata") based on the interaction of the Company's general fund ownership and cancellation features of the management contract held by the Company's timber management subsidiary. As a result of a modification to the governance features of Taumata during the fourth quarter of 2010, the Company was no longer deemed to control Taumata. The Company continues to have an advisory relationship with Taumata, and invests in its debt and equity securities. The Company and Taumata continue to be related parties, as the Company considers Taumata to be an Associate. The Company recorded a gain of \$7 upon deconsolidation of Taumata.

The consolidation of HVP into the Company's general fund as at December 31, 2011 resulted in an increase in other assets of \$668 (December 31, 2010 – \$634 and January 1, 2010 – \$541), an increase in other liabilities of \$491 (December 31, 2010 – \$460 and January 1, 2010 – \$400), an increase in non-controlling interests of \$177 (December 31, 2010 – \$174 and January 1, 2010 – \$141), and an increase in the Company's net income for the year ended December 31, 2011 of \$13 (2010 – \$44). The Company's maximum exposure to loss as a result of its relationship with HVP is limited to the Company's general fund investment in HVP's capital of \$79 (December 31, 2010 – \$78 and January 1, 2010 – \$70).

Hancock Mezzanine Funds

The Company acts as investment manager to a series of four investment funds which invest in mezzanine financing of private companies (collectively, the "Mezzanine Funds"). The Company's general fund and segregated funds invest in the Mezzanine Funds in varying proportions and the Company's general fund coinvests alongside the Mezzanine Funds in the Funds' targeted investments. In its capacity as investment manager to the Mezzanine Funds, the Company earns investment advisory fees. The Company has determined that it has control over the Mezzanine Funds, by virtue of its non-cancelable management contracts with them, and by virtue of its exposure to their investment performance resulting from its general fund and segregated fund investments in them. The Company accounts for other parties' interests in the Mezzanine Funds as liabilities because the Funds have limited lives.

The consolidation of the Mezzanine Funds into the Company's general fund as at December 31, 2011 resulted in an increase in assets of \$218 (December 31, 2010 – \$183 and January 1, 2010 – \$171) and an increase in liabilities of \$218 (December 31, 2010 – \$183 and January 1, 2010 – \$171).

Liabilities and non-controlling interests recognized as a result of consolidating HVP, Taumata and the Mezzanine Funds do not represent additional claims on the general assets of the Company; rather, they represent claims against the assets recognized as a result of consolidating these entities. Conversely, the assets recognized as a result of consolidating these entities do not represent additional assets which the Company can use to satisfy claims against its general assets; rather, they can only be used to settle the liabilities recognized as a result of consolidating these entities, and provide returns to the non-controlling interest holders.

Investment SPEs that are not consolidated

Except as noted above, the Company has determined that it does not have control over any investment entities which are SPEs and in which it invests or which it manages.

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

Collateralized debt obligation funds

The Company acts as an investment manager to certain asset-backed investment vehicles, commonly known as collateralized debt obligation funds ("CDOs"). The Company has determined that the CDOs it manages are SPEs. 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 of a CDO managed by the Company in excess of the CDO's 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, or both, is limited to its investment in the CDO, if any. The Company has determined that it does not control any of the CDOs which it both manages and invests in, because its power to govern the financial and operating policies of these CDOs is either restricted or subject to approval by the CDOs' other investors.

The maximum exposure to losses from CDOs managed by the Company is \$9 (December 31, 2010 – \$23 and January 1, 2010 – \$29). This consists of nil (December 31, 2010 – \$7 and January 1, 2010 – \$14) in tranches rated below BBB and \$9 (December 31, 2010 – \$16 and January 1, 2010 – \$15) in equity tranches.

Company-managed CDOs As at	December 31,		January 1,
	2011	2010	2010
Total assets	\$ 644	\$ 1,361	\$ 1,498
Total debt ⁽¹⁾	\$ 2,448	\$ 5,005	\$ 5,598
Total other liabilities	5	6	7
Total liabilities	\$ 2,453	\$ 5,011	\$ 5,605
Total equity ⁽²⁾	(1,809)	(3,650)	(4,107)
Total liabilities and equity⁽³⁾	\$ 644	\$ 1,361	\$ 1,498

⁽¹⁾ Declines in debt result from settlement of the debt as part of the liquidation or amortization process for certain CDOs.

⁽²⁾ Declines in assets reflect the liquidation or amortization process for certain of the CDOs, and also reflect fair value adjustments to investment securities held in these CDOs. Since the CDOs' assets are carried at fair value and their debt is carried at par, declines in the assets' fair values generate negative equity in the CDOs.

⁽³⁾ Includes the Company's investment in the debt and equity of Company-managed CDOs.

Low-income housing partnerships

The Company has investments that qualify for low-income housing tax credits ("LIH Partnerships"). These investments are primarily made through real estate limited partnerships or limited liability companies. The Company is usually the sole limited partner or investor member and is not the general partner or managing member in any of the LIH Partnerships. The Company has determined that the LIH Partnerships are SPEs. The Company has determined that it does not control any LIH Partnership because the Company does not have power to govern their financial and operating policies. This power is held by each general partner or managing member who has significant exposure to the economics of their LIH partnerships.

The Company's maximum exposure to losses from its investments in LIH Partnerships is \$400 (December 31, 2010 – \$453 and January 1, 2010 – \$546). This consists of \$337 (December 31, 2010 – \$378 and January 1, 2010 – \$423) of equity investments, \$48 (December 31, 2010 – \$61 and January 1, 2010 – \$66) of mortgages and \$15 (December 31, 2010 – \$14 and January 1, 2010 – \$57) of outstanding capital commitments.

LIH Partnerships ⁽¹⁾ As at	December 31,		January 1,
	2011	2010	2010
Total assets	\$ 1,311	\$ 1,317	\$ 1,242
Total debt	\$ 765	\$ 802	\$ 715
Total other liabilities	158	144	131
Total liabilities	\$ 923	\$ 946	\$ 846
Total equity ⁽¹⁾	388	371	396
Total liabilities and equity⁽²⁾	\$ 1,311	\$ 1,317	\$ 1,242

⁽¹⁾ Certain data in the table above is reported with a six to twelve month lag due to the delayed availability of financial statements of the LIH Partnerships.

⁽²⁾ Includes the Company's investment in the debt and equity of the LIH Partnerships.

Timber Companies

As mentioned above, the Company acts as a timber investment manager with total timber assets under management of \$9 billion, of which \$6 billion is organized into Timber Companies. The Company's general fund and segregated funds own \$504 and \$1 billion of the capital of these Timber Companies, respectively. In its capacity as investment manager to the Timber Companies, 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 many of the Timber Companies are SPEs. With the exception of HVP, mentioned above, the Company has determined that it does not control any Timber Company it manages because it either does not have the power to govern their financial and operating policies, or does not have exposure to their investment returns, or both.

The maximum exposure of the Company's general fund to losses from the Timber Companies is \$504 (2010 – \$504 and January 1, 2010 – \$430). This consists of \$202 (December 31, 2010 – \$190 and January 1, 2010 – \$161) of equity investments, \$275 (December 31, 2010 – \$278 and January 1, 2010 – \$266) of debt investments, and \$27 (December 31, 2010 – \$36 and January 1, 2010 – \$3) of outstanding capital commitments.

Timber Companies As at	December 31,		January 1,
	2011	2010	2010
Total assets	\$ 6,145	\$ 6,010	\$ 5,315
Total debt	\$ 2,652	\$ 2,596	\$ 2,134
Total other liabilities	622	542	466
Total liabilities	\$ 3,274	\$ 3,138	\$ 2,600
Total equity	2,871	2,872	2,715
Total liabilities and equity⁽¹⁾	\$ 6,145	\$ 6,010	\$ 5,315

⁽¹⁾ Includes the Company's general fund and segregated fund investments in the debt and equity of the Timber Companies. Deconsolidation of approximately \$932 of assets, \$1,037 of liabilities and \$(105) of non-controlling interests and other equity occurred during the fourth quarter of 2010, as a result of losing control over Taumata.

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 and which have been assessed for control. This category includes, but is not limited to energy investment partnerships, investment funds organized as limited partnerships and investments in businesses that have undergone debt restructurings and reorganizations. The Company believes that its relationships with these Other Entities are not significant and, accordingly, does not provide any summary financial data for them nor does the company distinguish here whether each is an SPE or not. 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 Statements of Financial Position in the appropriate investment categories, but also includes investment amounts committed.

(b) Financing entities that are SPEs

Financing SPEs that are consolidated in the Company's general fund

The Company has determined that it controls each financing entity below. The Company has control over them because the Company predetermined their financial and operating policies and controls any new issuances or redemptions (within contractual limits of relevant agreements) of capital through them, and the Company obtains benefits from them in the form of advantageous access to capital markets. Each is an SPE because its operations are narrowly limited to issuing and servicing the Company's capital.

Manulife Financial Capital Trust

The Trust, an open-end trust, issued \$1,000 of Manulife Financial Capital Securities ("MaCS"). See note 13. The consolidation of the Trust into the Company's general fund as at December 31, 2011 and 2010 and January 1, 2010 resulted in no quantitative changes to the Company's assets, liabilities or equity.

Manulife Financial Capital Trust II

Trust II, an open-end trust, issued \$1,000 of notes to the capital markets. See note 13. The consolidation of Trust II into the Company's general fund as at December 31, 2011 and 2010 and January 1, 2010 resulted in no quantitative changes to the Company's assets, liabilities or equity.

Manulife Finance (Delaware), L.P.

MFLP issued \$1,200 of debentures. See note 13. The consolidation of MFLP into the Company's general fund as at December 31, 2011 resulted in an increase in assets of \$21 (December 31, 2010 – decrease of \$7 and January 1, 2010 – decrease of \$6), and an increase in liabilities of \$21 (December 31, 2010 – decrease of \$7 and January 1, 2010 – decrease of \$6).

Platinum Canadian Mortgage Trust

Platinum Canadian Mortgage Trust ("Platinum Trust") was organized in 2010 by Manulife Bank of Canada to provide financing for the Company's mortgage business by securitizing certain of the Company's mortgage loans and issuing notes. As at December 31, 2011, Platinum Trust has issued \$750 of notes (December 31, 2010 – \$500). Transfers of mortgage loans to Platinum Trust do not qualify as sales, therefore, the transferred mortgages and corresponding secured borrowing liabilities are recorded on the Company's Consolidated Statements of Financial Position. See note 4(i).

The consolidation of Platinum Trust into the Company's general fund as at December 31, 2011 resulted in a decrease in assets of \$37 (December 31, 2010 – \$18) and a decrease in liabilities of \$37 (December 31, 2010 – \$18).

John Hancock Global Funding II, Ltd.

John Hancock Global Funding II, Ltd. ("JHGF II"), a Delaware Trust, was organized by John Hancock Life Insurance Company (U.S.A.) ("JHUSA"). JHGF II issued medium term notes to investors worldwide, and used the proceeds to purchase funding agreements issued by JHUSA. The medium term notes were issued through 2005 and mature through 2015. They are not redeemable at the option of the investors. See note 9.

The consolidation of JHGF II into the Company's general fund as at December 31, 2011 resulted in an increase in assets of \$65 (December 31, 2010 – \$127 and January 1, 2010 – \$228) and an increase in liabilities of \$37 (December 31, 2010 – \$93 and January 1, 2010 – \$168) and an increase in equity of \$28 (December 31, 2010 – \$34 and January 1, 2010 – \$60).

Note 19 Commitments and Contingencies

(a) Legal proceedings

The Company is regularly involved in legal actions, both as a defendant and as a plaintiff. The legal actions naming the Company as a defendant ordinarily involve its activities as a provider of insurance protection and wealth management products, as well as an investment adviser, employer and taxpayer. In addition, government and regulatory bodies in Canada, the United States, Asia and other jurisdictions where the company conducts business 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 announced on April 21, 2011 that it had been informed by staff of the Ontario Securities Commission ("OSC") that staff would not seek any orders from OSC in connection with the enforcement notice delivered by staff in June 2009 relating to the Company's disclosure before March 2009 of risks related to the Company's variable annuity guarantee and segregated funds business.

A class action covering Quebec residents only is pending in Quebec against the Company and proposed class action lawsuits against the Company have been filed in Ontario and the United States, on behalf of investors in Canada (except for Quebec residents) and the United States, respectively. These proceedings are based on allegations that the Company failed to meet its disclosure obligations related to its exposure to market price risk in its segregated funds and variable annuity guaranteed products. The Company may become subject to other similar lawsuits by investors.

The Company believes that its disclosure satisfied applicable disclosure requirements and intends to vigorously defend itself against any claims based on these allegations.

(b) Investment commitments

In the normal course of business, various investment commitments are outstanding which are not reflected in the consolidated financial statements. There were \$3,431 (December 31, 2010 – \$3,154 and January 1, 2010 – \$2,833) of outstanding investment commitments as at December 31, 2011, of which \$373 (December 31, 2010 – \$713 and January 1, 2010 – \$207) mature in 30 days, \$1,513 (December 31, 2010 – \$1,597 and January 1, 2010 – \$1,343) mature in 31 to 365 days and \$1,545 (December 31, 2010 – \$844 and January 1, 2010 – \$1,283) mature after one year.

(c) Letters of credit

In the normal course of business, third party relationship banks issue letters of credit on the Company's behalf. The Company's businesses utilize letters of credit for which third parties are the beneficiaries, as well as for affiliate reinsurance transactions between subsidiaries of MFC. As at December 31, 2011, letters of credit for which third parties are beneficiary, in the amount of \$82 (December 31, 2010 – \$414 and January 1, 2010 – \$504), were outstanding.

(d) Guarantees

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

MFC has guaranteed the payment of amounts on the \$550 senior debentures due December 15, 2026 and \$650 subordinated debentures due December 15, 2041 issued by MFLP, a wholly owned partnership.

Guarantees regarding The Manufacturers Life Insurance Company

On January 29, 2007, MFC provided a subordinated guarantee of Class A and Class B Shares of MLI and any other class of preferred shares that rank on a parity with Class A Shares or Class B Shares of MLI. On November 18, 2011, MFC provided a subordinated guarantee of the subordinated debentures issued by MLI on November 18, 2011.

The following table sets forth certain condensed consolidating financial information for MFC.

	MFC (Guarantor)	Manulife Finance (Delaware), L.P.	MLI Consolidated	Other Subsidiaries of MFC on a Combined Basis	Consolidating Adjustments	Total Consolidated Amounts
For the year ended December 31, 2011						
Total revenue	\$ 328	\$ 60	\$ 49,753	\$ 4,248	\$ (3,406)	\$ 50,983
Net income (loss) attributed to shareholders	129	(6)	256	(182)	(68)	129

For the year ended December 31, 2010

Total revenue	\$ 151	\$ 56	\$ 36,978	\$ 1,681	\$ (1,248)	\$ 37,618
Net income (loss) attributed to shareholders	(1,663)	(1)	(996)	(567)	1,564	(1,663)

As at December 31, 2011

Invested assets	\$ 58	\$ 7	\$ 222,958	\$ 3,497	\$ –	\$ 226,520
Total other assets	29,863	1,631	49,325	9,323	(50,618)	39,524
Segregated funds net assets	–	–	196,058	–	–	196,058
Insurance contract liabilities	–	–	189,359	11,642	(10,635)	190,366
Investment contract liabilities	–	–	2,540	–	–	2,540
Segregated funds net liabilities	–	–	196,058	–	–	196,058
Total other liabilities	5,706	1,491	51,095	507	(10,540)	48,259

As at December 31, 2010

Invested assets	\$ 39	\$ 4	\$ 198,283	\$ 2,896	\$ –	\$ 201,222
Total other assets	30,165	1,445	31,386	6,770	(45,341)	24,425
Segregated funds net assets	–	–	199,120	–	–	199,120
Insurance contract liabilities	–	–	157,449	8,601	(7,738)	158,312
Investment contract liabilities	–	–	2,990	–	–	2,990
Segregated funds net liabilities	–	–	199,120	–	–	199,120
Total other liabilities	6,099	1,297	39,517	521	(7,764)	39,670

As at January 1, 2010

Invested assets	\$ 3	\$ 3	\$ 187,149	\$ 2,152	\$ (79)	\$ 189,228
Total other assets ⁽¹⁾	31,082	1,384	32,316	5,553	(44,346)	25,989
Segregated funds net assets	–	–	190,783	–	–	190,783
Insurance contract liabilities	–	–	147,773	6,942	(6,772)	147,943
Investment contract liabilities	–	–	3,778	–	–	3,778
Segregated funds net liabilities	–	–	190,783	–	–	190,783
Total other liabilities ⁽¹⁾	3,827	1,237	37,456	430	(7,030)	35,920

⁽¹⁾ During 2011, the Company identified an error related to the initial adoption of IFRS for two of its subsidiaries. The result is an understatement of other liabilities in MLI consolidated of US\$206 and an understatement of other assets in John Hancock Reassurance Company Ltd. of US\$206 as at January 1, 2010 and did not have any impact on the Company's consolidated financial statements. The balances above have been updated to reflect this correction.

Guarantees regarding John Hancock Life Insurance Company (U.S.A.) and John Hancock Life Insurance Company of New York

Details of guarantees regarding certain securities issued or to be issued by JHUSA and John Hancock Life Insurance Company of New York are outlined in note 24.

(e) Pledged assets

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

The amounts pledged were as follows:

As at	December 31,				January 1,	
	2011		2010		2010	
	Bonds	Other	Bonds	Other	Bonds	Other
In respect of:						
Derivatives	\$ 2,723	\$ 14	\$ 1,818	\$ 10	\$ 1,194	\$ 12
Regulatory requirements	219	58	170	51	167	34
Real estate	–	187	–	70	–	85
Repurchase agreements	656	–	486	–	–	–
Non-registered retirement plans in trust	–	374	–	423	–	453
Other	2	–	2	–	1	1
Total	\$ 3,600	\$ 633	\$ 2,476	\$ 554	\$ 1,362	\$ 585

The Company is required to deposit securities with government agencies in U.S. states where it conducts business. As of December 31, 2011, the fair value of securities on deposit was approximately \$38 (December 31, 2010 – \$34 and January 1, 2010 – \$52). These amounts are included under regulatory requirements in the table above.

(f) Lease obligations

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

2012	\$ 131
2013	114
2014	87
2015	63
2016	36
Thereafter	432
Total minimum lease payments	\$ 863

(g) Restrictions on dividends and capital distributions

Dividends and capital distributions are restricted under the ICA. These restrictions apply to both the Company and its primary operating subsidiary MLI. 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 does not have adequate capital and adequate and appropriate forms of liquidity or the declaration 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 of any direction made to the Company by the Superintendent. The ICA also requires an insurance company to notify the Superintendent of the declaration of a dividend at least 15 days prior to the date fixed for its payment. Similarly, the ICA prohibits the purchase for cancellation of any shares issued by an insurance company or the redemption of any redeemable shares or other similar capital transactions, if there are reasonable grounds for believing that the company does not have adequate capital and adequate and appropriate forms of liquidity or the payment would cause the company to be in contravention of any regulation made under the ICA respecting the maintenance of adequate capital and adequate and appropriate forms of liquidity, or any direction made to the company by the Superintendent. These latter transactions would require the prior approval of the Superintendent.

The ICA requires Canadian non-operating insurance companies to maintain, at all times, adequate levels of capital which are assessed by comparing capital available to a risk metric in accordance with Capital Regime for Regulated Insurance Holding Companies and Non-Operating Life Companies, issued by OSFI. OSFI expects holding companies to manage their capital in a manner commensurate with the group risk profile and control environment. See note 15.

Regulated subsidiaries of MFC must also maintain minimum levels of capital. Such amounts of capital are based on the local capital regime and the 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 in excess of the minimum required in all jurisdictions.

There are additional restrictions on shareholder dividend distributions in foreign jurisdictions. In the U.S., MFC's principal U.S. insurance subsidiary JHUSA is domiciled in the state of Michigan. Michigan regulatory approval is required if a shareholder dividend distribution from a Michigan insurance subsidiary would exceed that subsidiary's earned regulatory surplus. Regulatory approval is also required if the distribution (together with other distributions during the previous 12 months) exceeds the greater of the subsidiary's

statutory net operating income for the previous year and 10 per cent of its surplus determined at the end of the previous year. The determination must be made in accordance with statutory accounting principles. In addition, Michigan law requires that notification be given to the local insurance commissioner no later than five days following declaration, and at least 10 days prior to payment, of any dividend or distribution.

(h) Participating business

In some territories where the Company maintains participating accounts, there are regulatory restrictions on the amounts of profit that can be transferred to shareholders. Where applicable, these restrictions generally take the form of a fixed percentage of the policyholder dividends. For participating businesses operating as separate "closed blocks", transfers are governed by the terms of MLI's and John Hancock Mutual Life Insurance Company's plans of demutualization.

Note 20 Segmented Information

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 Asia and Canadian 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. The significant product and service offerings of each segment are:

Protection (U.S. Insurance, Asia and Canadian Divisions). Offers a variety of individual life insurance and individual and group long-term care insurance. Products are distributed through multiple distribution channels, including insurance agents, brokers, banks, financial planners, and direct marketing.

Wealth Management (U.S. Wealth, Asia and Canadian Divisions). Offers annuities, pension contracts, and mutual fund products and services. These businesses also offer a variety of retirement products to group benefit plans. Annuity contracts provide non-guaranteed, partially guaranteed and fully guaranteed investment options through general and separate account products. The Canadian Wealth Management business also includes Manulife Bank, which offers a variety of deposit and credit products to Canadian customers. These businesses distribute products through multiple distribution channels, including insurance agents and brokers affiliated with the Company, securities brokerage firms, financial planners, pension plan sponsors, pension plan consultants, and banks.

Corporate and Other Segment. Comprised of the Investment Division's external asset management business, earnings on assets backing capital, net of amounts allocated to operating divisions, changes in actuarial methods and assumptions, the property and casualty and run-off reinsurance operations and other non-operating items.

Certain allocation methodologies are employed in the preparation of segmented financial information. Indirect expenses are allocated to business segments using allocation formulas applied on a consistent basis, while capital is apportioned to the Company's business segments using a risk-based methodology. The income statement impact of changes in actuarial methods and assumptions (note 8) and the income statement impact of the goodwill impairment charge (note 7) are reported in the Corporate and Other segment.

Sale of life retrocession business

As described in note 3, the Company sold its life retrocession business to Pacific Life in the third quarter of 2011. As a result of this transaction, the Company's remaining reinsurance operations, consisting of the property and casualty, run-off and International Group Program operations, no longer constitute a separate reportable segment. The results of the property and casualty and run-off operations have been included in the Corporate and Other segment and the results of the International Group Program operations have been included in the U.S. Insurance segment.

By segment For the year ended December 31, 2011	Asia Division	Canadian Division	U.S. Insurance	U.S. Wealth Management	Corporate and Other	Total
Revenue						
Premium income						
Life and health insurance	\$ 4,994	\$ 2,685	\$ 6,141	\$ –	\$ 366	\$ 14,186
Annuities and pensions	840	730	–	1,748	–	3,318
Net premium income	\$ 5,834	\$ 3,415	\$ 6,141	\$ 1,748	\$ 366	\$ 17,504
Net investment income	1,705	6,053	12,107	5,322	1,050	26,237
Other revenue	889	1,983	734	2,853	783	7,242
Total revenue	\$ 8,428	\$ 11,451	\$ 18,982	\$ 9,923	\$ 2,199	\$ 50,983
Contract benefits and expenses						
Life and health insurance	\$ 4,816	\$ 3,934	\$ 15,415	\$ –	\$ 2,150	\$ 26,315
Annuities and pensions	1,630	3,087	–	8,757	–	13,474
Net benefits and claims	\$ 6,446	\$ 7,021	\$ 15,415	\$ 8,757	\$ 2,150	\$ 39,789
Interest expense	70	383	94	11	691	1,249
Goodwill impairment	–	–	–	–	665	665
Other expenses	1,873	2,855	1,841	1,982	581	9,132
Total contract benefits and expenses	\$ 8,389	\$ 10,259	\$ 17,350	\$ 10,750	\$ 4,087	\$ 50,835
Income (loss) before income taxes	\$ 39	\$ 1,192	\$ 1,632	\$ (827)	\$ (1,888)	\$ 148
Income tax recovery (expense)	(120)	(143)	(547)	380	527	97
Net income (loss)	\$ (81)	\$ 1,049	\$ 1,085	\$ (447)	\$ (1,361)	\$ 245
Less net (income) loss attributed to:						
Participating policyholders	50	(139)	–	–	–	(89)
Non-controlling interests	(17)	–	–	–	(10)	(27)
Net income (loss) attributed to shareholders	\$ (48)	\$ 910	\$ 1,085	\$ (447)	\$ (1,371)	\$ 129

For the year ended December 31, 2010

Revenue						
Premium income						
Life and health insurance	\$ 4,321	\$ 2,615	\$ 6,430	\$ –	\$ 566	\$ 13,932
Annuities and pensions	535	1,240	–	2,391	–	4,166
Net premium income	\$ 4,856	\$ 3,855	\$ 6,430	\$ 2,391	\$ 566	\$ 18,098
Net investment income	1,710	3,942	4,062	2,209	1,239	13,162
Other revenue	837	1,762	698	2,805	256	6,358
Total revenue	\$ 7,403	\$ 9,559	\$ 11,190	\$ 7,405	\$ 2,061	\$ 37,618
Contract benefits and expenses						
Life and health insurance	\$ 3,951	\$ 3,420	\$ 9,570	\$ –	\$ 3,404	\$ 20,345
Annuities and pensions	798	2,213	–	4,231	–	7,242
Net benefits and claims	\$ 4,749	\$ 5,633	\$ 9,570	\$ 4,231	\$ 3,404	\$ 27,587
Interest expense	59	249	44	13	679	1,044
Goodwill impairment	–	–	–	–	2,330	2,330
Other expenses	1,650	2,685	2,028	1,946	673	8,982
Total contract benefits and expenses	\$ 6,458	\$ 8,567	\$ 11,642	\$ 6,190	\$ 7,086	\$ 39,943
Income (loss) before income taxes	\$ 945	\$ 992	\$ (452)	\$ 1,215	\$ (5,025)	\$ (2,325)
Income tax recovery (expense)	(126)	108	171	(333)	979	799
Net income (loss)	\$ 819	\$ 1,100	\$ (281)	\$ 882	\$ (4,046)	\$ (1,526)
Less net (income) loss attributed to:						
Participating policyholders	(65)	(15)	–	–	–	(80)
Non-controlling interests	(42)	–	–	–	(15)	(57)
Net income (loss) attributed to shareholders	\$ 712	\$ 1,085	\$ (281)	\$ 882	\$ (4,061)	\$ (1,663)

The results of the Company's business segments differ from geographic segmentation primarily as a consequence of segmenting the results of the Company's Corporate and Other segment into the different geographic segments to which its businesses pertain.

By geographic location
For the year ended December 31, 2011

	Asia	Canada	United States	Other	Total
Revenue					
Premium income					
Life and health insurance	\$ 5,041	\$ 2,721	\$ 5,890	\$ 534	\$ 14,186
Annuities and pensions	840	730	1,748	–	3,318
Net premium income	\$ 5,881	\$ 3,451	\$ 7,638	\$ 534	\$ 17,504
Net investment income	2,169	6,236	17,767	65	26,237
Other revenue	881	1,970	4,257	134	7,242
Total revenue	\$ 8,931	\$ 11,657	\$ 29,662	\$ 733	\$ 50,983

For the year ended December 31, 2010

Revenue					
Premium income					
Life and health insurance	\$ 4,365	\$ 2,675	\$ 6,412	\$ 480	\$ 13,932
Annuities and pensions	535	1,240	2,391	–	4,166
Net premium income	\$ 4,900	\$ 3,915	\$ 8,803	\$ 480	\$ 18,098
Net investment income	1,752	4,533	6,712	165	13,162
Other revenue	752	1,398	4,116	92	6,358
Total revenue	\$ 7,404	\$ 9,846	\$ 19,631	\$ 737	\$ 37,618

Note 21 Related Parties

(a) Transactions with related parties

A number of the entities as disclosed in note 22 transacted with the Company during the reporting year in transactions made in the normal course of business. All related party transactions have taken place at terms that would exist in arm's length transactions.

(b) Compensation of key management personnel

Key management personnel of the Company are those that have the authority and responsibility for planning, directing and controlling the activities of the Company. Directors (both executive and non-executive) and senior management are considered key personnel. Accordingly, the summary of compensation of key management personnel is as follows.

For the years ended December 31,	2011	2010
Short-term employee benefits	\$ 19	\$ 17
Post-employment benefits	2	2
Share-based payments	20	22
Termination benefits	–	2
Other long-term benefits	1	1
Total	\$ 42	\$ 44

Note 22 Subsidiaries

The following is a list of the directly and indirectly held major operating subsidiaries of Manulife Financial Corporation.

As at December 31, 2011	Ownership Percentage	Address	Description
The Manufacturers Life Insurance Company	100	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
John Hancock Financial Corporation (formerly "John Hancock Holdings (Delaware) LLC")	100	Wilmington, 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. life insurance company licensed in all states, except New York
John Hancock Subsidiaries LLC	100	Wilmington, Delaware, U.S.A.	Holding company
Declaration Management & Research LLC	100	McLean, Virginia, U.S.A.	Provides institutional investment advisory services
John Hancock Financial Network, Inc.	100	Boston, Massachusetts, U.S.A.	Financial services distribution organization
The Berkeley Financial Group, LLC	100	Boston, Massachusetts, U.S.A.	Holding company
John Hancock Advisers, LLC	100	Boston, Massachusetts, U.S.A.	Investment advisor
John Hancock Funds, LLC	100	Boston, Massachusetts, U.S.A.	U.S. broker-dealer
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 Life Insurance Company of New York	100	New York, U.S.A.	U.S. life insurance company licensed in New York
John Hancock Investment Management Services, LLC	100	Boston, Massachusetts, U.S.A.	Investment advisor
John Hancock Life & Health Insurance Company	100	Boston, Massachusetts, U.S.A.	U.S. life insurance company licensed in all states
John Hancock Distributors LLC	100	Delaware, U.S.A.	U.S. broker-dealer
John Hancock Insurance Agency, Inc.	100	Delaware, U.S.A.	U.S. insurance agency
Manulife Reinsurance Limited	100	Hamilton, Bermuda	Provides life and financial reinsurance primarily to affiliated MFC companies
Manulife Reinsurance (Bermuda) Limited	100	Hamilton, Bermuda	Provides full risk annuity and life financial reinsurance primarily to affiliated MFC companies
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 and accident and sickness insurance company
FNA Financial Inc.	100	Toronto, Canada	Holding company
Manulife Asset Management Limited	100	Toronto, Canada	Investment counseling, portfolio and mutual fund management in Canada
First North American Insurance Company	100	Toronto, Canada	Canadian property and casualty insurance company
NAL Resources Management Limited	100	Calgary, Canada	Management company for oil and gas properties
Manulife Securities Investment Services Inc.	100	Burlington, Canada	Mutual fund dealer for Canadian operations
Manulife Holdings (Bermuda) Limited	100	Hamilton, Bermuda	Holding company
Manufacturers P&C Limited	100	St. Michael, Barbados	Provides property and casualty and financial reinsurance
Manulife Financial Asia Limited	100	Hong Kong, China	Holding company
Manufacturers Life Reinsurance Limited	100	St. Michael, Barbados	Provides life and financial reinsurance

As at December 31, 2011	Ownership Percentage	Address	Description
Manulife (Vietnam) Limited	100	Ho Chi Minh City, Vietnam	Vietnamese life insurance company
Manulife Asset Management (Vietnam) Company Ltd.	100	Ho Chi Minh City, Vietnam	Vietnamese fund management company
Manulife International Holdings Limited	100	Hong Kong, China	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 International Holdings 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 Asset Management (Taiwan) Co., Ltd.	100	Taipei, Taiwan	Asset management company
Manulife Life Insurance Company	100	Tokyo, Japan	Japanese life insurance company
Manulife Asset Management (Japan) Limited	100	Tokyo, Japan	Japanese investment management and advisory company
Manulife Insurance (Thailand) Public Company Limited	95.1	Bangkok, Thailand	Thai life insurance company
Manulife Asset Management (Thailand) Company Limited	95.1	Bangkok, Thailand	Investment management
Manulife Holdings Berhad	58.7	Kuala Lumpur, Malaysia	Investment holding company
Manulife Insurance Berhad	58.7	Kuala Lumpur, Malaysia	Malaysian life insurance company
Manulife Asset Management (Malaysia) Sdn Bhd	58.7	Kuala Lumpur, Malaysia	Asset management company
Manulife (Singapore) Pte. Ltd.	100	Singapore	Singaporean life insurance company
Manulife Asset Management (Singapore) Pte. Ltd.	100	Singapore	Asset management company
PT Asuransi Jiwa Manulife Indonesia	100	Jakarta, Indonesia	Indonesian life insurance company
PT Manulife Aset Manajemen Indonesia	100	Jakarta, Indonesia	Indonesian investment management and advisory company marketing mutual funds
The Manufacturers Life Insurance Co. (Phils.), Inc.	100	Manila, Philippines	Filipino life insurance company
Manulife Asset Management (Europe) Holdings Limited	100	London, England	Holding company
Manulife Asset Management (Europe) Limited	100	London, England	Investment management company for Manulife Financial's international funds
EIS Services (Bermuda) Limited	100	Hamilton, Bermuda	Investment holding company
Berkshire Insurance Services Inc.	100	Toronto, Canada	Investment holding company
JH Investments (Delaware) LLC	100	Boston, Massachusetts, U.S.A.	Investment holding company
Manulife Securities Incorporated	100	Burlington, Canada	Investment dealer
Manulife Asset Management (North America) Limited	100	Toronto, Canada	Investment advisor
John Hancock Reassurance Company Ltd.	100	Hamilton, Bermuda	Provides annuity, life, and long-term care reinsurance primarily to affiliated MFC companies

Note 23 Segregated Funds

Net Assets

As at	December 31,		January 1,
	2011	2010	2010
Investments, at market value			
Cash and short-term securities	\$ 1,888	\$ 1,750	\$ 1,802
Bonds	1,000	928	1,133
Stocks and mutual funds	190,926	194,188	185,356
Other investments	2,430	2,426	2,563
Accrued investment income	75	75	76
Other liabilities, net	(261)	(247)	(147)
Total segregated funds net assets	\$196,058	\$199,120	\$190,783

Changes in Net Assets

For the years ended December 31,	2011	2010
Net policyholder cash flow		
Deposits from policyholders	\$ 21,689	\$ 24,544
Net transfers (to) from general fund	(299)	76
Payments to policyholders	(21,740)	(21,578)
	\$ (350)	\$ 3,042
Investment related		
Interest and dividends	\$ 5,176	\$ 4,948
Net realized and unrealized investment gains (losses)	(8,379)	16,156
	\$ (3,203)	\$ 21,104
Other		
Management and administration fees	\$ (3,367)	\$ (3,302)
Transfer to mutual funds resulting from restructuring of the Hong Kong pension business	–	(6,614)
Impact of changes in foreign exchange rates	3,858	(5,893)
	\$ 491	\$ (15,809)
Net additions (deductions)	\$ (3,062)	\$ 8,337
Segregated funds net assets, beginning of year	199,120	190,783
Segregated funds net assets, end of year	\$ 196,058	\$ 199,120

Note 24 Information Provided in Connection with Investments in Deferred Annuity Contracts and *SignatureNotes* Issued or Assumed by John Hancock Life Insurance Company (U.S.A.) and Fixed Investments in Deferred Annuity Contracts to be Issued by John Hancock Life Insurance Company of New York

The following condensed consolidating financial information, presented in accordance with IFRS, and the related disclosure have been included in these consolidated financial statements with respect to JHUSA and John Hancock Life Insurance Company of New York (“JHNY”) in compliance with Regulation S-X and Rule 12h-5 of the United States Securities and Exchange Commission (the “Commission”). 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 to be issued by its subsidiaries.

JHUSA 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. These fixed investment period options that contain a market value adjustment feature are referred to as “MVAs”.

JHUSA may also sell medium-term notes to retail investors under its *SignatureNotes* program and JHNY may also sell MVAs.

Effective December 31, 2009, John Hancock Variable Life Insurance Company (the “Variable Company”) and John Hancock Life Insurance Company (the “Life Company”) merged with and into JHUSA. In connection with the mergers, JHUSA assumed the Variable Company’s rights and obligations with respect to the MVAs issued by the Variable Company and the Life Company’s rights and obligations with respect to the *SignatureNotes* issued by the Life Company.

MFC fully and unconditionally guaranteed the payment obligations of JHUSA and JHNY under the MVAs and of JHUSA under the *SignatureNotes* (including the MVAs and *SignatureNotes* assumed by JHUSA in the merger), and such MVAs and the *SignatureNotes* were registered with the Commission. The *SignatureNotes* and MVAs assumed or issued by JHUSA and the MVAs issued by JHNY are collectively referred to in this note as the “Guaranteed Securities”. Each of JHUSA and JHNY is, and each of the Variable Company and the Life Company was, a wholly owned subsidiary of MFC.

MFC’s guarantees of the Guaranteed Securities 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 Guaranteed Securities.

The laws of the State of New York govern MFC’s guarantees of the *SignatureNotes* issued or assumed by JHUSA and the MVAs issued by JHNY and the laws of the Commonwealth of Massachusetts govern MFC’s guarantees of the MVAs issued or assumed by JHUSA. MFC has consented to the jurisdiction of the courts of New York and Massachusetts. 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 issued or assumed by JHUSA or the MVAs issued by JHNY or a Massachusetts court on guarantees of the MVAs issued or assumed by JHUSA.

MFC is a holding company. The assets of MFC consist primarily of the outstanding capital stock of its subsidiaries and investments in other international subsidiaries. MFC's cash flows primarily consist of dividends and interest payments from its operating subsidiaries, offset by expenses and shareholder dividends and stock repurchases for MFC. As a holding company, MFC'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. For example, some of MFC's subsidiaries are subject to restrictions prescribed by the ICA on their ability to declare and pay dividends. The restrictions related to dividends imposed by the ICA are described in note 19(g).

In the United States, insurance laws in Michigan, New York, Massachusetts and Vermont, the jurisdictions in which certain U.S. insurance company subsidiaries of MFC are domiciled, impose general limitations on the payment of dividends and other upstream distributions or loans by these insurance subsidiaries. These limitations are also described in note 19(g).

In Asia, the insurance laws of the jurisdictions in which MFC operates either provide for specific restrictions on the payment of dividends or other distributions or loans by subsidiaries or impose solvency or other financial tests, which could affect the ability of subsidiaries to pay dividends in certain circumstances.

There can be no assurance that any current or future regulatory restrictions in Canada, the United States or Asia will not impair MFC'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 IFRS, reflects the effects of the mergers and is provided in compliance with Regulation S-X and in accordance with Rule 12h-5 of the Commission.

Condensed Consolidating Statement of Financial Position

As at December 31, 2011	Manulife Financial Corporation (Guarantor)	John Hancock Life Insurance Company (U.S.A.) (Issuer)	John Hancock Life Insurance Company of New York (Issuer)	Other Subsidiaries	Consolidation Adjustments	Consolidated Manulife Financial Corporation
Assets						
Invested assets	\$ 58	\$ 90,391	\$ 10,240	\$ 126,327	\$ (496)	\$ 226,520
Investments in unconsolidated subsidiaries	29,472	3,794	1	11,132	(44,399)	–
Reinsurance assets	–	22,376	1,156	3,479	(16,283)	10,728
Other assets	391	21,852	1,038	25,103	(19,588)	28,796
Segregated funds net assets	–	120,711	7,159	70,123	(1,935)	196,058
Total assets	\$ 29,921	\$ 259,124	\$ 19,594	\$ 236,164	\$ (82,701)	\$ 462,102
Liabilities and equity						
Insurance contract liabilities	\$ –	\$ 105,815	\$ 7,135	\$ 94,199	\$ (16,783)	\$ 190,366
Investment contract liabilities	–	1,442	83	1,465	(450)	2,540
Other liabilities	460	19,225	3,642	32,051	(16,634)	38,744
Long-term debt	4,902	–	–	688	(87)	5,503
Liabilities for preferred shares and capital instruments	344	1,031	–	5,004	(2,367)	4,012
Segregated funds net liabilities	–	120,711	7,159	70,123	(1,935)	196,058
Shareholders' equity	24,215	10,900	1,575	32,057	(44,532)	24,215
Participating policyholders' equity	–	–	–	249	–	249
Non-controlling interest in subsidiaries	–	–	–	328	87	415
Total liabilities and equity	\$ 29,921	\$ 259,124	\$ 19,594	\$ 236,164	\$ (82,701)	\$ 462,102

Condensed Consolidating Statement of Financial Position

As at December 31, 2010	Manulife Financial Corporation (Guarantor)	John Hancock Life Insurance Company (U.S.A.) (Issuer)	John Hancock Life Insurance Company of New York (Issuer)	Other Subsidiaries	Consolidation Adjustments	Consolidated Manulife Financial Corporation
Assets						
Invested assets	\$ 39	\$ 79,971	\$ 9,522	\$ 112,190	\$ (500)	\$ 201,222
Investments in unconsolidated subsidiaries	29,761	3,589	1	10,924	(44,275)	–
Reinsurance assets	–	14,994	895	3,291	(11,348)	7,832
Other assets	404	13,170	512	13,112	(10,605)	16,593
Segregated funds net assets	–	123,657	7,288	69,720	(1,545)	199,120
Total assets	\$ 30,204	\$ 235,381	\$ 18,218	\$ 209,237	\$ (68,273)	\$ 424,767
Liabilities and equity						
Insurance contract liabilities	\$ –	\$ 85,137	\$ 6,608	\$ 78,213	\$ (11,646)	\$ 158,312
Investment contract liabilities	–	1,805	40	1,145	–	2,990
Other liabilities ⁽¹⁾	881	12,816	2,913	22,068	(8,853)	29,825
Long-term debt	4,874	–	–	1,017	(50)	5,841
Liabilities for preferred shares and capital instruments	344	1,009	–	4,346	(1,695)	4,004
Segregated funds net liabilities	–	123,657	7,288	69,720	(1,545)	199,120
Shareholders' equity ⁽¹⁾	24,105	10,957	1,369	32,252	(44,578)	24,105
Participating policyholders' equity	–	–	–	160	–	160
Non-controlling interest in subsidiaries	–	–	–	316	94	410
Total liabilities and equity	\$ 30,204	\$ 235,381	\$ 18,218	\$ 209,237	\$ (68,273)	\$ 424,767

Condensed Consolidating Statement of Financial Position

As at January 1, 2010	Manulife Financial Corporation (Guarantor)	John Hancock Life Insurance Company (U.S.A.) (Issuer)	John Hancock Life Insurance Company of New York (Issuer)	Other Subsidiaries	Consolidation Adjustments	Consolidated Manulife Financial Corporation
Assets						
Invested assets	\$ 3	\$ 87,431	\$ 2,162	\$ 100,785	\$ (1,153)	\$ 189,228
Investments in unconsolidated subsidiaries	30,479	3,576	1	13,105	(47,161)	–
Reinsurance assets	–	10,399	598	4,159	(7,112)	8,044
Other assets	603	12,572	34	12,043	(7,307)	17,945
Segregated funds net assets	–	117,355	6,945	67,964	(1,481)	190,783
Total assets	\$ 31,085	\$ 231,333	\$ 9,740	\$ 198,056	\$ (64,214)	\$ 406,000
Liabilities and equity						
Insurance contract liabilities	\$ –	\$ 86,087	\$ 1,136	\$ 68,777	\$ (8,057)	\$ 147,943
Investment contract liabilities	–	2,494	–	1,284	–	3,778
Other liabilities ⁽¹⁾	594	11,163	347	21,492	(5,554)	28,042
Long-term debt	2,889	–	–	1,002	(35)	3,856
Liabilities for preferred shares and capital instruments	344	1,063	–	4,404	(1,789)	4,022
Segregated funds net liabilities	–	117,355	6,945	67,964	(1,481)	190,783
Shareholders' equity ⁽¹⁾	27,258	13,171	1,312	32,883	(47,366)	27,258
Participating policyholders' equity	–	–	–	80	–	80
Non-controlling interest in subsidiaries	–	–	–	170	68	238
Total liabilities and equity	\$ 31,085	\$ 231,333	\$ 9,740	\$ 198,056	\$ (64,214)	\$ 406,000

⁽¹⁾ During 2011, the Company identified an error related to the initial adoption of IFRS for two of its subsidiaries. The result of this error is an understatement of other liabilities and an overstatement of shareholders' retained earnings in JHUSA of US\$206, offset by an understatement of other assets and an understatement in shareholders' retained earnings in John Hancock Reassurance Company Ltd. of US\$206 on the January 1, 2010 opening IFRS statement of financial position for these subsidiaries. The effects of these corrections are not material to the financial statements taken as a whole, however, correcting these items in the current year would have distorted the current year results for JHUSA and 'Other Subsidiaries' expressed in the Condensed Consolidating Financial Statements above. Accordingly, the Company has made the corrections by adjusting opening shareholders' retained earnings as at January 1, 2010. This correction has no effect on the consolidated financial statements of the Company.

Condensed Consolidating Statement of Income

	Manulife Financial Corporation (Guarantor)	John Hancock Life Insurance Company (U.S.A.) (Issuer)	John Hancock Life Insurance Company of New York (Issuer)	Other Subsidiaries	Consolidation Adjustments	Consolidated Manulife Financial Corporation
For the year ended December 31, 2011						
Revenue						
Net premium income	\$ –	\$ 5,466	\$ 351	\$ 11,687	\$ –	\$ 17,504
Net investment income (loss)	332	14,944	1,489	10,757	(1,285)	26,237
Net other revenue	(4)	1,883	129	11,499	(6,265)	7,242
Total revenue	\$ 328	\$ 22,293	\$ 1,969	\$ 33,943	\$ (7,550)	\$ 50,983
Contract benefits and expenses						
Net benefits and claims	\$ –	\$ 19,454	\$ 1,532	\$ 23,639	\$ (4,836)	\$ 39,789
Commissions, investment and general expenses	18	2,765	169	7,410	(1,487)	8,875
Goodwill impairment	–	665	–	–	–	665
Other expenses	320	404	16	1,993	(1,227)	1,506
Total contract benefits and expenses	\$ 338	\$ 23,288	\$ 1,717	\$ 33,042	\$ (7,550)	\$ 50,835
(Loss) income before income taxes	\$ (10)	\$ (995)	\$ 252	\$ 901	\$ –	\$ 148
Income tax (expense) recovery	(2)	256	(86)	(71)	–	97
(Loss) income after income taxes	\$ (12)	\$ (739)	\$ 166	\$ 830	\$ –	\$ 245
Equity in net income (loss) of unconsolidated subsidiaries	141	248	–	(491)	102	–
Net income (loss)	\$ 129	\$ (491)	\$ 166	\$ 339	\$ 102	\$ 245
Net income (loss) attributed to:						
Non-controlling interest in subsidiaries	\$ –	\$ –	\$ –	\$ 23	\$ 4	\$ 27
Participating policyholders	–	17	5	100	(33)	89
Shareholders	129	(508)	161	216	131	129
	\$ 129	\$ (491)	\$ 166	\$ 339	\$ 102	\$ 245

Condensed Consolidating Statement of Income

	Manulife Financial Corporation (Guarantor)	John Hancock Life Insurance Company (U.S.A.) (Issuer)	John Hancock Life Insurance Company of New York (Issuer)	Other Subsidiaries	Consolidation Adjustments	Consolidated Manulife Financial Corporation
For the year ended December 31, 2010						
Revenue						
Net premium income	\$ –	\$ 6,507	\$ 571	\$ 11,023	\$ (3)	\$ 18,098
Net investment income (loss)	149	6,010	709	7,102	(808)	13,162
Net other revenue	2	1,898	132	7,040	(2,714)	6,358
Total revenue	\$ 151	\$ 14,415	\$ 1,412	\$ 25,165	\$ (3,525)	\$ 37,618
Contract benefits and expenses						
Net benefits and claims	\$ –	\$ 11,209	\$ 1,312	\$ 16,309	\$ (1,243)	\$ 27,587
Commissions, investment and general expenses	28	2,970	192	7,073	(1,543)	8,720
Goodwill impairment	–	1,557	–	773	–	2,330
Other expenses	235	438	10	1,362	(739)	1,306
Total contract benefits and expenses	\$ 263	\$ 16,174	\$ 1,514	\$ 25,517	\$ (3,525)	\$ 39,943
Loss before income taxes	\$ (112)	\$ (1,759)	\$ (102)	\$ (352)	\$ –	\$ (2,325)
Income tax recovery	17	214	40	528	–	799
(Loss) income after income taxes	\$ (95)	\$ (1,545)	\$ (62)	\$ 176	\$ –	\$ (1,526)
Equity in net (loss) income of unconsolidated subsidiaries	(1,568)	(135)	–	(1,659)	3,362	–
Net (loss) income	\$ (1,663)	\$ (1,680)	\$ (62)	\$ (1,483)	\$ 3,362	\$ (1,526)
Net (loss) income attributed to:						
Non-controlling interest in subsidiaries	\$ –	\$ –	\$ –	\$ 45	\$ 12	\$ 57
Participating policyholders	–	(5)	–	65	20	80
Shareholders	(1,663)	(1,675)	(62)	(1,593)	3,330	(1,663)
	\$ (1,663)	\$ (1,680)	\$ (62)	\$ (1,483)	\$ 3,362	\$ (1,526)

Consolidating Statement of Cash Flows

	Manulife Financial Corporation (Guarantor)	John Hancock Life Insurance Company (U.S.A.) (Issuer)	John Hancock Life Insurance Company of New York (Issuer)	Other Subsidiaries	Consolidation Adjustments	Consolidated Manulife Financial Corporation
For the year ended December 31, 2011						
Operating activities						
Net income (loss)	\$ 129	\$ (491)	\$ 166	\$ 339	\$ 102	\$ 245
Adjustments for non-cash items in net income (loss):						
Equity in net income of unconsolidated subsidiaries	(141)	(248)	—	491	(102)	—
Increase in insurance contract liabilities	—	17,113	482	10,339	—	27,934
(Decrease) increase in investment contract liabilities	—	(488)	—	552	—	64
(Decrease) increase in reinsurance assets	—	(6,301)	(298)	4,747	—	(1,852)
Amortization of premium/discount on invested assets	—	30	52	(57)	—	25
Other amortization	(1)	82	1	263	—	345
Net realized and unrealized (gains) losses including impairments	—	(10,151)	(874)	(5,734)	—	(16,759)
Deferred income tax expense (recovery)	—	264	18	(492)	—	(210)
Stock option expense	—	6	—	17	—	23
Goodwill impairment	—	665	—	—	—	665
Net (loss) income adjusted for non-cash items	\$ (13)	\$ 481	\$ (453)	\$ 10,465	\$ —	\$ 10,480
Dividends from unconsolidated subsidiaries	1,400	37	—	—	(1,437)	—
Changes in policy related and operating receivables and payables	—	2,194	376	(3,717)	—	(1,147)
Cash provided by (used in) operating activities	\$ 1,387	\$ 2,712	\$ (77)	\$ 6,748	\$ (1,437)	\$ 9,333
Investing activities						
Purchases and mortgage advances	\$ —	\$ (27,725)	\$ (6,344)	\$ (48,761)	\$ —	\$ (82,830)
Disposals and repayments	—	24,651	6,004	41,196	—	71,851
Changes in investment broker net receivables and payables	—	1,220	174	363	—	1,757
Notes receivables from affiliates	—	—	—	(203)	203	—
Notes receivables from parent	—	—	—	406	(406)	—
Notes receivables from subsidiaries	28	10	—	—	(38)	—
Capital contribution to unconsolidated subsidiary	(281)	(109)	—	—	390	—
Return of capital from unconsolidated subsidiaries	—	133	—	—	(133)	—
Investment in common shares of subsidiaries	(391)	—	—	—	391	—
Cash (used in) provided by investing activities	\$ (644)	\$ (1,820)	\$ (166)	\$ (6,999)	\$ 407	\$ (9,222)
Financing activities						
Increase (decrease) in repurchase agreements and securities sold but not yet purchased	\$ —	\$ 120	\$ —	\$ (54)	\$ —	\$ 66
Repayment of long-term debt	—	—	—	(396)	—	(396)
Issue of capital instruments, net	—	—	—	547	—	547
Repayment of capital instruments	—	—	—	(550)	—	(550)
Net increase (redemption) of investment contract liabilities	—	83	43	(694)	—	(568)
Funds borrowed, net	—	(6)	—	50	—	44
Secured borrowings from securitization transactions	—	—	—	250	—	250
Changes in bank deposits, net	—	—	—	1,603	—	1,603
Shareholder dividends paid in cash	(716)	—	—	(1)	—	(717)
Distribution to non-controlling interest	—	—	—	(17)	—	(17)
Common shares issued, net	7	—	—	386	(391)	2
Preferred shares issued, net	391	—	—	—	—	391
Dividends paid to parent	—	—	—	(1,437)	1,437	—
Return of capital to parent	—	—	—	(133)	133	—
Capital contributions by parent	—	—	—	390	(390)	—
Notes payable to affiliates	—	203	—	—	(203)	—
Notes payable to parent	—	—	—	(38)	38	—
Notes payable to subsidiaries	(406)	—	—	—	406	—
Cash (used in) provided by financing activities	\$ (724)	\$ 400	\$ 43	\$ (94)	\$ 1,030	\$ 655
Cash and short-term securities						
Increase (decrease) during the year	\$ 19	\$ 1,292	\$ (200)	\$ (345)	\$ —	\$ 766
Effect of foreign exchange rate changes on cash and short-term securities	—	38	9	145	—	192
Balance, January 1	39	1,708	421	9,154	—	11,322
Balance, December 31	\$ 58	\$ 3,038	\$ 230	\$ 8,954	\$ —	\$ 12,280
Cash and short-term securities						
Beginning of year						
Gross cash and short-term securities	\$ 39	\$ 2,063	\$ 443	\$ 9,304	\$ —	\$ 11,849
Net payments in transit, included in other liabilities	—	(355)	(22)	(150)	—	(527)
Net cash and short-term securities, January 1	\$ 39	\$ 1,708	\$ 421	\$ 9,154	\$ —	\$ 11,322
End of year						
Gross cash and short-term securities	\$ 58	\$ 3,363	\$ 255	\$ 9,137	\$ —	\$ 12,813
Net payments in transit, included in other liabilities	—	(325)	(25)	(183)	—	(533)
Net cash and short-term securities, December 31	\$ 58	\$ 3,038	\$ 230	\$ 8,954	\$ —	\$ 12,280
Supplemental disclosures on cash flow information:						
Interest paid	\$ 321	\$ 92	\$ 3	\$ 1,286	\$ (649)	\$ 1,053
Interest received	\$ —	\$ 3,999	\$ 446	\$ 3,995	\$ (39)	\$ 8,401
(Tax refunds received) income taxes paid	\$ (10)	\$ (313)	\$ 71	\$ 507	\$ —	\$ 255

Consolidating Statement of Cash Flows

	Manulife Financial Corporation (Guarantor)	John Hancock Life Insurance Company (U.S.A.) (Issuer)	John Hancock Life Insurance Company of New York (Issuer)	Other Subsidiaries	Consolidation Adjustments	Consolidated Manulife Financial Corporation
For the year ended December 31, 2010						
Operating activities						
Net (loss) income	\$ (1,663)	\$ (1,680)	\$ (62)	\$ (1,483)	\$ 3,362	\$ (1,526)
Adjustments for non-cash items in net (loss) income:						
Equity in net income of unconsolidated subsidiaries	1,568	135	—	1,659	(3,362)	—
Increase in insurance contract liabilities	—	6,527	872	6,243	—	13,642
Increase (decrease) in investment contract liabilities	—	118	(2)	(38)	—	78
(Decrease) increase in reinsurance assets	—	(2,592)	(250)	3,289	—	447
Amortization of premium/discount on invested assets	—	120	78	(80)	—	118
Other amortization	—	86	1	229	—	316
Net realized and unrealized losses (gains) including impairments	9	(1,016)	(102)	(3,382)	—	(4,491)
Deferred income tax (recovery) expense	(17)	413	(157)	(713)	—	(474)
Stock option expense	—	8	—	17	—	25
Goodwill impairment	—	1,557	—	773	—	2,330
Net (loss) income adjusted for non-cash items	\$ (103)	\$ 3,676	\$ 378	\$ 6,514	\$ —	\$ 10,465
Dividends from unconsolidated subsidiaries	1,360	99	—	—	(1,459)	—
Changes in policy related and operating receivables and payables	(9)	(1,457)	187	2,374	(1)	1,094
Cash provided by (used in) operating activities	\$ 1,248	\$ 2,318	\$ 565	\$ 8,888	\$ (1,460)	\$ 11,559
Investing activities						
Purchases and mortgage advances	\$ —	\$ (28,483)	\$ (3,607)	\$ (44,000)	\$ —	\$ (76,090)
Disposals and repayments	—	23,153	2,852	28,528	—	54,533
Changes in investment broker net receivables and payables	—	74	(2)	11	—	83
Net cash decrease from purchase of subsidiaries	—	—	—	(28)	—	(28)
Capital contribution to unconsolidated subsidiaries	(2,992)	(337)	—	(348)	3,677	—
Return of capital from unconsolidated subsidiaries	—	4	—	—	(4)	—
Notes receivable from affiliates	—	—	—	(69)	69	—
Notes receivable from parent	—	—	—	(148)	148	—
Notes receivable from subsidiaries	229	14	—	—	(243)	—
Cash (used in) provided by investing activities	\$ (2,763)	\$ (5,575)	\$ (757)	\$ (16,054)	\$ 3,647	\$ (21,502)
Financing activities						
Increase (decrease) in repurchase agreements and securities sold but not yet purchased	\$ —	\$ 472	\$ —	\$ 64	\$ —	\$ 536
Issue of long-term debt, net	2,024	—	—	—	—	2,024
Repayment of long-term debt	(1)	(1)	—	—	1	(1)
Net (redemption) increase of investment contract liabilities	—	(677)	42	(104)	—	(739)
Funds borrowed, net	—	(2)	—	7	—	5
Secured borrowings from securitization transactions	—	15	—	562	—	577
Changes in bank deposits, net	—	—	—	1,574	—	1,574
Shareholder dividends paid in cash	(691)	—	—	—	—	(691)
Contributions from non-controlling interest	—	—	—	36	—	36
Common shares issued, net	2	—	—	1	—	3
Capital contributions by parent	—	348	—	3,329	(3,677)	—
Return of capital to parent	—	—	—	(4)	4	—
Dividends paid to parent	—	—	(101)	(1,358)	1,459	—
Notes payable to affiliates	69	—	—	—	(69)	—
Notes payable to parent	—	—	—	(243)	243	—
Notes payable to subsidiaries	148	—	—	—	(148)	—
Cash provided by (used in) financing activities	\$ 1,551	\$ 155	\$ (59)	\$ 3,864	\$ (2,187)	\$ 3,324
Cash and short-term securities						
Increase (decrease) during the year	\$ 36	\$ (3,102)	\$ (251)	\$ (3,302)	\$ —	\$ (6,619)
Effect of foreign exchange rate changes on cash and short-term securities	—	(251)	(35)	(53)	—	(339)
Balance, January 1	3	5,061	707	12,509	—	18,280
Balance, December 31	\$ 39	\$ 1,708	\$ 421	\$ 9,154	\$ —	\$ 11,322
Cash and short-term securities						
Beginning of year						
Gross cash and short-term securities	\$ 3	\$ 5,339	\$ 726	\$ 12,737	\$ —	\$ 18,805
Net payments in transit, included in other liabilities	—	(278)	(19)	(228)	—	(525)
Net cash and short-term securities, January 1	\$ 3	\$ 5,061	\$ 707	\$ 12,509	\$ —	\$ 18,280
End of year						
Gross cash and short-term securities	\$ 39	\$ 2,063	\$ 443	\$ 9,304	\$ —	\$ 11,849
Net payments in transit, included in other liabilities	—	(355)	(22)	(150)	—	(527)
Net cash and short-term securities, December 31	\$ 39	\$ 1,708	\$ 421	\$ 9,154	\$ —	\$ 11,322
Supplemental disclosures on cash flow information:						
Interest paid	\$ 207	\$ 156	\$ 4	\$ 659	\$ (162)	\$ 864
Interest received	\$ —	\$ 4,143	\$ 355	\$ 3,544	\$ (20)	\$ 8,022
(Tax refunds received) income taxes paid	\$ (17)	\$ (105)	\$ 49	\$ 176	\$ —	\$ 103

Note 25 First-time Adoption of IFRS

As outlined in note 1, the Company has adopted IFRS as a replacement of previous Canadian GAAP effective January 1, 2011. References to Canadian GAAP throughout this note relate to Canadian GAAP prior to the adoption of IFRS. The Company's opening Consolidated Statement of Financial Position was prepared at January 1, 2010, the Company's date of transition to IFRS (the "Transition Date") in accordance with the requirements of IFRS 1 "First-Time Adoption of International Financial Reporting Standards". This note explains the principal adjustments made by the Company in preparing the opening IFRS Consolidated Statement of Financial Position as at January 1, 2010 compared to the Consolidated Balance Sheet as at December 31, 2009 under Canadian GAAP and the required adjustments between IFRS and previous Canadian GAAP to total equity and total comprehensive income for the 2010 comparative year.

IFRS has been applied retrospectively, except for certain optional and mandatory exemptions from full retrospective application provided for under IFRS 1, as detailed below.

(a) First-time adoption elections

Optional exemptions

Business combinations – The Company has elected to apply IFRS 3 "Business Combinations" prospectively only to business combinations on or after the Transition Date. As a result, business combinations prior to transition have not been restated.

Share-based payment transactions – The Company elected to apply IFRS 2 "Share-based Payments" to all equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company applied IFRS 2 for all liabilities arising from share-based payment transactions that existed at the Transition Date.

Insurance contracts – The Company has elected to maintain the existing Canadian GAAP requirements under CALM for the measurement of its insurance contracts until the new IFRS standard for insurance contracts is completed and becomes effective.

Fair value or revaluation value as deemed cost – The Company has elected to use amortized cost of own use property as the deemed cost at the Transition Date. A revaluation of assets in this category was performed on Transition Date.

Employee benefits – The Company did not elect prospective application of the IFRS requirements for employee benefits and instead applied the requirements retrospectively.

Currency translation differences – The Company elected to reset all cumulative translation gains and losses to zero in opening retained earnings at the Transition Date.

Designation of financial assets and financial liabilities – At the Transition Date, consistent with Canadian GAAP, the Company chose to designate bonds and stocks held to support insurance contract liabilities as FVTPL, with realized and unrealized changes in fair value recognized in income. Bonds and stocks supporting the Company's corporate and surplus segments and certain investment contracts have been classified as AFS under IFRS, which are carried at fair value with unrealized gains and losses recorded in OCI. Refer to note 1(d) and note 4(b) for further information.

Mandatory exemptions

Estimates – At the date of transition, the Company's estimates under IFRS are consistent with estimates previously made under previous Canadian GAAP at the same date, after adjusting for differences in accounting policies.

Derecognition of financial assets and liabilities – The Company has applied the derecognition requirements in IAS 39 "Financial Instruments: Recognition and Measurement" prospectively to transactions occurring on or after January 1, 2004.

Hedge accounting – The Company continued to apply hedge accounting only for those hedging relationships that met the hedge accounting criteria under IFRS. Hedge accounting was discontinued at the Transition Date for any hedge relationships that did not meet the requirements for hedge accounting under IFRS.

(b) Summary of significant measurement differences between Canadian GAAP and IFRS

Topic/Adjustment	Summary of differences
(i) Investment adjustments	
Real estate	<p>Under Canadian GAAP, real estate was carried on a move-to-market measurement, with realized gains and losses deferred and amortized. Under IFRS, the accounting for real estate follows two primary models:</p> <ul style="list-style-type: none"> ▪ <i>Own use property</i> – measured at depreciated cost less impairment. ▪ <i>Investment property</i> – the Company has elected to measure at fair value through earnings.
Other invested assets	<ul style="list-style-type: none"> ▪ <i>Agriculture</i> – Under Canadian GAAP was recorded on a “move-to-market” basis similar to real estate. Under IFRS is measured at fair value through earnings. ▪ <i>Private equities</i> – were measured at historical cost less impairments under Canadian GAAP where significant influence is not held over the investment. Under IFRS they are measured at fair value. ▪ <i>Impairments of available-for-sale equities</i> – Under IFRS impairments are recognized when declines in the carrying values are significant or prolonged, irrespective of expectations of future recoveries of the carrying values. Under Canadian GAAP the consideration of future recovery was permitted, resulting in additional impairment charges under IFRS. ▪ <i>Oil and gas investments</i> – Asset retirement obligations associated with these investments are discounted using a risk-free discount rate under IFRS, as opposed to a risk-adjusted rate under Canadian GAAP. ▪ <i>Loan origination costs</i> – Certain internal costs incurred to originate loans issued by Manulife Bank of Canada were included as an adjustment to the carrying value of the loan and are amortized into income over the effective life of the loan or mortgage under Canadian GAAP. These internal costs are expensed as incurred under IFRS. ▪ <i>Hedge accounting</i> – Certain hedge relationships under Canadian GAAP did not qualify for hedge accounting under IFRS and/or were subject to a change in hedge effectiveness testing and/or measurement. ▪ <i>Mortgage securitizations</i> – Certain mortgages in third party securitization vehicles are accounted for on-balance sheet as secured borrowings under IFRS. These transactions qualified for derecognition and were not recognized on-balance sheet under Canadian GAAP. ▪ <i>Foreign exchange gains/losses on debt instruments classified as Available-for-Sale</i> – Are recorded in income under IFRS as opposed to OCI under Canadian GAAP.
Changes in insurance contract liabilities related to invested asset changes	<ul style="list-style-type: none"> ▪ Upon adoption of IFRS and until the new IFRS standard for insurance contracts is effective, the previous Canadian GAAP requirements for the valuation of insurance liabilities (CALM) will be maintained. Under CALM, changes in the carrying value of the assets supporting insurance liabilities highlighted under “investment adjustments” above that are not the result of changes in expected future cash flows are largely offset by a corresponding change in insurance liabilities.
(ii) Actuarial adjustments	<ul style="list-style-type: none"> ▪ <i>Product classification</i> – The definition of insurance contracts under IFRS includes contracts that have significant insurance risk, while the Canadian GAAP definition was based on the form of the contract. Certain contracts that do not now qualify as insurance contracts are measured as financial liabilities at amortized cost or fair value under IFRS. Additionally, for those financial liabilities measured at amortized cost, acquisition costs that were not considered incremental to the issuance of the financial liability were expensed as incurred under IFRS. Previously, these costs were included in the carrying amount of the policyholder liabilities under Canadian GAAP. ▪ <i>Embedded derivatives</i> – Certain insurance contracts contain embedded derivatives under IFRS that are presented separately in other assets or other liabilities and measured at fair value through earnings.
(iii) Consolidation adjustments	<ul style="list-style-type: none"> ▪ IFRS requires the consolidation of all entities, including special purpose entities, over which the Company has control. Several entities, including certain private equity investments and financing vehicles that were not consolidated under Canadian GAAP are consolidated under IFRS.
(iv) Corporate adjustments	<ul style="list-style-type: none"> ▪ <i>Goodwill</i> – Is tested at the CGU level under IFRS, a more granular level than a reporting unit under Canadian GAAP, which resulted in an impairment charge upon transition to IFRS and in 2010 and could result in more frequent impairment charges going forward under IFRS. • <i>Investments in leveraged leases</i> – are measured in a similar manner to a capital lease with income recognized on an effective yield basis under IFRS. Income was only recognized during the period in which the net investment in the lease is positive under Canadian GAAP. • <i>Stock-based compensation</i> – IFRS requires the use of the graded vesting method to account for share-based compensation awards that vest in installments over the vesting period as opposed to straight-line recognition applied under Canadian GAAP.

Topic/Adjustment	Summary of differences
(iv) Corporate adjustments (cont'd)	<ul style="list-style-type: none"> ▪ <i>Employee future benefits</i> – Actuarial gains and losses are determined using the fair value of plan assets under IFRS as opposed to the “market-related” value under Canadian GAAP. Where plan benefits are improved under IFRS, past service costs are recognized in income on a straight-line basis until the benefits become vested, unless fully vested in which case they are recognized immediately. ▪ <i>Income tax accounting differences</i> – Liabilities are recorded for tax positions under IFRS based on a probability-weighted assessment of the outflows on the range of possible outcomes. Under Canadian GAAP, emphasis was instead placed on the appropriateness of recognizing the tax benefit. Specifically, a tax benefit is only recognized if it is probable that the tax position will be accepted by the relevant tax authority based on its technical merits.
(v) Diluted earnings per share	<ul style="list-style-type: none"> ▪ Under IFRS, convertible financial instruments that contain features enabling the holder to convert their security into common shares must be included in the calculation of diluted earnings per share (“EPS”), irrespective of the likelihood of conversion. Under Canadian GAAP, the inclusion or exclusion of such instruments in the calculation of diluted EPS was based on past experience and expectations of whether these instruments will be settled in cash rather than shares. The impact of including certain convertible preferred shares and debentures issued by the Company in the calculation of diluted EPS resulted in a reduction of two cents and four cents for the first and fourth quarters of 2010, respectively, compared to diluted EPS for the same periods under Canadian GAAP.

With the exception of the impairment of goodwill in the third quarter of 2010, the initial adoption of IFRS did not have a material impact on the net loss in accordance with IFRS for the year ended December 31, 2010.

A summary of the various earnings impacts to total comprehensive income (loss) as a result of the adoption of IFRS is as follows.

For the year ended December 31, 2010

Net loss in accordance with Canadian GAAP	\$ (312)
Add back: non-controlling interest	40
<i>IFRS adjustments increasing (decreasing) reported net income</i>	
(i) <i>Investment adjustments</i>	
Real estate	(93)
Private equity	183
Hedge accounting	(73)
Oil and gas	19
Other invested assets	(6)
Changes in insurance contract liabilities related to invested asset changes	(47)
(ii) <i>Actuarial adjustments</i>	
Product classification	64
Embedded derivatives	(16)
(iii) <i>Consolidation adjustments</i>	(16)
(iv) <i>Corporate adjustments</i>	
Goodwill impairment	(1,291)
Investments in leveraged leases	150
Other adjustments	(87)
Income tax accounting differences	(26)
Non-controlling interest	18
<i>Income tax adjustments on the above</i>	(33)
Net loss in accordance with IFRS	\$ (1,526)
Other comprehensive loss under Canadian GAAP	(1,058)
IFRS adjustments to other comprehensive income (loss) including amounts attributed to participating policyholders and non-controlling interest on:	
Change in unrealized gains on AFS financial assets	34
Change in unrealized gains (losses) on cash flow hedges	14
Translation of foreign operations	183
Total comprehensive loss in accordance with IFRS	\$ (2,353)

A summary of the various adjustments to total equity as a result of the adoption of IFRS is as follows.

As at	December 31, 2010	January 1, 2010
Total equity determined in accordance with Canadian GAAP⁽¹⁾	\$ 26,740	\$ 28,774
Reclassification of non-controlling interests to equity under IFRS	254	202
<i>IFRS adjustments increasing (decreasing) reported equity</i>		
<i>Retained earnings</i>		
(i) <i>Investment adjustments</i>		
Real estate	97	194
Private equity	201	23
Agriculture	85	85
Hedge accounting	106	177
Oil and gas	(44)	(61)
Other invested assets	(166)	(160)
Changes in insurance contract liabilities related to invested asset changes	(376)	(333)
(ii) <i>Actuarial adjustments</i>		
Product classification	(53)	(117)
Embedded derivatives	(45)	(28)
(iii) <i>Consolidation adjustments</i>	(99)	(99)
(iv) <i>Corporate adjustments</i>		
Goodwill impairment	(2,025)	(734)
Investments in leveraged leases	(374)	(523)
Other adjustments	(146)	(51)
Income tax accounting differences	(185)	(159)
Income tax adjustments on the above	237	269
Currency translation account reset through equity (see note 25(a))	(5,144)	(5,144)
<i>Accumulated other comprehensive income on:</i>		
AFS financial assets	82	51
Cash flow hedges	44	26
Translation of net foreign operations	5,330	5,148
<i>Non-controlling interest</i>	156	36
Total equity determined in accordance with IFRS	\$ 24,675	\$ 27,576

⁽¹⁾ Canadian GAAP opening shareholders' retained earnings as at January 1, 2010, included in Canadian GAAP total equity, have been restated. During the first quarter of 2011, the Company identified errors originating primarily from years prior to the merger with John Hancock Financial Services, Inc. in April 2004. The result of these errors included an understatement of other liabilities of \$133. Because these errors are not material to the consolidated financial statements for prior years, but correcting them in the current year would have materially distorted the current year's result, the Company has corrected the errors by reducing opening shareholders' retained earnings as at January 1, 2010 by \$133.

The Company did not have any material adjustments to the Consolidated Statements of Cash Flows upon first-time adoption of IFRS.

(c) Summary of key financial statement presentation differences between Canadian GAAP and IFRS

Topic	Summary of differences
Amounts ceded under reinsurance arrangements	Were included as part of: (i) policy liabilities on the statement of financial position, and (ii) premium income and policy benefits and expenses on the income statement under Canadian GAAP. Under IFRS, these balances are presented on a gross basis on both the statement of financial position and income statement under IFRS.
Segregated funds	Under Canadian GAAP were disclosed on the face of the statement of financial position, but not included in the total assets and liabilities. Under IFRS, these balances are included in total assets and liabilities on the statement of financial position.
Investments in leveraged leases	Are classified as investments in capital leases within other investments under IFRS. Previously, these investments were included in private placement bonds. In addition, certain tax balances associated with the investments in leveraged leases were reclassified between deferred tax liabilities, other liabilities and other investments under IFRS.
Deferred tax assets	Are disclosed separately on the face of the statement of financial position under IFRS. Previously, these balances were included in miscellaneous assets under Canadian GAAP. Additionally, certain miscellaneous tax assets, previously included in deferred tax liabilities under Canadian GAAP are now presented in miscellaneous assets under IFRS.
Non-controlling interest	Is included as a separate component of equity on the statement of financial position under IFRS. Under Canadian GAAP, non-controlling interest was included in liabilities. Under IFRS net income includes income attributable to non-controlling interest. Total net income on the income statement is then attributed to controlling interests (shareholders and participating products) and non-controlling interests. The determination of earnings per share will continue to exclude the income attributable to the non-controlling interests.

Note 26 Subsequent Events

On February 22, 2012, MFC issued 10 million Class 1 Shares Series 7 ("Class 1 Series 7 Preferred Shares") at a price of \$25 per share, for an aggregate amount of \$250. The Class 1 Series 7 Preferred Shares are entitled to non-cumulative preferential cash dividends, payable quarterly, if and when declared, at a per annum rate of 4.60% until March 19, 2017 after which the dividend rate will be reset every five years at a rate equal to the five year Government of Canada bond yield plus 3.13%. On March 19, 2017 and on March 19 every five years thereafter, the Class 1 Series 7 Preferred Shares will be convertible at the option of the holder into Class 1 Shares Series 8 ("Class 1 Series 8 Preferred Shares"). The Class 1 Series 8 Preferred Shares are entitled to non-cumulative preferential cash dividends, payable quarterly, if and when declared, at a rate equal to the three month Government of Canada Treasury Bill yield plus 3.13%. Subject to regulatory approval, MFC may redeem Class 1 Series 7 Preferred Shares, in whole or in part, at par, on March 19, 2017 and on March 19 every five years thereafter.

On February 17, 2012, MLI issued \$500 in subordinated fixed/floating debentures, which mature June 1, 2022. The debentures are guaranteed by MFC on a subordinated basis. The debentures bear interest at a fixed rate of 4.165% per annum, payable semi-annually for five years and thereafter at the 90-day Bankers' Acceptance rate plus 2.45% payable quarterly. With regulatory approval, MLI may redeem the debentures, in whole or in part, on or after June 1, 2017, at par, together with accrued and unpaid interest. The subordinated debentures form part of the Company's Tier 2B regulatory capital.

Note 27 Comparatives

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