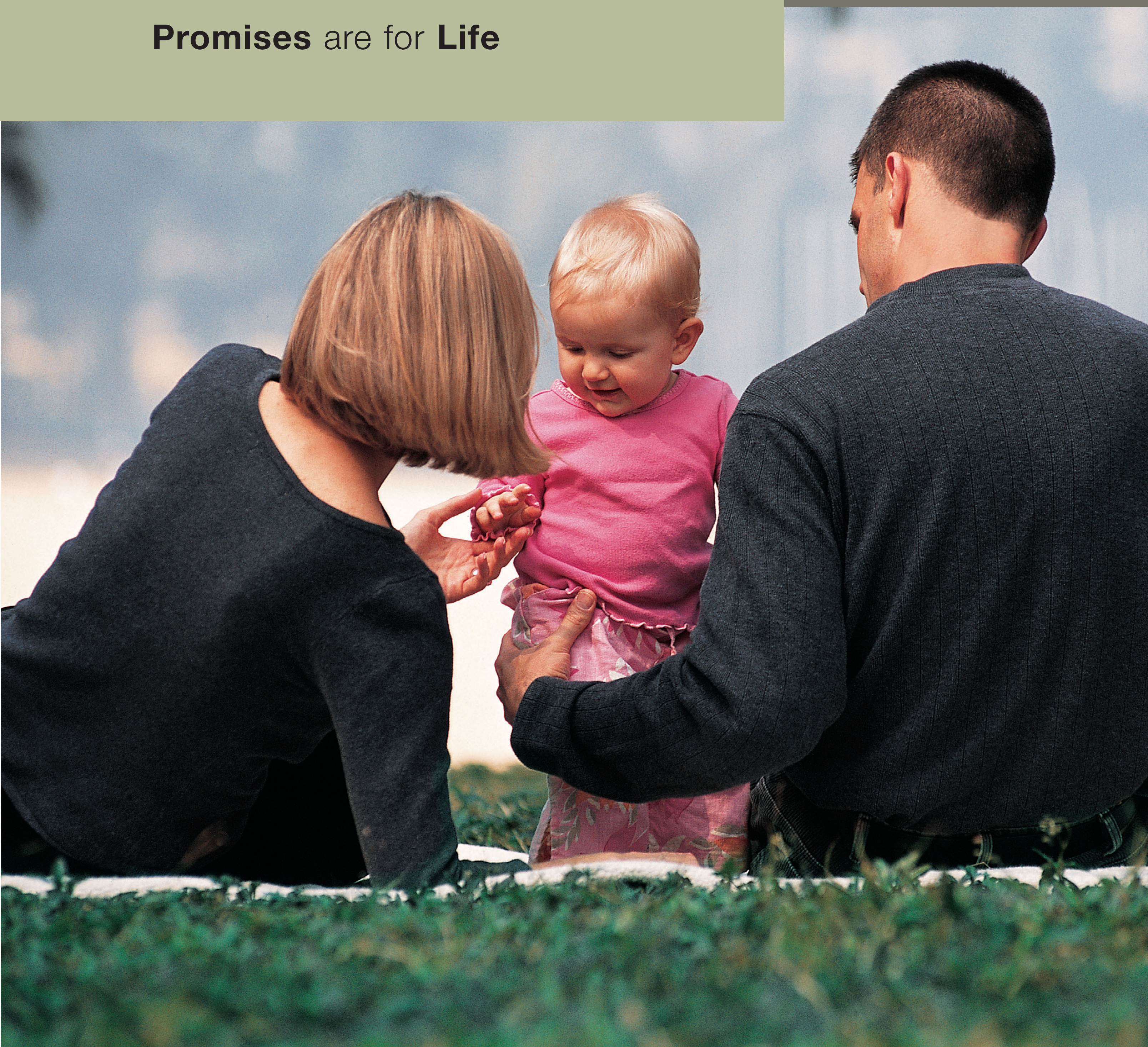
Manulife Financial

2003 Annual Report

Promises are for **Life**



Our values

Our P.R.I.D.E. values guide everything we do – from strategic planning to day-to-day decision-making, to the manner in which we treat our customers and other stakeholders.

Professionalism

We will be recognized as having professional standards. Our employees and agents will possess superior knowledge and skill, for the benefit of our customers.

Real Value to Our Customers

We are here to satisfy our customers. By providing the highest quality products, services, advice and sustainable value, we will ensure our customers receive excellent solutions to meet their individual needs.

Integrity

All of our dealings are characterized by the highest levels of honesty and fairness. We develop trust by maintaining the highest ethical practices.

Demonstrated Financial Strength

Our customers depend on us to be here in the future to meet our financial promises. We earn this faith by maintaining uncompromised claims paying ability, a healthy earnings stream, and superior investment performance results, consistent with a prudent investment management philosophy.

Employer of Choice

Our employees will determine our future success. In order to attract and retain the best and brightest employees, we will invest in the development of our human resources and reward superior performance.

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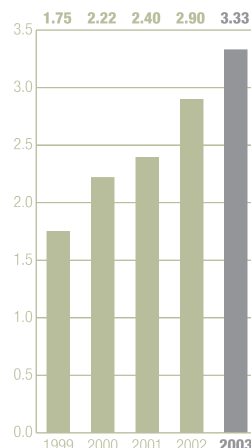
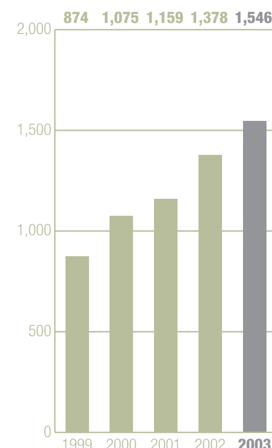
The information contained in the Notice of Annual Meeting and Proxy Circular of Manulife Financial Corporation for the Annual Meeting to be held April 29, 2004 is hereby incorporated into this Annual Report by reference.

Key Performance Measures

Basic Earnings per Common Share(1)
(Canadian $)



Shareholders' Net Income(1)
(Canadian $ in millions)



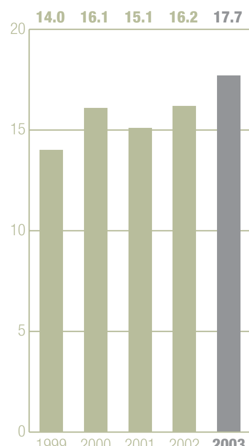
- Basic earnings per common share of $3.33, an increase of 15 per cent from 2002, achieving the Company's medium-term target
- Five year annual compound growth rate for earnings per share of 19 per cent

- 12 per cent growth in shareholders' net income to $1,546 million
- Tenth consecutive year of record earnings

Forward-Looking Statements

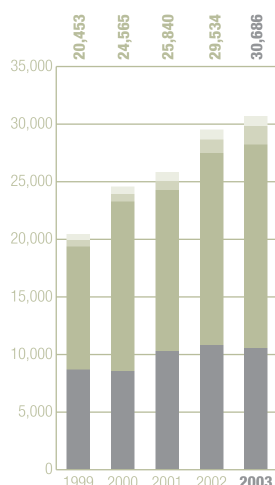
This report includes forward-looking statements within the meaning of National Policy Statement 48, which include, among others, statements with respect to the business operations and strategy as well as the financial performance and condition of the Company. These statements are predictive in nature and generally can be identified by the use of forward-looking words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," or "continue" or the negative thereof or similar variations. These statements involve inherent risks and uncertainties that may cause actual results to differ materially from those expressed or implied by the forward-looking statements. Factors that could cause actual results to differ materially from the Company's expectations include, but are not limited to, general economic conditions worldwide, market factors, including global capital market activity, interest rate and currency value fluctuations, business competition, changes in government regulations or in tax laws, including estate taxes and changes in treatment of dividends, technological changes, changes in consumer demand for our products and services, realizing increased revenue from the expansion and development of distribution channel capacity, our ability to complete strategic acquisitions and to integrate acquisitions, catastrophic events, political conditions and developments and international conflicts including the war on terrorism. Readers are cautioned to consider these and other factors carefully and not to place undue reliance on the Company's forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by law.

Return on Common Shareholders' Equity[1]
(per cent)



- Return on common shareholders' equity of 17.7 per cent, exceeding the Company's 16 per cent objective

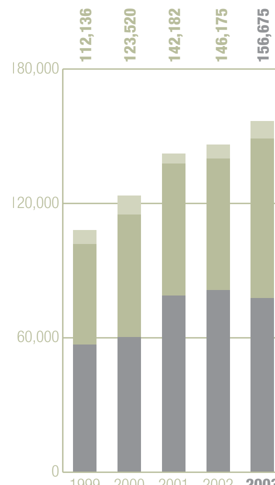
Premiums and Deposits
(Canadian $ in millions)



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

- Premiums and deposits exceeded $30 billion, up 4 per cent; on a constant currency basis 13 per cent higher
- 6 per cent growth in segregated fund deposits; 17 per cent higher excluding the negative impact of a stronger Canadian dollar

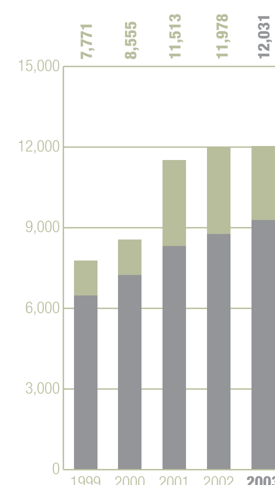
Funds Under Management
(Canadian $ in millions)



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

- $10.5 billion increase in funds under management
- Strong growth from premiums and deposits and the impact of excellent equity markets was significantly offset by a $18.8 billion reduction due to a strengthened Canadian dollar
- 25 per cent increase in mutual and other managed funds

Capital
(Canadian $ in millions)



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

- Issued $350 million of preferred shares
- Total equity of $9.3 billion
- Total capital of $12.0 billion
- As at December 31, 2003, The Manufacturers Life Insurance Company's MCCSR was 211 per cent

(1) For 1999 – Shareholders' net income refers to earnings from mutual operations (prior to demutualization) and net income attributable to shareholders (after demutualization).
– Basic earnings per common share have been calculated assuming that common shares issued for demutualization and the initial public offering were outstanding at the beginning of 1999.

Ratings

Rating agencies each assign The Manufacturers Life Insurance Company ratings within their highest range of categories, thereby recognizing the company as among the strongest in the life insurance industry.

Purpose	Rating agency	Rating	
Claims paying/Financial strength	A.M. Best	A++	(1st of 16 categories)
	Dominion Bond Rating Service	IC-1	(1st of 5 categories)
	Fitch Ratings	AA+	(2nd of 22 categories)
	Moody's	Aa2	(3rd of 21 categories)
	Standard & Poor's	AA+	(2nd of 21 categories)

The MCCSR (Minimum Continuing Capital and Surplus Requirements) is a measure of a company's capital strength. The Manufacturers Life Insurance Company's ("MLI") MCCSR was 211 per cent at year-end 2003, well above the minimum prescribed by the Office of the Superintendent of Financial Institutions (Canada). The decrease in the ratio from 2002 to 2003 related to the upstreaming of $1.9 billion of capital from MLI to Manulife Financial Corporation in preparation for the proposed business combination with John Hancock Financial Services, Inc.

MCCSR

Year	Ratio	Required Capital	Available Capital
2003	**211%**	**$ 4.4 billion**	**$ 9.2 billion**
2002	235%	$ 4.5 billion	$ 10.6 billion
2001	236%	$ 4.4 billion	$ 10.3 billion
2000	238%	$ 3.4 billion	$ 8.0 billion
1999	239%	$ 3.3 billion	$ 7.9 billion

Message to Shareholders

Dominic D'Alessandro

Over the past 10 years, we have worked very hard to make Manulife the excellent Company it is today: a clear leader in the life insurance industry in Canada by almost any measure and, increasingly, a leader in the global market.

Our management team, our employees, our distribution partners and our agents continue to deliver, year-over-year, on promises made to our customers and shareholders. That's why we have titled this year's annual report, "Promises Are For Life." To customers, we promise to deliver customized and innovative products and services. To our shareholders, we promise to provide superior financial returns and to remain financially strong. To employees, we promise to provide a challenging and rewarding workplace and to our distribution partners, we promise a broad and competitive product portfolio.

We pride ourselves on being able to deliver on these promises. Over the past decade, our earnings have grown at a compound annual growth rate of 24 per cent. We have also successfully integrated a number of acquisitions in Canada and Asia, thereby expanding our scale and scope. And, we have entered into new lines of business and new markets.

All of this has translated into tremendous growth in sales. We are also very proud of our strong capital base and the excellent quality of our investment portfolio, both of which have afforded Manulife among the highest credit ratings in the country and the insurance industry.

Our success is a testament to our strengths and experience in product innovation, distribution excellence, customer focus, risk and investment management, and technology. It is also a testament to the constancy with which we pursue our vision: to be the most professional life insurance company in the world, providing the very best financial protection and wealth accumulation products and services.

We think about growth all the time. We compete in an industry that is mature and highly competitive, and in such an environment, product and distribution excellence, scale, and execution skills determine which companies will achieve the superior returns and excellent growth rates that shareholders demand. We can certainly get to that point through organic growth and continued expense management. We can also seize opportunities that get us there

faster and establish us as an undisputed leader in the global financial services marketplace.

Merging with John Hancock Financial Services, including its Canadian subsidiary, Maritime Life, is one such opportunity. We announced our intent to merge with the eighth largest life insurer in the United States on September 28, 2003 and by the time this report is in your hands, I expect we will be completing the largest cross-border transaction in Canadian history. At a vote on February 24th of this year, Hancock's shareholders overwhelmingly endorsed the union. This merger is very much about exceptionally strong companies, whose products, distribution channels and markets complement one another. Put them together and you have an organizational whole that is greater than the sum of its parts, able to offer customers access to a more diverse and competitive product portfolio through a broader network of distribution partners.

With the merger, Manulife Financial will be poised to compete more aggressively and increase its market share. Combined, we will form the second largest life insurance company in North America, the fifth largest in the world, and the second largest publicly traded company in Canada.

All of this is for next year's Annual Report, however. For this year, I want to focus on Manulife's achievements during 2003, and I am pleased to report that our results are consistent with the past 10 years of exceptional performance.

Year in Review

In 2003, Manulife delivered earnings per share of $3.33, a 15 per cent increase from the 2002 level. The Company's record earnings of $1,546 million were the highest of any Canadian life insurer. Return on shareholders' equity of 17.7 per cent, well in excess of our target of 16 per cent, placed Manulife among the leading Canadian public companies. This performance was achieved despite a 12 per cent depreciation in the average value of the U.S. dollar against the Canadian dollar during the year, which significantly impacts the Company as 60 per cent of our earnings are denominated in U.S. dollars. Our success in 2003 reflects the impact of improved equity markets, record sales levels, and continued tight management of fixed expenses.

Confident in Manulife's performance and growth opportunities, the Board of Directors increased the Company's quarterly shareholder dividend to 21 cents per share from 18 cents per share in the second quarter. The financial markets have also recognized our track record of consistent earnings growth. Earlier this year, MFC shares hit new all-time high prices on all stock exchanges on which they are traded.

Manulife's strong growth in 2003 can be measured not just with financial metrics. Consistent with our promises to our stakeholders, we have expanded and enhanced our product portfolios in all businesses to be responsive to the changing needs of our customers. We have added new distribution channels to reach a broader customer base. We continue to receive numerous awards and recognition for our customer service, our products, our innovation and our people. With our strong sales successes, we have gained market share against our peers. And, through acquisitions, we have welcomed new clients and distribution partners to Manulife.

United States The year 2003 marked the 100th anniversary of our first life insurance policy sold in the United States. Since that time, Manulife USA has become a market leader in high net worth life insurance, small case 401(k) pension plan products and variable annuities by building strong relationships with a diversified group of distribution partners, by earning a reputation for innovative products and services, by offering superior customer service, and by leveraging the Company's financial strength. Our success in 2003 is evident in the achievement of record levels of premiums and deposits in our Insurance and Group Pensions businesses. With these results, we have made significant market share gains in the life insurance business, particularly in the universal life market where Manulife now ranks number one in survivorship universal life sales. Our 401(k) pension plan business serves more than 1.1 million participants across more than

28,000 plans. And the new distribution relationship that our Annuities business launched late in 2002 with Scudder Investments has contributed significantly to sales expansion, accounting for 13 per cent of total sales in 2003. Our newer businesses, Manulife College Savings and Manulife Private Accounts, continued to expand their distribution reach despite difficult market conditions.

Canada The Canadian Division delivered record earnings in 2003, driven by tremendous sales growth, the expanded breadth of distribution, tight control of expenses, and increased scale from the successful integration of acquisitions made in 2002. Our Individual Life business recorded record sales across all product lines, with a year-over-year new sales increase of 18 per cent, as product enhancements made the portfolio even more competitive. More than half of our life insurance sales are now from non-traditional sources, in part as a result of increased penetration of the managing general agency distribution channel. During 2003, Manulife signed agreements with 19 managing general agencies, providing access to almost 3,500 new distributors. Group Benefits and Group Pensions welcomed many new clients, also on the way to delivering record sales levels. During the year, we continued to expand Internet services for plan administrators and members, increasing self-service options and streamlining processes. The Individual Wealth Management business successfully put all segregated fund, mutual fund and fixed income offerings under a common and recognized brand name, Manulife Investments. This, combined with the expanded depth of our asset management expertise and broadened product lineup, helped to drive a 19 per cent increase in assets under management. Manulife Bank achieved a milestone in 2003 when it surpassed $2 billion in lending assets, almost doubling in size over the past 18 months, with successes in both the unique Manulife One product and its many investment-lending products.

Asia In 2003, all territories in our Asian operations contributed positively to earnings for the first time ever. Manulife Hong Kong also celebrated its one millionth-customer, providing a strong base for future growth and expansion. While the outbreak of Severe Acute Respiratory Syndrome (SARS) exacerbated already weak economies in several countries, every one of our Asian businesses recorded growth in total sales, premiums and deposits, and funds under management, reflecting Manulife's strong brand and reputation for delivering industry-leading products and services to our customers. Our investments in organic growth in existing businesses, the opening of operations in new countries, and expansion through acquisitions have made Manulife a significant presence and one of the strongest life insurance companies in this rapidly growing region. Our commitment to continued growth in Asia is evidenced by the purchase in 2003 of the Indonesian life insurance business and Philippine insurance portfolio of Zurich Financial, and the acquisition of PT ING-Aetna Life Indonesia. Also in 2003, the Company was granted a branch license for Beijing and expects to commence operations in 2004, building upon our successes in Shanghai and Guangzhou where we now serve more than 180,000 customers. The Guangzhou branch has developed a model for future branch offices elsewhere in China, positioning Manulife to take advantage of the opening of this country's untapped life insurance market. Agency expansion, the key to future sales growth, continued strong in most locations, with the sales force reaching almost 22,000 people at year-end, an increase of 17 per cent from the prior year. Recognizing the importance of developing and maintaining a highly professional sales force, Manulife established Manulife University in Hong Kong to offer courses in sales and marketing, agency management, and finance to agents and managers throughout the region.

Japan We are particularly pleased to report that our Japanese operations made significant progress in 2003 in restructuring and revitalizing its business. The decade long decline in the primary sales force was halted and the number of sales representatives grew by eight per cent, ending the year with more than 3,500 agents. Our distribution reach also expanded with the signing of marketing agreements with several regional banks and a major stockbroker. Earlier this year, we entered into a strategic alliance for

variable annuity product development and sales with The Bank of Tokyo-Mitsubishi, one of the largest financial institutions in Japan. We are optimistic for strong sales growth in the rapidly developing variable annuity market in Japan. Manulife Japan's product portfolio is now completely refreshed with innovative next generation products, leveraging our expertise from other countries. A number of cost and staff reduction programs and productivity improvement initiatives were also implemented throughout the year. Manulife Japan has successfully established itself in the world's second largest life insurance market and our prospects for the future are extremely encouraging.

Reinsurance The Reinsurance Division had a solid year in 2003, with earnings positively impacted by the rebound in equity markets and favourable mortality experience. Manulife's commitment to strict pricing and risk management principles and our strong client relationships have allowed us to expand our Reinsurance business selectively and maintain our lead position in the North American life retrocession market, despite several years of turmoil in the reinsurance markets. In 2003, we established Avon Long Term Care Leaders, a specialized reinsurance intermediary and risk manager in the long-term care marketplace. The demand for this service is expected to increase significantly in the coming years as the population ages and pressure on public funding sources increases.

Investments Manulife's consistently high quality and conservatively valued investment portfolio continued to perform well in 2003, despite ongoing credit challenges in the financial markets. The Company's general fund investments are well diversified by asset class, industry and geography. Last year, Manulife purchased 16 office buildings in Japan as part of a plan to diversify its investment portfolio, improve investment performance and enhance brand recognition. These buildings will be rebranded with the Manulife name prominently displayed. The yield earned on these properties in 2003 was well ahead of the projected return at the time of acquisition. MFC Global Investment Management had a very strong year, with solid performance and good growth in assets under management. MFC Global also made significant progress in winning new third party mandates, including products distributed by several major Canadian banks. In Canada, while the mutual fund industry had a challenging year, Manulife Investments had outstanding sales, posting a year-over-year 89 per cent increase in net sales of long-term funds. This success was led by MFC Global's Elliott & Page Monthly High Income Fund, which grew to more than $1 billion in assets under management, and won the Canadian Investment Awards "Best Canadian Income Trust Fund" award for 2003.

Looking Forward

Of course, the successful integration of Manulife Financial and John Hancock will be the main objective for the coming year. I would like to take this opportunity to extend a warm welcome to all the officers, employees, agents and distributors of the John Hancock organization, who, if events unfold as expected, will be joining us in a few weeks' time. All of us, at each company, recognize we are undertaking a unique project of enormous promise. We are very excited about the prospects for the merged company, which will be one of the world's most diversified and financially strong life insurers.

We are also committed to the continued organic growth of our existing businesses and will endeavor to make the most of opportunities now present in the generally favourable economic conditions prevailing in many of the markets where we operate. Indeed, the positive sales momentum of 2003 is carrying over into 2004.

I look forward to reporting to you on our progress. To our shareholders, customers, employees, distribution partners and agents, thank you for your continued belief and support.

Dominic D'Alessandro
President and
Chief Executive Officer

Financial Performance

Canadian generally accepted accounting principles ("GAAP") require the presentation of financial information in discrete segments. The Company views the contracts comprising the general fund, segregated funds and other funds under management as alternative offerings that are managed interdependently. The reason for this is that there are transfer options between the general fund and the segregated funds as a result of a policyholder's ability to change investment options or products. Fee income for investment management and administrative services provided to segregated funds is recorded in the general fund.

As a result of similarities between general fund, segregated fund and mutual fund products from a business perspective and the many interdependencies, the Company measures certain key business indicators in aggregate. These key business indicators are:

(1) Growth of total premiums and deposits; and

(2) Growth in funds under management.

Taxes, levies and assessments are a significant component of Manulife Financial's expenses. In addition to income and capital-based taxes, the Company is subject to other taxes, which are reported as part of the Company's total expenses, including property and business taxes, premium taxes, employer payroll taxes, commodity and consumption taxes, and Canadian investment income taxes. Total taxes, levies and assessments, excluding income and certain capital-based taxes, which are recorded separately as income taxes in the Consolidated Statements of Operations, amounted to $324 million in 2003.

Consolidated Net Income

Manulife Financial reported record earnings in 2003 as shareholders' net income increased by 12 per cent to $1,546 million compared to $1,378 million reported in 2002. The Company achieved its medium-term targets of 15 per cent growth in earnings per share and 16 per cent return on shareholders' equity. Earnings per common share grew by 15 per cent to $3.33 from $2.90 in 2002 and the return on common shareholders' equity for the year ended December 31, 2003 was 17.7 per cent compared to 16.2 per cent for 2002.

The increase in shareholders' earnings was largely driven by the impact of exceptional equity markets, business growth, continued prudent management of expenses, together with very good claims experience in Japan and Canada. However, earnings were dampened by mortality experience in the United States that was modestly unfavourable compared to the very good experience of a year ago, and the $92 million negative impact of a strengthening Canadian dollar.

Summary Statements of Operations

For the years ended December 31

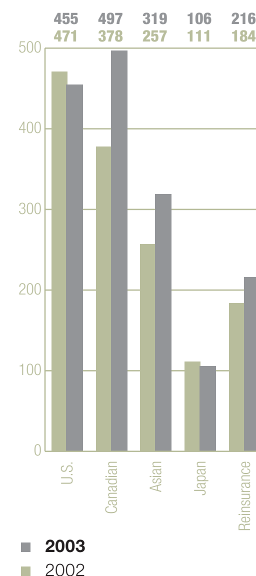
(Canadian $ in millions, unless otherwise stated)	**2003**	2002	2001
Premium income	**$ 10,540**	$ 10,779	$ 10,247
Investment income	**4,561**	4,235	4,479
Other revenue	**1,555**	1,518	1,505
Total revenue	**$ 16,656**	$ 16,532	$ 16,231
Policy benefits	**$ 10,478**	$ 10,670	$ 10,826
General expenses	**2,559**	2,490	2,478
Commissions	**1,280**	1,207	1,133
Interest expense	**253**	243	257
Premium taxes	**119**	111	105
Non-controlling interest in subsidiaries	**57**	72	4
Trust preferred securities issued by subsidiaries	**58**	65	65
Total policy benefits and expenses	**$ 14,804**	$ 14,858	$ 14,868
Income before income taxes	**$ 1,852**	$ 1,674	$ 1,363
Income taxes	**(316)**	(304)	(196)
Net income	**$ 1,536**	$ 1,370	$ 1,167
Less: net income (loss) attributed to participating policyholders	**(10)**	(8)	8
Net income attributed to shareholders	**$ 1,546**	$ 1,378	$ 1,159
Preferred share dividends	**7**	–	–
Net income available to common shareholders	**$ 1,539**	$ 1,378	$ 1,159
Basic earnings per share	**$ 3.33**	$ 2.90	$ 2.40

Premiums and Deposits

Premiums and deposits increased by four per cent to $30.7 billion in 2003 compared to $29.5 billion for the year ended December 31, 2002. Excluding the $2.4 billion negative impact of a stronger Canadian dollar, premiums and deposits increased by approximately 13 per cent.

Segregated fund deposits increased by six per cent to $17.7 billion in 2003 from $16.7 billion in 2002; however, on a constant currency basis, they increased by 17 per cent over the prior year. This increase was driven by record sales of 401(k) pension products in the United States, a 56 per cent increase in deposits from Canadian Division's wealth management businesses and a fourfold increase in variable annuity sales in Japan.

General fund premiums were negatively impacted by a stronger Canadian dollar and decreased marginally to $10.5 billion in 2003 from $10.8 billion in 2002. Excluding the currency impact, general fund premiums increased approximately five per cent over the prior year. This increase reflects particularly strong growth in the universal life insurance business in the United States and growth in the Canadian insurance businesses. This increase was partially offset by a decline in Individual Wealth Management premiums in the United States, as the appreciation in equity markets attracted customers to segregated funds, and a decline in the block of policies acquired in Japan from Daihyaku in 2001. In addition, 2002 general fund premiums were buoyed by significant one-time premiums recorded in the Reinsurance Division.



Premiums and Deposits

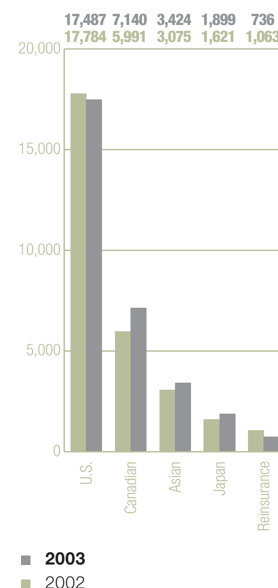
For the years ended December 31
(Canadian $ in millions)

	2003	2002	2001
General fund premiums	**$ 10,540**	$ 10,779	$ 10,247
Segregated fund deposits	**17,687**	16,706	14,044
Mutual fund deposits	**1,576**	1,189	754
ASO premium equivalents	**883**	860	795
Total	**$ 30,686**	$ 29,534	$ 25,840

Investment Income

Investment income increased by eight per cent to $4.6 billion in 2003 from $4.2 billion in 2002. The favourable impact of robust equity markets, excellent credit experience and an increase in the average yield of fixed-income investments, was partially offset by the negative impact of a strengthened Canadian dollar. As at December 31, 2003, approximately 34 per cent of stocks supported the Company's participating policies and the impact of an increase or decrease in investment income from these stocks is substantially offset by a change in actuarial liabilities. The remaining 66 per cent of stocks supported other actuarial liabilities and the Company's capital. Investment income on these stocks impacts the Company's net income over time.

Provisions against impaired assets were significantly offset by net recoveries in the mortgage portfolios and resulted in a current year net provision of $5 million, reflecting excellent credit experience. This compares to the establishment of $220 million in specific provisions in the second quarter of 2002 against certain investments in the telecommunications sector, partially offset by recoveries related to U.S. dollar-denominated bonds, including investments in Californian utilities. As a result of the aforementioned, the total investment yield for the Company increased to 6.50 per cent from 5.93 per cent in 2002.



Investment Income

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

	2003	2002	2001
Gross investment income	**$ 3,991**	$ 4,019	$ 3,962
Net provision for impaired assets	**(5)**	(197)	(99)
Amortization of net realized and unrealized gains	**575**	413	616
Total	**$ 4,561**	$ 4,235	$ 4,479
Yield	**6.50%**	5.93%	6.90%

Other Revenue

Other revenue increased marginally to $1.6 billion in 2003. Fee income increased to $1.5 billion in 2003 from $1.4 billion a year ago. The impact of a higher average level of segregated fund assets under management, particularly in the U.S. Division wealth management business where average segregated fund assets increased by 20 per cent over the prior year, was significantly offset by the negative impact of a stronger Canadian dollar.

Policy Benefits and Expenses

Policy benefits decreased slightly to $10.5 billion in 2003 from $10.7 billion in 2002, primarily reflecting the impact of a stronger Canadian dollar. The decline in maturity and surrender payments was offset by a corresponding increase in the change in actuarial liabilities.

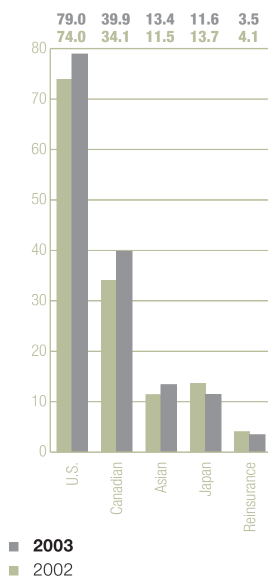
Policyholder dividends and experience rating refunds decreased by five per cent to $889 million in 2003 from $932 million in 2002. Excluding the impact of a stronger Canadian dollar, policyholder dividends and experience rating refunds increased by approximately four per cent, primarily due to continued growth in the cash value of participating policies.

General expenses increased marginally to $2.6 billion in 2003 from $2.5 billion a year ago. On a constant currency basis, general expenses increased by approximately nine per cent driven by higher variable costs related to increased business activity. In addition, in 2003 the Company incurred one time expenses associated with the Company's proposed acquisition of Canada Life, recorded costs related to a planned move of its U.S. Division home office and began expensing stock-based compensation. Excluding these items and the variable costs related to sales growth, expenses were up by one per cent on a constant currency basis. Commissions increased by six per cent in 2003, primarily due to increases in new business activity in the United States, Canada, and Japan.

Interest expense increased by four per cent to $253 million in 2003 from $243 million in 2002, primarily due to the growth in Manulife Bank's customer deposits. Premium taxes increased by seven per cent to $119 million from $111 million in 2002 due to an increase in taxable premiums.

Income taxes increased to $316 million in 2003 from $304 million in 2002. The Company's 2003 provision for income taxes of $316 million is comprised of $114 million of current taxes and $202 million of future taxes. The increase in the income tax expense is consistent with the increase in earnings and reflects the mix of earnings derived in tax jurisdictions with differing income tax rates and regulations.

Operating Divisions' Funds Under Management
(Canadian $ in billions)



Funds Under Management

Funds under management increased by seven per cent to $156.7 billion in 2003 from $146.2 billion in 2002, despite a $18.8 billion negative impact of a stronger Canadian dollar. General fund assets decreased by $3.7 billion to $77.5 billion as at December 31, 2003 from $81.2 billion as at December 31, 2002 as business growth was more than offset by an $8.3 billion decline due to the stronger Canadian dollar.

Segregated fund assets increased by 21 per cent to $71.5 billion as at December 31, 2003 from $58.8 billion as at December 31, 2002. The impact of excellent North American and Hong Kong equity markets, together with strong net deposits of U.S. 401(k) and annuity products in the United States and positive net segregated fund cash flows in Canada were partially offset by a $10.1 billion reduction caused by a strengthened Canadian dollar.

Funds Under Management

As at December 31
(Canadian $ in millions)

	2003	2002	2001
General fund	$ 77,516	$ 81,195	$ 78,613
Segregated funds	71,464	58,831	59,206
Mutual and other managed funds	7,695	6,149	4,363
Total	$ 156,675	$ 146,175	$ 142,182

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

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

Differences Between Canadian and U.S. GAAP

The consolidated financial statements of Manulife Financial are presented in accordance with Canadian GAAP. Canadian GAAP differs in certain significant respects from U.S. GAAP.

The differences between Canadian GAAP and U.S. GAAP include accounting for premiums and deposits, invested assets, investment income and segregated funds. There are also differences in the calculation and accounting for actuarial liabilities and differences in reporting policy cash flows. These differences are described in more detail in note 17 to the consolidated financial statements.

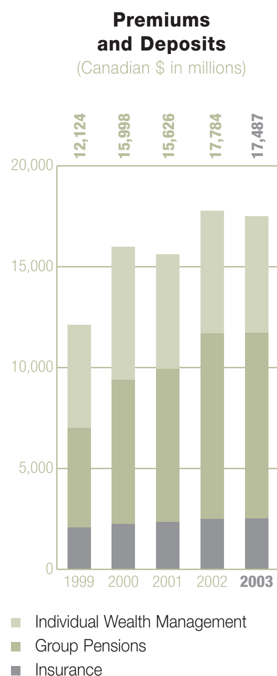
Differences Between Canadian and Hong Kong GAAP

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

In Hong Kong, there are no accounting standards specific to life insurance companies; consequently, companies have more discretion in selecting appropriate accounting principles to prepare financial statements. The Canadian GAAP requirements for life insurance enterprises used by the Company in relation to non-invested assets and non-actuarial liabilities are generally considered acceptable within the Hong Kong accounting framework. Under Hong Kong GAAP, invested assets are carried at market value as compared to Canadian GAAP where stocks are carried on a moving average market basis and fixed interest investments are held at amortized cost. The computation of actuarial liabilities in Hong Kong is governed by the requirements of the Hong Kong Insurance Authority. In certain interest rate environments, actuarial liabilities determined in accordance with Hong Kong GAAP may be higher than actuarial liabilities computed in accordance with Canadian GAAP.

The Hong Kong Insurance Authority requires that insurance companies meet minimum solvency requirements. Each year, the Company compares the amount of net assets prepared in accordance with Canadian GAAP, as reported in the Company's annual regulatory return, with the minimum solvency margin required in Hong Kong. As at December 31, 2003, the Company's net assets determined in accordance with Canadian GAAP exceeded the minimum solvency margin required in Hong Kong.

U.S. Division



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

In 2003, U.S. Division contributed 29 per cent of the Company's shareholders' net income, 57 per cent of total premiums and deposits and as at December 31, 2003, accounted for 50 per cent of the Company's funds under management.

Financial Performance

U.S. Division's net income was $455 million in 2003 compared to $471 million in 2002. On a U.S. dollar basis, 2003 earnings increased nine per cent due to the impact of improved equity market performance in all business units, ongoing business growth, and continued tight management of fixed expenses. The increase in earnings was partially offset by mortality experience that was modestly unfavourable in 2003 compared to the very good experience in 2002, and by higher new business strain. Growth in earnings was unfavourably impacted by the weakened U.S. dollar.

The following Summary Statements of Operations present U.S. Division results on both a Canadian dollar and U.S. dollar basis.

Summary Statements of Operations

For the years ended December 31 (In $ millions)			Canadian $			U.S. $
	2003	2002	2001	**2003**	2002	2001
Premium income	**$ 3,473**	$ 3,555	$ 3,836	**$ 2,472**	$ 2,264	$ 2,475
Investment income	**1,746**	1,773	1,942	**1,247**	1,129	1,254
Other revenue	**1,022**	998	939	**733**	636	606
Total revenue	**$ 6,241**	$ 6,326	$ 6,717	**$ 4,452**	$ 4,029	$ 4,335
Policyholder benefits	**$ 3,994**	$ 4,155	$ 4,697	**$ 2,841**	$ 2,646	$ 3,031
General expenses	**897**	856	830	**643**	544	536
Commissions	**658**	620	572	**471**	395	369
Other	**61**	62	94	**44**	40	61
Total policyholder benefits and expenses	**$ 5,610**	$ 5,693	$ 6,193	**$ 3,999**	$ 3,625	$ 3,997
Income before income taxes	**$ 631**	$ 633	$ 524	**$ 453**	$ 404	$ 338
Income taxes	**(176)**	(162)	(151)	**(127)**	(103)	(97)
Net income attributed to shareholders	**$ 455**	$ 471	$ 373	**$ 326**	$ 301	$ 241

Premiums and Deposits

Premiums and deposits of $17.5 billion in 2003 remained relatively unchanged compared to 2002; however, they increased by 10 per cent over the prior year on a U.S. dollar basis. This growth reflects U.S. Division's diverse distribution capabilities, innovative product designs and superior customer service. Premiums grew by nine per cent in 2003, largely driven by extremely strong growth in the universal life insurance business. This growth was dampened by a decline in Individual Wealth Management premiums, as increasing equity markets attracted customers to segregated funds. Segregated fund deposits increased by 11 per cent over 2002. Deposits from 401(k) business reached record levels in 2003, growing by 12 per cent as a result of in force participant growth. Variable annuity deposits increased by 11 per cent mainly due to increased investor confidence and the new Scudder Investments distribution relationship.

The following premiums and deposits table presents U.S. Division results on both a Canadian dollar and U.S. dollar basis.

Premiums and Deposits

For the years ended December 31 (In $ millions)	Canadian $ 2003	2002	2001	U.S. $ 2003	2002	2001
Premiums	**$ 3,473**	$ 3,555	$ 3,836	**$ 2,472**	$ 2,264	$ 2,475
Segregated fund deposits	**14,014**	14,229	11,790	**10,025**	9,058	7,615
Total premiums and deposits	**$ 17,487**	$ 17,784	$ 15,626	**$ 12,497**	$ 11,322	$ 10,090

Funds Under Management

Funds under management of $79.0 billion grew by seven per cent over 2002 and by 31 per cent on a U.S. dollar basis. Funds under management significantly exceeded 2002 levels as a result of strong growth in segregated funds. Segregated funds under management grew by 46 per cent due to the impact of improved equity markets and strong 401(k) and variable annuity net policyholder cashflows. General fund assets increased by four per cent in 2003, resulting from strong universal life sales, partially offset by the scheduled transfer of variable annuity dollar-cost-averaging assets to segregated funds.

The following funds under management table presents U.S. Division results on both a Canadian dollar and U.S. dollar basis.

Funds Under Management

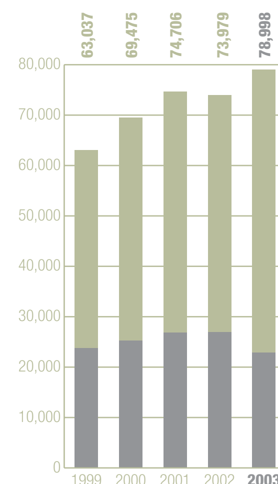
As at December 31 (In $ millions)	Canadian $ 2003	2002	2001	U.S. $ 2003	2002	2001
General fund	**$ 22,756**	$ 26,790	$ 26,731	**$ 17,607**	$ 16,960	$ 16,781
Segregated funds	**56,242**	47,189	47,975	**43,518**	29,874	30,116
Total funds under management	**$ 78,998**	$ 73,979	$ 74,706	**$ 61,125**	$ 46,834	$ 46,897

Moving Forward

U.S. Division remains focused on developing and maintaining strong distribution relationships, providing innovative products and offering excellent customer service. In 2004, U.S. Division will continue to expand and build on these strengths.

Product developments in 2004 will include enhancing Insurance's highly successful universal life portfolio. The launch of a new survivorship universal life product will build on the market leading position of Insurance in this product line. To support sales growth in the core brokerage market, Insurance will also pursue select new product lines which leverage its core competencies in product development, distribution and underwriting. In 2004, Group Pensions will focus on enhancements to two major initiatives launched in 2003 – the Manulife Retirement Select mutual fund product and programs aimed at building the loyalty of plan participants. Effort will also be directed at capturing more of the emerging retiree market by providing opportunities for pension participants to roll their funds into other Manulife products at the time of employment termination or retirement. Individual Wealth Management will refresh its various product lines in 2004. The variable annuity product line will offer innovative features that build on the guaranteed minimum withdrawal benefit and enhanced death benefit riders that were both launched late in the fourth quarter of 2003 and, at the same time, will continue to manage the risk profile of this business. Individual Wealth Management initiatives will also include new Private Account portfolios and investment manager options, as well as additional 529 plan features.

Funds Under Management
(Canadian $ in millions)



Distribution and service developments in 2004 will include continued investment by Insurance to strengthen relationships with key distribution partners, and additional investment in underwriting to maintain a competitive advantage in the advanced age market. In addition, enhancements to new business and sales compensation systems aimed at improving the efficiency and quality of service to Insurance's broad based multi-channel distribution network are also planned. In 2004, Group Pensions will focus distribution efforts on expanding its broker-dealer network while continuing to enhance relationships with Third Party Administrators. Increasing Field Office effectiveness and

focusing on national marketing campaigns will increase Group Pensions' sales capacity, while further automation will be directed at Plan Sponsors. Individual Wealth Management distribution initiatives in 2004 will include expansion of the Manulife Wood Logan network, further development of the Scudder Investments relationship, continued exploration of new distribution channels, and the pursuit of additional broker-dealer distribution agreements. Service initiatives in Individual Wealth Management will be focused on expanding automated variable annuity processing capabilities with broker-dealer back offices, 529 plan enhancements to both the financial consultant website and electronic communications, and augmented Private Account web-based functionality and continued product education.

The proposed merger of Manulife Financial and John Hancock will provide the U.S. Division with a unique strategic opportunity. In addition to improving operational efficiency, the merger will dramatically diversify the U.S. Division's product portfolio, enabling clients to access John Hancock products that are highly complementary with those offered by Manulife. John Hancock offerings include fixed annuities, long-term care insurance and institutional GIC products, as well as the full spectrum of John Hancock mutual fund offerings. U.S. Division's distribution capabilities will be significantly expanded, with additional distribution opportunities available from John Hancock's strong career agency force, bank distribution capabilities, and strong relationships with mutual fund broker-dealers and long-term care brokerage firms.

Canadian Division

Canadian Division is one of the leading life insurance-based financial services organizations in Canada. Its individual wealth management product offerings include variable and fixed annuities, individual investment and banking products and mutual funds. Individual life insurance products are aimed at middle- and upper-income individuals and business owners. Insurance products are also directly marketed to members of professional, alumni, retiree and other associations and to the customers of financial and retail institutions. Group life, health and pension products and services are marketed to Canadian employers.

In 2003, the Canadian Division contributed 32 per cent to the Company's shareholders' net income, 23 per cent of total premiums and deposits and, as at December 31, 2003, accounted for 25 per cent of the Company's funds under management.

Financial Performance

Canadian Division's shareholder net income increased by 32 per cent to $497 million in 2003 from $378 million in 2002. All businesses showed significant shareholder earnings growth year over year, with Individual Wealth Management improving by 64 per cent, Group Business up 31 per cent, and Individual Insurance increasing by 13 per cent over 2002. Favorable claims experience in all lines, strong investment returns and organic growth across the Division drove the increase in earnings.

Summary Statements of Operations

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

		2003		2002		2001
Premium income	**$**	**3,516**	$	3,191	$	2,924
Investment income		**1,896**		1,629		1,617
Other revenue		**290**		287		287
Total revenue	**$**	**5,702**	$	5,107	$	4,828
Policyholder benefits	**$**	**3,863**	$	3,581	$	3,418
General expenses		**748**		679		654
Commissions		**291**		260		238
Other		**147**		115		101
Total policyholder benefits and expenses	**$**	**5,049**	$	4,635	$	4,411
Income before income taxes	**$**	**653**	$	472	$	417
Income taxes		**(158)**		(104)		(82)
Net income	**$**	**495**	$	368	$	335
Loss attributed to participating policyholders		**2**		10		4
Net income attributed to shareholders	**$**	**497**	$	378	$	339

Premiums and Deposits

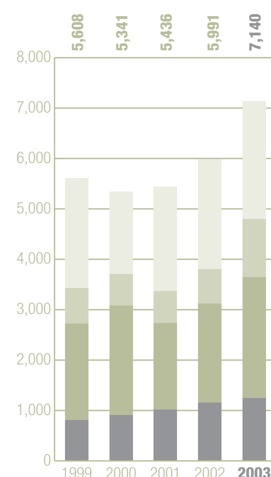
Premiums and deposits of $7.1 billion increased by $1.1 billion or 19 per cent from $6.0 billion in 2002, driven by growth from all businesses. Group Pensions experienced a 70 per cent increase from a year ago, while improving consumer confidence in equity markets helped increase segregated fund deposits by 55 per cent. Sales of long-term and MIX mutual funds were also very strong, increasing $156 million or 40 per cent from 2002. This increase was partially offset by a decline in money market fund sales, which left an overall increase of 14 per cent in mutual fund deposits. Premiums were up 10 per cent over 2002, with all businesses showing good growth.

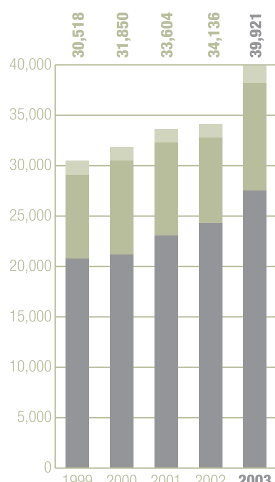
Premiums and Deposits

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

		2003		2002		2001
Premiums	**$**	**3,516**	$	3,191	$	2,924
Segregated fund deposits		**1,993**		1,283		1,190
Mutual fund deposits		**748**		657		527
ASO premium equivalents		**883**		860		795
Total premiums and deposits	**$**	**7,140**	$	5,991	$	5,436

Premiums and Deposits
(Canadian $ in millions)





Funds Under Management

Funds under management as at December 31, 2003 were $39.9 billion, an increase of $5.8 billion, or 17 per cent over the $34.1 billion reported in 2002. Improving equity markets and very significant organic growth in all businesses contributed to this increase. Manulife Bank had a very successful year with a 72 per cent increase in loan volumes over 2002, driven by sales of both Manulife One and leveraged loans.

Funds Under Management

As at December 31

(Canadian $ in millions)		**2003**		2002		2001
General fund	**$**	**27,480**	$	24,235	$	23,012
Segregated funds		**10,702**		8,577		9,279
Mutual funds		**1,739**		1,324		1,313
Total funds under management	**$**	**39,921**	$	34,136	$	33,604

Moving Forward

Canadian Division's vision is to be the premier life insurance-based financial services organization in Canada with a reputation in the market for innovative products, excellent service, and professional value-added advice that meets the unique needs of customers.

In 2004, the Division will continue to improve its innovative product line by enhancing products in individual and group insurance, as well as wealth management. In Individual Insurance, product enhancements to its Security Universal Life product will provide a simplified Universal Life product for the Canadian market. In early 2004, Group Benefits will launch two new products into the Corporate Accounts market place. Flex Admin is a new product that will allow Manulife to administer flex benefit plans. These are plans where clients can pick and choose the most appropriate insurance levels, and combinations on a member-by-member basis. Group Benefits will also launch an integrated disability management product that allows employers to proactively manage employee absenteeism. Individual Wealth Management will be developing and launching an integrated wrap product that offers multiple investment types in a single contract. This product will appeal to the private client market. There are also other innovative Mutual Fund products currently being developed.

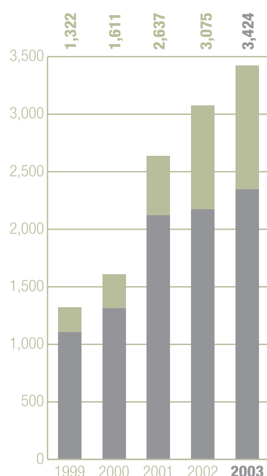
Distribution excellence is a key component of providing excellent service and professional value-added advice. Manulife's strategy is to ensure that each of its distribution channels is serviced in an appropriate manner and also ensure that the Company maintains a multi-channel presence, in order to minimize its risk and maximize its growth opportunities. In 2003, Canadian Division made a significant strategic investment in supporting the Managing General Agent channel. This has proven to be successful and further investment in this area will continue through 2004. This investment realignment of our distribution channels has also allowed Manulife to better meet the needs of its Independent Agent channel. This strategy of adapting to the needs of the specific channel is what the Division has very successfully achieved with its National Accounts. In 2003, the Group Benefits and Group Pensions businesses have been very successful in developing quality relationships with key consultants and distribution organizations. In 2004, Canadian Division will continue to strengthen existing relationships, as well as develop new partnerships.

Providing excellent service to both advisors and customers means that the Canadian Division must constantly evaluate and invest in new technologies. In 2004, all new Group Benefits Corporate Accounts clients will have their business administered on a new administration system. This new system improves all aspects of the client administration process, including the introduction of real time updating of customer administration records. Conversion of existing business will begin early in 2004 and is expected to be completed before the end of the year. In Individual Insurance, service enhancements will improve the ease with which advisors can service their clients and will differentiate Manulife in the market. As well, Ez-app, a short-form Web-based application for life insurance advisors will speed up the application process. Advisors will no longer need to ask for medical information as in-house tele-underwriters will call customers to collect that information and pass the completed application on to underwriters for faster processing. Plans are also underway to expand the Automatic Workflow Distribution system, currently being used by Individual Wealth Management, to the Individual Insurance business unit. This technology uses imaging and workflow queuing to improve workflow design, increase productivity and facilitate remote working arrangements.

The planned merger with John Hancock will result in the addition of Maritime Life to Manulife's Canadian Operations and will place the combined company in a leadership position in most of our Canadian businesses. The Canadian Division will be able to improve operational efficiency as a result of the increased scale in all of its businesses. In addition, the Division's distribution networks will be expanded and the availability of product offerings to customers will be broadened as new products become available following the merger.

Asian Division

Premiums and Deposits
(Canadian $ in millions)



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

In 2003, Asian Division contributed 21 per cent to the Company's shareholders' net income, 11 per cent of total premiums and deposits and as at December 31, 2003, accounted for nine per cent of the Company's funds under management. Hong Kong continues to be Asian Division's largest operation, accounting for almost 68 per cent of the Division's premiums and deposits in 2003.

Financial Performance

Asian Division's shareholder net income increased by 24 per cent to $319 million in 2003 from $257 million in 2002. On a U.S. dollar basis, shareholder net income increased by 40 per cent. This significant increase reflected business growth across all units in the Division, particularly in Hong Kong, as well as higher fee income from the administration of a growing Mandatory Provident Fund business in Hong Kong and mutual fund business in Indonesia. This growth was driven by the continuous expansion of the agency force, which increased 17 per cent to 21,730 agents as at December 31, 2003 despite the outbreak of SARS and the ensuing challenging business environment. Product initiatives, such as the launch of the Retirement Income and Single Premium Whole Life savings products in Hong Kong, Participating Pension & Education plans in the Philippines and the new Single Premium Unit-linked products in Singapore and Taiwan also supported this strong growth. In addition, 2003 earnings included a one-time gain resulting from a regulatory approved restructuring of the Company's accounts in Singapore. Assets associated with non-participating policies, previously held in the participating fund, were transferred to a non-participating fund.

The following Summary Statements of Operations present Asian Division results on both a Canadian dollar and U.S. dollar basis.

Summary Statements of Operations

For the years ended December 31 (In $ millions)	Canadian $ **2003**	Canadian $ 2002	Canadian $ 2001	U.S. $ **2003**	U.S. $ 2002	U.S. $ 2001
Premium income	**$ 1,583**	$ 1,519	$ 1,347	**$ 1,134**	$ 968	$ 870
Investment income	**342**	334	333	**245**	213	215
Other revenue	**133**	114	94	**96**	72	60
Total revenue	**$ 2,058**	$ 1,967	$ 1,774	**$ 1,475**	$ 1,253	$ 1,145
Policy benefits	**$ 1,103**	$ 1,033	$ 956	**$ 790**	$ 658	$ 618
General expenses	**379**	418	382	**271**	266	246
Commissions	**192**	197	183	**138**	126	118
Other	**56**	54	57	**40**	34	37
Total policy benefits and expenses	**$ 1,730**	$ 1,702	$ 1,578	**$ 1,239**	$ 1,084	$ 1,019
Income before income taxes	**$ 328**	$ 265	$ 196	**$ 236**	$ 169	$ 126
Income taxes	**(17)**	(6)	1	**(12)**	(4)	1
Net income	**$ 311**	$ 259	$ 197	**$ 224**	$ 165	$ 127
Less: net income (loss) attributed to participating policyholders	**(8)**	2	12	**(6)**	1	8
Net income attributed to shareholders	**$ 319**	$ 257	$ 185	**$ 230**	$ 164	$ 119

Premiums and Deposits

Premiums and deposits increased by 11 per cent to $3.4 billion in 2003 from $3.1 billion in 2002. On a U.S. dollar basis, premiums and deposits increased by 25 per cent. This increase was driven by strong growth in mutual fund deposits in Hong Kong and Indonesia as well as by growth in the insurance businesses across the Division. Mutual fund deposits grew by more than 50 per cent in 2003, primarily attributable to solid returns in Hong Kong's China Value Fund and continued business growth in Indonesia. In Hong Kong, growth in pension deposits, while higher than 2002 levels, was dampened by an unfavorable economic climate.

The following premiums and deposits table presents Asian Division results on both a Canadian dollar and U.S. dollar basis.

Premiums and Deposits

For the years ended December 31 (In $ millions)			Canadian $			U.S. $
	2003	2002	2001	**2003**	2002	2001
Premiums	**$ 1,583**	$ 1,519	$ 1,347	**$ 1,134**	$ 968	$ 870
Segregated fund deposits	**1,013**	1,024	1,063	**726**	652	688
Mutual fund deposits	**828**	532	227	**598**	340	145
Total premiums and deposits	**$ 3,424**	$ 3,075	$ 2,637	**$ 2,458**	$ 1,960	$ 1,703

Funds Under Management

Funds under management increased by 16 per cent to $13.4 billion in 2003 from $11.5 billion in 2002. On a U.S. dollar basis, funds under management increased by 42 per cent, primarily due to increases in Hong Kong and Indonesia. Growth in Hong Kong reflected increased business volumes in the Insurance and Mandatory Provident Fund businesses as well as higher mutual fund sales and an increase in institutional funds managed by Manulife Asset Management, while growth in Indonesia was driven by higher mutual fund deposits. General fund assets increased 21 per cent from 2002, driven by business growth across the region. Segregated fund assets increased by 67 per cent primarily due to Mandatory Provident Fund deposits in Hong Kong and stronger equity markets.

The following funds under management table presents Asian Division results on both a Canadian dollar and U.S. dollar basis.

Funds Under Management

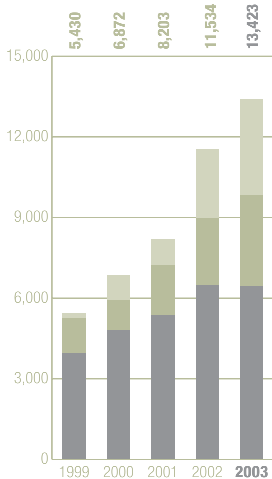
As at December 31 (In $ millions)			Canadian $			U.S. $
	2003	2002	2001	**2003**	2002	2001
General fund	**$ 6,435**	$ 6,476	$ 5,361	**$ 4,979**	$ 4,100	$ 3,365
Segregated funds	**3,420**	2,497	1,865	**2,646**	1,580	1,171
Mutual and other managed funds	**3,568**	2,561	977	**2,760**	1,620	700
Total funds under management	**$ 13,423**	$ 11,534	$ 8,203	**$ 10,385**	$ 7,300	$ 5,236

Moving Forward

Asian Division's vision is to develop significant professional life insurance businesses in each of the territories in which it operates. The Division's strategy combines rapid expansion of the career agency force with disciplined geographic and business line expansion. Best practices related to agency, product and systems development are driven regionally.

The career agency force will remain the primary distribution channel in the region. The Division will continue to expand its career agency force while focusing on the professional delivery of services through division-wide initiatives such as the development of, and training in, Agency Best Practices and the establishment of the Manulife University. The agency force has grown rapidly in recent years to almost 22,000 agents at the end of 2003. The Manulife University is one key program to assist in the development of the skills needed to manage the sizeable agency force.

Funds Under Management
(Canadian $ in millions)



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

The Division will continue to leverage technology to improve efficiency and enhance customer service. The implementation of the Customer Administration System (CAS) in all territories provides a common platform, allowing systems development to be shared across the region. Similarly, a common platform of Internet sales support applications is being rolled out across the region, led by Hong Kong.

In 2003, strong mutual fund deposits in Hong Kong and Indonesia contributed to business growth. In 2004, a major focus of the Division's business strategy will be to leverage the success of its wealth management products by broadening product offerings and enhancing distribution capabilities. Initiatives include the launch of new and enhanced investment-linked products across the Division and continued focus on developing product riders to meet changing customer needs. In addition, the Division will develop new life insurance products targeting different market segments, including the pre-retirement and juvenile markets in Hong Kong and the overseas workers market in the Philippines.

In China, the Company received regulatory approval during 2003 for the establishment of a new branch in the capital city of Beijing. A standardized model for branch expansion has been developed which will be first applied to Beijing. In 2004, the Division plans to leverage its successful operation in Shanghai by applying to establish new branches in various satellite cities in the area. These offices will draw on Shanghai for administrative and sales support. As the Guangzhou and Beijing operations become more established, they too will become regional centers around which new branches will be developed.

In 2003, Asian Division's business expansion included two acquisitions in Indonesia and one in the Philippines. In 2004, the Division will continue to actively pursue further opportunities to acquire and expand its businesses in the region. The planned merger with John Hancock will add to the Company's market position across Asia, doubling the scale in Singapore, enhancing operations in Indonesia and the Philippines, and providing entry into Malaysia and Thailand.

Japan Division

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

In 2003, Japan Division contributed seven per cent to the Company's shareholders' net income, six per cent of premiums and deposits and as at December 31, 2003, accounted for seven per cent of the Company's funds under management.

Financial Performance

Japan Division's net income decreased by $5 million to $106 million in 2003, down from $111 million in 2002. Noticeable improvements in investment returns, claims and lapse experience, and expense reductions generated by field office restructuring and other cost saving initiatives, were more than offset by the continued but moderating decline of the block of policies acquired from Daihyaku.

Summary Statements of Operations

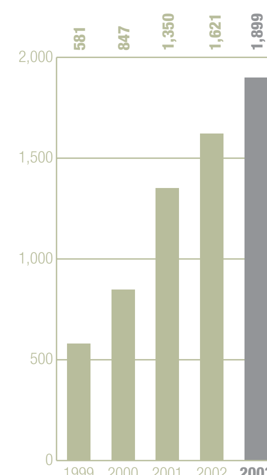
For the years ended December 31

(Canadian $ in millions)		**2003**		2002		2001
Premium income	**$**	**1,232**	$	1,451	$	1,349
Investment income		**160**		81		114
Other revenue		**34**		34		25
Total revenue	**$**	**1,426**	$	1,566	$	1,488
Policyholder benefits	**$**	**795**	$	875	$	787
General expenses		**384**		428		436
Commissions		**110**		92		96
Other		**8**		8		2
Total policyholder benefits and expenses	**$**	**1,297**	$	1,403	$	1,321
Income before income taxes	**$**	**129**	$	163	$	167
Income taxes		**(23)**		(52)		(47)
Net income attributed to shareholders	**$**	**106**	$	111	$	120

Premiums and Deposits

Premiums and deposits increased by 17 per cent to $1.9 billion for the year ended December 31, 2003. This increase reflected higher variable annuity premiums generated through the bank distribution channel and Nikko Cordial Securities. Universal life premiums also increased, due in part to an eight per cent increase in the number of sales agents to 3,551 as at December 31, 2003 and the successful launch of ManuMed, a new universal life product offering medical insurance coverage. The growth in universal life premiums, however, was more than offset by the planned discontinuance of traditional product sales in 2003 and lower renewal premiums from the policies acquired from Daihyaku.

Premiums and Deposits
(Canadian $ in millions)

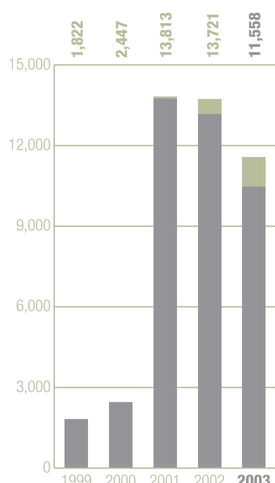


Premiums and Deposits

For the years ended December 31

(Canadian $ in millions)		**2003**		2002		2001
Premiums	**$**	**1,232**	$	1,451	$	1,349
Segregated fund deposits (1)		**667**		170		1
Total premiums and deposits	**$**	**1,899**	$	1,621	$	1,350

(1) Segregated fund deposits for the year ended December 31, 2003 excluded $33 million (2002- $319 million) of net seed capital.



Funds Under Management

Funds under management decreased by $2.1 billion to $11.6 billion as at December 31, 2003 from $13.7 billion as at December 31, 2002. Higher net policyholder cash flows from sales of variable annuity and universal life products were more than offset by the depreciation of the Japanese yen and a decrease in funds related to the block of policies acquired from Daihyaku.

Funds Under Management

As at December 31
(Canadian $ in millions)

	2003	2002	2001
General fund	**$ 10,458**	$ 13,153	$ 13,726
Segregated funds [(1)]	**1,100**	568	87
Total funds under management	**$ 11,558**	$ 13,721	$ 13,813

(1) Segregated funds under management as at December 31, 2003 included $215 million (2002- $317 million) of seed capital.

Moving Forward

There has been significant improvement in the Japanese economy in 2003. Efforts of the Government and the Bank of Japan to stimulate an export-led recovery have contributed to economic growth. Additionally, there have been substantial improvements in equity markets and interest rates during the year. While developments in 2003 have been encouraging, deflationary factors remain, contributing to a cautious outlook for further economic growth in the short- to medium-term.

The total market for traditional life insurance is expected to continue to decrease over time. Offsetting this, however, are high growth expectations for new product segments including universal life, variable annuity, interest-sensitive insurance products, and sickness and medical insurance products. The Division aims to be a product leader in these market segments.

In line with this objective and in recognition of the declining market for traditional life insurance, the Division's traditional product line was closed to new business in 2003, allowing for a strategic focus on universal life and variable annuity products. In 2004, the Division will launch enhancements to its suite of universal life products and offer a broader array of flexible options to meet changing consumer demand. Additional enhancements will also be introduced for variable annuity products to expand target markets and support continued sales growth.

Increasing the size and enhancing the professionalism and efficiency of the Division's distribution channels remains a key priority. Building on recruiting successes in 2003, the sales agent distribution force will be expanded and strengthened through ongoing, active recruitment and training.

On January 26, 2004, Japan Division entered into a significant strategic alliance with The Bank of Tokyo-Mitsubishi, continuing the development and expansion of the Division's presence in the bank and stockbroker distribution channels. The initial phase of this alliance will involve the launch of a range of customized variable annuities through The Bank of Tokyo-Mitsubishi branch network beginning in April 2004. This alliance is expected to facilitate further sales growth of the Division's variable annuity products.

During the year, the Division maintained a high level of customer service and improved its operational efficiency. In 2004, the Division will further its 2003 successes by continuing to leverage technology investments and pursuing additional opportunities to streamline operational processes. These efforts will generate cost savings and, at the same time, enhance service to customers and agents.

Reinsurance Division

Established in 1984, Reinsurance Division has grown to be one of North America's leading providers of risk management solutions, specializing in retrocession. In the simplest terms, reinsurance refers to the transfer of all or part of certain risks related to policies issued by an insurance company to a reinsurer. Retrocession is a form of reinsurance involving the assumption of risk from reinsurers. Manulife's innovative products generate customer interest worldwide, with business written in North America, Europe, and Asia. Through offices in Canada, the United States, Germany and Barbados, the Reinsurance Division provides customer-focused solutions through the following lines of business:

- **Life (offering retrocession of traditional life mortality risk as well as specialized coverages such as structured/non-traditional solutions);**
- **Property and Casualty (offering traditional property catastrophe and aviation as well as specialized non-traditional retrocession for property and casualty reinsurers); and**
- **Long Term Care which was recently launched (offering turnkey solutions and reinsurance support to direct writers of long term care insurance).**

In 2003, Reinsurance Division contributed 14 per cent to the Company's shareholders' net income, two per cent of premiums and deposits and as at December 31, 2003, accounted for two per cent of the Company's funds under management.

Financial Performance

Reinsurance Division's net income increased to $216 million in 2003 from $184 million in 2002. Growth in earnings was unfavourably impacted by the weakened U.S. dollar. On a U.S. dollar basis, earnings increased by 32 per cent reflecting favourable mortality experience on Life Reinsurance, improved equity market performance and higher earnings in the Property and Casualty line.

The following Statements of Operations present Reinsurance Division results on both a Canadian dollar and U.S. dollar basis.

Summary Statements of Operations

For the years ended December 31	Canadian $			U.S. $		
(In $ millions)	**2003**	2002	2001	**2003**	2002	2001
Premium income	**$ 736**	$ 1,063	$ 791	**$ 527**	$ 678	$ 511
Investment income	**222**	226	231	**159**	144	149
Other revenue	**45**	43	38	**32**	27	25
Total revenue	**$ 1,003**	$ 1,332	$ 1,060	**$ 718**	$ 849	$ 685
Policyholder benefits	**$ 642**	$ 1,003	$ 963	**$ 459**	$ 640	$ 622
General expenses	**43**	45	40	**32**	28	26
Commissions	**29**	38	44	**20**	24	29
Other	**10**	8	11	**7**	5	7
Total policyholder benefits and expenses	**$ 724**	$ 1,094	$ 1,058	**$ 518**	$ 697	$ 684
Income before income taxes	**$ 279**	$ 238	$ 2	**$ 200**	$ 152	$ 1
Income taxes	**(63)**	(54)	46	**(45)**	(35)	30
Net income attributed to shareholders	**$ 216**	$ 184	$ 48	**$ 155**	$ 117	$ 31

Premium Income

Premium income declined to $736 million in 2003 from $1.1 billion in 2002. On a U.S. dollar basis, premiums decreased by 22 per cent to $527 million in 2003 from $678 million a year ago. Life Reinsurance premiums decreased marginally, reflecting one-time premiums recorded in 2002. Property and Casualty Reinsurance premiums decreased considerably in 2003 as a result of significant one-time premiums recorded in 2002.

The premiums table presents Reinsurance Division results on both a Canadian dollar and U.S. dollar basis.

Premiums

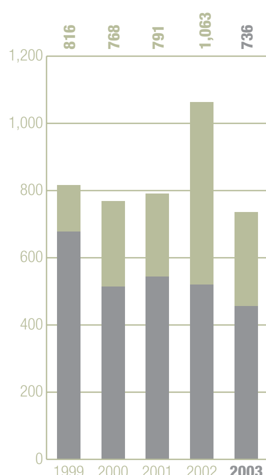
For the years ended December 31 (In $ millions)	Canadian $			U.S. $		
	2003	2002	2001	**2003**	2002	2001
Life reinsurance	**$ 454**	$ 519	$ 542	**$ 325**	$ 331	$ 350
Property and Casualty reinsurance	**282**	544	249	**202**	347	161
Total premiums	**$ 736**	$ 1,063	$ 791	**$ 527**	$ 678	$ 511

Moving Forward

In 2004, Reinsurance Division will continue to pursue opportunities to expand existing relationships with key business partners as well as developing new associations. Risk management remains a key priority for the Division, with a focus both on ensuring appropriate product pricing for new business and monitoring and managing the performance of the in force block. The Division will continue to leverage its technical expertise and provide innovative solutions to meet the needs of its customers.

Reinsurance Division will seek to maintain its leadership position within the markets served by Life Reinsurance. Increased capital constraints within the life insurance and reinsurance industries continue to provide opportunities for both traditional and non-traditional solutions. The Property and Casualty line is expecting to continue to grow, taking advantage of the current hard market for property and casualty retrocession support that has resulted in improved terms and rates. In Long Term Care Reinsurance, the Division has recently established operations and secured senior staff with significant experience in this market niche. For 2004, the Division will focus on providing long term care reinsurance solutions to markets that it believes are currently underserved.

Reinsurance Premiums
(Canadian $ in millions)



Investment Operations

Manulife Financial's Investment Operations manages assets for the Company's insurance and wealth management businesses and for external third party clients. Manulife is a significant player in all the asset classes that it manages, with investment management offices located around the globe.

The Operations

The Investment Management group, operating as MFC Global Investment Management, manages investments in a wide range of asset classes and securities markets, using a variety of investment styles. The group has offices in Toronto, London, Tokyo, Hong Kong and Southeast Asia. As at December 31, 2003, MFC Global Investment Management (Canada), a division of Elliott & Page, managed assets totaling $51 billion for the Company as well as for institutional and individual investors. The London office manages $1 billion of general, segregated and mutual funds for the Company and third parties. Assets managed by the investment offices in Hong Kong and Japan total $20 billion. The Asset Origination group manages $16 billion of assets that include mortgages, real estate assets located throughout North America, private placement debt and equity investments through Manulife Capital, and oil and gas properties of NAL Resources Management Limited.

General Fund Assets

Manulife Financial's general fund invested assets decreased to $74.5 billion as at December 31, 2003 from $77.6 billion as at December 31, 2002 as business growth was more than offset by a $7.7 billion decline due to the strengthening Canadian dollar. The goal in investing these assets is to maximize total returns while operating within the Company's investment and risk management policies. The following table shows the composition of the Company's general fund invested assets.

General Fund Assets

		2003			2002
As at December 31 (Canadian $ in millions)		Carrying value	% of total	Carrying value	% of total
Bonds	**$**	**42,216**	**57**	$ 46,677	60
Mortgages		**10,401**	**14**	9,294	12
Stocks		**5,866**	**8**	6,898	9
Real estate		**3,962**	**5**	3,570	5
Policy loans		**4,348**	**6**	4,939	6
Cash and short-term investments		**5,877**	**8**	5,143	7
Manulife Bank loans		**934**	**1**	566	1
Other investments		**861**	**1**	475	–
Total invested assets	**$**	**74,465**	**100**	$ 77,562	100

Bonds The Company's bond portfolio represented 57 per cent of invested assets as at December 31, 2003. This portfolio is diversified by sector as well as by industry and issuer. There was no significant change in sector distribution over the year. The portfolio is monitored closely to enhance yields while optimizing the matching of asset cash flows to the estimated liability cash flows. As at December 31, 2003, 96 per cent of the portfolio was invested in securities rated investment grade (BBB and higher).

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

Bonds

As at December 31 (Canadian $ in millions)	2003 Carrying value	2003 % of total	2003 % Investment grade	2002 Carrying value	2002 % of total	2002 % Investment grade
Government and agency	**$ 17,252**	**41**	**99**	$ 18,619	40	100
Financial	**10,097**	**24**	**98**	11,023	23	97
Telecommunications	**2,325**	**5**	**83**	2,860	6	84
Utilities	**3,675**	**9**	**96**	3,802	8	94
Energy	**2,071**	**5**	**94**	2,418	5	94
Industrial	**1,717**	**4**	**94**	2,181	5	97
Securitized (ABS/MBS)	**488**	**1**	**99**	966	2	99
Consumer (non-cyclical)	**1,916**	**5**	**95**	1,750	4	93
Consumer (cyclical)	**1,071**	**2**	**82**	1,232	3	84
Basic materials	**405**	**1**	**82**	384	1	75
Technology	**278**	**1**	**89**	423	1	93
Media and Internet	**814**	**2**	**82**	868	2	94
Other	**107**	**–**	**88**	151	–	94
Total	**$ 42,216**	**100**	**96**	$ 46,677	100	96

Mortgages and Real Estate As at December 31, 2003, mortgages represented 14 per cent of invested assets with 67 per cent of the mortgage portfolio in Canada and 33 per cent in the United States. Commercial mortgages accounted for 89 per cent of total mortgages. Mortgages increased by $1.1 billion in the year, as continued favourable conditions for commercial mortgage originations were supported by demands for this asset class for asset liability management purposes. The mortgage portfolio consists almost entirely of first mortgages and is diversified by geographic region, property type and mortgagor. Government-insured loans represented four per cent of the total mortgage portfolio. All mortgages are secured by real properties.

As at December 31, 2003, five per cent of the Company's invested assets were held in real estate. The portfolio is focused on high quality office buildings located in superior downtown and large suburban markets across North America and Japan. It is diversified by geographic region and property type, with 53 per cent located in the United States, 37 per cent in Canada and 10 per cent in Asia. Commercial office properties represented 77 per cent of the portfolio, with the remainder split among industrial, retail, residential and other property classifications.

Stocks As at December 31, 2003, stocks represented eight per cent of invested assets. The portfolio consists primarily of publicly traded common stocks and is diversified by industry sector and issuer. As at December 31, 2003, the stock portfolio was invested 40 per cent in U.S. issuers, 27 per cent in Canadian issuers, 23 per cent in Asian issuers and 10 per cent in other issuers.

Moving Forward

Consistently achieving superior asset returns and significantly growing the wealth management business remain the two primary goals of Investment Operations. To secure superior asset returns, the strategy is to combine traditional asset management techniques with risk management expertise. A portfolio of non-traditional assets will continue to be included to enhance yields, diversify invested assets and provide a competitive advantage. To grow the wealth management business, Investment Operations will continue to build the visibility of MFC Global Investment Management, its investment management expertise and product offerings among institutional and retail prospects and clients.

The planned merger with John Hancock brings great opportunities for growth and diversification. The investment operations of both companies are complementary in terms of the range of asset classes, balance of investment portfolios and in-house expertise. It is expected that the combined operation will be able to generate revenue synergies by utilizing the skills of both organizations to optimize asset mix, and to exploit cross-marketing opportunities that exist within the Company's global investment operations.

Overview

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

The enterprise risk management framework is built around four key elements: comprehensive risk governance; effective risk management policies and processes; rigorous risk exposure measurement; and risk limit management. A network of qualified risk management professionals and business managers is accountable for ensuring business operations are consistent with the Company's risk-taking philosophy, standards and limits.

Risk Governance

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

Audit and Risk Management Committee

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

Chair: External Director

Conduct Review and Ethics Committee

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

Chair: External Director

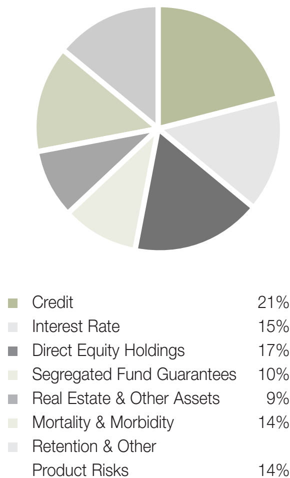
The Chief Executive Officer ("CEO") is directly accountable to the Board of Directors for all of Manulife Financial's risk-taking activities and risk management programs. In carrying out these responsibilities the CEO is supported by the Chief Financial Officer and the Chief Risk Officer, who are responsible for administering the Company's enterprise risk management program, and executive risk committees including the Corporate Risk Management Committee, Credit Committee, Global Asset Liability Committee and Product Risk Committee.

Corporate Risk Management Committee

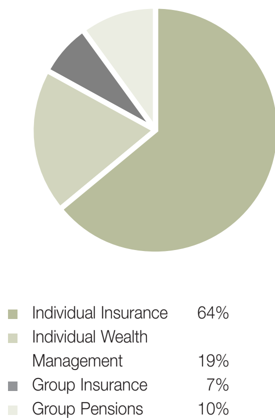
- Approves and monitors compliance with key financial and operational risk policies and limits
- Reviews key risk positions and exposure trends, risk-taking activities and risk management strategies
- Endorses global risk management strategic priorities
- Oversees administration of the enterprise risk management framework

Chair: Chief Risk Officer

MCCSR by Risk Type



MCCSR by Product Line



Risk Management Policies and Processes

Manulife Financial's enterprise risk management framework provides the overall infrastructure designed to ensure all new business initiatives, acquisitions and potential investments are evaluated on a consistent risk-adjusted basis and that all risks to which the Company is exposed are managed using a common set of standards and guidelines. These standards and guidelines are defined within the Company's Enterprise Risk Policy and the risk management programs administered through the Company's risk committees and overseen by global risk managers. These comprehensive programs incorporate a set of standard components covering the establishment, review, approval, documentation and communication of:

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

A comprehensive Risk Position Report and Risk Policy Compliance Report is presented by the Chief Risk Officer and discussed with the Corporate Risk Management Committee and the Audit and Risk Management Committee quarterly, following a formal risk identification and assessment process involving all global risk managers and division general managers. In addition, internal audits of risk controls and risk management programs are performed and independently reported to the Audit and Risk Management Committee by the Internal Auditor. Stress scenario analysis is performed as part of the Dynamic Capital Adequacy Testing process, independently reported to the Board of Directors by the Chief Actuary. Finally, prudent actuarial liabilities are established based on scenario projection models and are independently signed off by the Chief Actuary.

Risk Measurement

Individual quantitative measures are used to assess risk exposures from various financial and operational risks. In aggregate, Manulife Financial assesses its overall capital at risk using the risk-based capital required by its primary regulator, the Office of the Superintendent of Financial Institutions, the Minimum Continuing Capital and Surplus Requirements ("MCCSR"). In some situations, the Company utilizes a stochastically modeled Economic Capital at Risk measure that reflects the potential economic loss that could occur, given an outcome of extremely unfavourable scenarios, and is in the process of extending its use across the Company. The Company allocates risk-based capital to its businesses and assesses profitability relative to the allocated capital.

Risk Limit Management

Manulife Financial's risk-taking activities are managed against an overall capacity for assuming risk, established based on the risk tolerances of the Board of Directors and management and the Company's financial condition. This overall capacity is defined in terms of the Company's MCCSR ratio, the ratio of its available capital to its risk-based capital requirements. Manulife Financial targets an MCCSR ratio of 200 per cent, with a 180 per cent minimum. In addition, to manage its risk profile and limit exposure to specific risks, the Company manages risk exposures against enterprise-wide limits established for various financial risks, based on the risk-specific exposure measures used to assess these risks. The Company's risk profile is well diversified across risks and products, as shown by the makeup of our risk-based capital requirements.

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

Strategic Risk

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

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

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

Product Risk

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

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

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

Designated pricing officers in each business unit are accountable for all pricing activities. The general manager and chief financial officer of each business unit approve the design and pricing of each product, ensuring the Company's standards and guidelines are met. The Chief Risk Officer approves the introduction, or modification, of any product and related reinsurance treaty that introduces material changes in product design or risk exposure. Annual risk and compliance self-assessments and periodic internal audits are performed for all businesses to ensure compliance with standards.

The Company's underwriting and claims risk management program incorporates underwriting policies and procedures, including criteria for approval of risks and claims adjudication policies and procedures. A global underwriting manual utilized by all businesses ensures underwriting practices are consistent across the organization while reflecting local conditions. Periodic reviews of business units ensure compliance with the standards.

Enterprise-wide, claims risk is diversified as a result of the Company's international operations with a wide range of insured individuals and products covering varied risk events. Exposure to individual large claims is mitigated through established retention limits per insured life varying by market and jurisdiction, reviewed periodically and approved by the CEO. Coverage in excess of these limits is

Product Risk Committee

- Approves and monitors compliance with product design and pricing policies and standards
- Reviews emerging product risk exposures and risk management strategies
- Oversees the Individual Business Underwriting and Claims Risk Committee

Chair: Chief Risk Officer

reinsured with other companies. The current retention limits in Canada and the U.S. are $10 million in local currency ($15 million for joint life policies). For direct written business, current retention limits are Yen 500 million in Japan and U.S. $100,000 in Hong Kong and, for assumed reinsurance, are U.S. $10 million in both Japan and Hong Kong.

Exposure to claims concentrations is mitigated through the use of geographical aggregate retention limits for certain covers and through catastrophe reinsurance covers for life and disability insurance worldwide. The Company's catastrophe reinsurance covers losses in excess of U.S. $50 million, up to U.S. $150 million (U.S. $100 million for Japan) and covers losses due to certain terrorist activities in Canada, where the concentrations are highest.

Asset Liability and Market Risk

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

Global Asset Liability Committee

- Approves and monitors compliance with asset mix, interest rate risk, market risk, liquidity, foreign exchange and derivatives policies
- Reviews key risk positions
- Approves key investment strategies
- Oversees divisional asset liability committee activities

Chair: Chief Risk Officer

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

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

The Company invests in assets with characteristics that closely match the characteristics of the liabilities they support. Products providing interest rate guarantees for specified terms, being primarily annuity and pension products, are supported predominantly by fixed income assets, such as public bonds, private debt and mortgages. Products that allow pass-through of investment returns through adjustments in interest rates credited or benefits, such as participating whole life and universal life insurance, and policies with very long-dated liabilities with interest rate risk that cannot be fully hedged with fixed income assets, are supported by a broader range of assets, including real estate and equities. For these products, target asset mixes are established to optimize returns considering embedded minimum guarantees, return volatility, extreme tail risk, regulatory capital and management risk tolerances.

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

Interest Rate Risk Interest rate changes may result in losses if asset and liability cash flows are not closely matched with respect to timing and amount, or if there are options or minimum guarantees embedded in the liabilities. Manulife Financial employs interest rate risk management programs for each product liability segment designed to keep potential losses within acceptable limits. Policies and procedures, including delegated authorities and accountabilities for managing and monitoring interest rate risk, are clearly defined. Target asset durations or cash flow profiles are established for fixed income assets to minimize interest rate risk exposure, considering liability characteristics and holding periods for equities and real estate if held in the segment. Interest rate risk positions are held within prescribed limits. These targets are reviewed and modified with a frequency ranging from daily to annually, depending on the type of liabilities and the frequency and size of potential changes in the liability profiles. Actual

asset positions are monitored against targets and rebalanced with a frequency ranging from daily to monthly, depending on the potential exposure to changes in assets and liabilities. Interest rate risk exposures are monitored and reported to the asset liability committees monthly and the Corporate Risk Management Committee and the Audit and Risk Management Committee quarterly.

The Company monitors interest rate risk exposure using a variety of measures, depending on the nature of the assets and liabilities, primarily based on projected cash flows under a variety of future interest rate scenarios. These measures include cash flow gaps, durations, key rate durations, convexity, and earnings and economic value at risk based on stochastic modeling or stress scenarios. The following table shows the potential after tax economic gain (loss) to shareholders as a result of an immediate and parallel change of one per cent in interest rates across all maturities in all markets, subject to a zero per cent interest rate floor, calculated as at December 31, 2003.

Impact on Economic Value of Interest Rate Movements

	2003		2002	
As at December 31 (Canadian $ in millions)	One per cent increase	One per cent decrease	One per cent increase	One per cent decrease
Wealth Management	**$ 17**	**$ (20)**	$ (1)	$ 1
Insurance	**154**	**(277)**	178	(179)
Shareholders' equity	**(229)**	**266**	(208)	224
Total	**$ (58)**	**$ (31)**	$ (31)	$ 46

As at December 31, 2003, the Company's interest rate risk exposure arose due to differences in the amount and timing of asset and liability cashflows in the insurance segments, fixed income assets held in its shareholders' equity segment and minimum rate guarantees embedded in U.S. fixed annuities. In the Japan and Canadian Divisions' insurance segments, assets are being held with a shorter duration than that of the liabilities to take advantage of potential interest rate increases, and are being actively managed as management's view of future interest rates change. In addition, assets in these segments have lower convexity than those of the liabilities, resulting in greater sensitivity to an interest rate decline than to an interest rate increase.

Manulife Financial establishes actuarial reserves that are sufficient to provide for adverse deviations in future interest rates, based on a set of future interest rate scenarios prescribed under the Canadian Asset Liability Method. The actuarial reserves held by the Company as at December 31, 2003 were sufficient to provide for its liabilities, on the assumption that long maturity risk free interest rates do not fall, or remain below 4.5 per cent in Canada, 4 per cent in the U.S., 4 per cent in Hong Kong and 1.6 per cent in Japan for a prolonged period of time, and in the case of U.S. fixed annuities, that short maturity risk free interest rates do not fall more than 0.5 per cent below December 31, 2003 levels.

Equity and Real Estate Market Risk Fluctuations in equity market prices, and to a lesser extent real estate prices, may impact returns on assets held in the general fund, fee income earned on market-based funds, and liabilities associated with investment-related guarantees, primarily on variable annuities and segregated funds. The Company's investment-related guarantees include death, maturity, income and withdrawal guarantees on variable products and segregated funds. Direct equity and real estate holdings represent a small proportion of the Company's total assets and are held in shareholders' equity segments or used primarily to support participating or other pass-through liabilities and long-dated liabilities. Equity holdings are diversified and managed against established targets and limits by industry type and corporate connection. Real estate holdings are diversified and managed against established limits by property type and location.

The Company manages equity risk exposure on an integrated basis, enterprise-wide. The policies and procedures established to limit the exposure to losses from equity market volatility include:

- managing risk exposures to established aggregate limits for equity risk arising from all sources, including investment-related segregated fund and variable product guarantees, market-based fees and direct equity investments;
- employing guidelines, incorporating specific economic capital at risk limits, for product design and pricing of products exposing the Company to equity risk;

- employing guidelines related to direct investments in equities, incorporating targeted levels and maximum limits, and actively managed asset allocation programs;
- reinsuring investment-related guarantees where deemed effective and economical, subject to established counterparty risk limits;
- hedging equity-related guarantees in liabilities with capital market instruments, where deemed effective and economical;
- monitoring equity risk exposures based on earnings and economic value at risk under specific stress scenarios, and economic capital at risk based on stochastic models; and
- monitoring the profile of investment-related guarantees embedded in variable annuity and segregated fund products.

The following table shows the potential after-tax economic loss to shareholders as a result of an immediate 10 per cent decline in the market value of direct real estate and equity holdings, calculated as at December 31, 2003.

Impact on Economic Value of a Ten Per Cent Decline in Market Values of Direct Real Estate and Equity Holdings

As at December 31 (Canadian $ in millions)	2003	2002
Direct real estate holdings	**$ 277**	$ 250
Direct equity holdings		
Liability segments	**$ 108**	$ 115
Surplus	**152**	173
Total direct equity holdings	**$ 260**	$ 288

In addition, as at December 31, 2003 the potential after tax economic loss to shareholders, as a result of an immediate 10 per cent decline in the market value of variable product, segregated fund and mutual fund investments in equities is $312 million. Additional information related to investment-related guarantees on variable annuities and segregated funds is shown in the table below.

Variable Annuity and Segregated Fund Investment-Related Guarantees

As at December 31 (Canadian $ in millions)	2003 Fund value[1]	2003 Amount at risk[1]	2003 Expected Guarantee Cost[2]	2002 Fund value[1]	2002 Amount at risk[1]	2002 Expected Guarantee Cost[2]
Maturity/income benefits	**$ 9,306**	**$ 745**		$ 7,325	$ 1,237	
Death benefits[3]	**6,811**	**1,851**		7,098	3,301	
Total	**$ 16,117**	**$ 2,596**	**$ (166)**	$ 14,423	$ 4,538	$ (181)

(1) Amount at risk is the excess of guaranteed values over fund values on all policies where the guaranteed value exceeds the fund value. Fund value and amount at risk are net of amounts reinsured.
(2) Expected guarantee cost is net of reinsurance and fee income allocated to support the guarantees.
(3) Death benefits include stand-alone guarantees and guarantees in excess of maturity or income guarantees where both are provided on a policy.

The amount at risk represents a theoretical value only as it is not currently payable. Guaranteed benefits are contingent and only payable upon death, maturity, withdrawal or annuitization, if fund values remain below guaranteed values. The Company calculates the present value of projected future guaranteed benefit payments, net of reinsurance and net of fee income allocated to support the guarantees, based on stochastically modeled investment return scenarios, and considering future mortality, policy termination, and annuitization rates. The expected guarantee cost represents the average of this present value across all investment return scenarios modeled, and was negative as at December 31, 2003 and December 31, 2002.

The Company holds actuarial liabilities for guaranteed benefit payments related to variable annuities and segregated funds calculated as the present value of the projected guaranteed benefit payments, net of reinsurance and net of fee income allocated to support the guarantees, based on investment

return scenarios, modeled stochastically using the same model and assumptions as described above for the expected guarantee cost. The actuarial liabilities held must be in a confidence range defined by the most adverse 40 per cent to the most adverse 20 per cent of the stochastically modeled investment return scenarios.

As at December 31, 2003 and December 31, 2002, actuarial liabilities held for these guaranteed benefit payments were $532 million and $579 million respectively, exceeding both the minimum requirement and the expected guarantee cost. While determined based on stochastic scenarios, in aggregate, the actuarial liabilities held as at December 31, 2003 are adequate to fund the projected guaranteed benefit payments should long term equity returns, including dividends, average no more than four per cent across all businesses with such guarantees.

Where the Company holds direct equity and real estate holdings in liability segments supporting products, the actuarial liabilities include provisions to cover potential adverse deviations in their future returns, as well as a material immediate market price correction. The actuarial liabilities held as at December 31, 2003 for these products are adequate to fund policy obligations should long term equity returns, including dividends, average no more than six per cent in North America and a lower rate in Japan.

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

The Company monitors the sensitivity of earnings and shareholders' equity to predetermined stress scenarios regularly and also monitors its currency risk exposure relative to its policy position of matching the currency of its equity with the currency of its liabilities, against an established foreign currency Value at Risk exposure limit, based on the industry-accepted J.P. Morgan RiskMetrics methodology.

Impact on Shareholders' Equity and Net Income of a One Per Cent Increase in the Canadian Dollar Relative to Foreign Currencies

As at December 31 (Canadian $ in millions)	Shareholders' Equity **2003**	Shareholders' Equity 2002	Net Income **2003**	Net Income 2002
U.S. dollar	**$ (49)**	$ (34)	**$ (9)**	$ (8)
Japanese yen	**$ (3)**	$ (5)	**$ (1)**	$ (2)

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

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

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

Strategic Liquidity

As at December 31 (Canadian $ in millions unless otherwise stated)	**2003** Immediate scenario	**2003** Ongoing scenario	2002 Immediate scenario	2002 Ongoing scenario
Adjusted liquid assets	**$ 47,723**	**$ 48,414**	$ 52,463	$ 53,231
Adjusted actuarial liabilities	**$ 8,596**	**$ 11,641**	$ 9,176	$ 12,617
Liquidity ratio	**555%**	**416%**	572%	422%

Credit Risk

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

Credit Committee

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

Chair: Chief Financial Officer

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

Delegated credit approval authorities are established and approved by the Audit and Risk Management Committee. Each business unit involved with credit granting has a defined evaluation process that provides an objective assessment of credit proposals. Credit decisions are made on a case-by-case basis at a management level appropriate to the size and risk level of the transaction. All major credit decisions are referred to the Credit Committee for adjudication. The largest credits are referred to the CEO for adjudication and, in certain cases, to the Board of Directors.

Regular reviews of the credits within the various portfolios are undertaken to ensure that changes to the credit quality are identified, and where appropriate, corrective actions taken. Prompt identification of problem credits is a key objective. A centralized list of problem and potential problem credits is maintained by Credit Risk Management, which provides an independent credit risk oversight function. The Credit Committee reviews credits on the list regularly.

An allowance for losses on invested assets is established when an asset or portfolio of assets becomes impaired as a result of deterioration in credit quality, to the extent there is no longer assurance of timely realization of the carrying value of assets and related investment income. The carrying value of an impaired asset is reduced to net realizable value at the time of recognition of impairment. There is no assurance that the allowance for losses will be adequate to cover future losses or that additional provisions or asset write-downs will not be required. However, the Company remains conservatively provisioned for credit losses overall and the level of impaired assets continues to be very low. Actuarial liabilities also include general provisions for credit losses from future asset impairments. These are set conservatively, taking into account normal historical levels and future expectations, with an allowance for adverse deviations. The Company monitors a variety of aggregate credit risk exposure measures, as shown in the table on the following page.

Credit Risk Measures

As at December 31

(Canadian $ in millions unless otherwise stated)		**2003**		2002
Net impaired assets	**$**	**139**	$	123
Net impaired assets as a per cent of total invested assets		**0.19%**		0.16%
Allowance for impairment	**$**	**230**	$	290
Provision for future credit losses included in actuarial liabilities	**$**	**1,574**	$	1,699
Performing assets coverage ratio(1)		**4.10%**		4.27%
Impaired assets coverage ratio(1)		**489%**		482%

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

Operational Risk

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

Manulife Financial's operational risk management programs seek to minimize exposure by ensuring appropriate internal controls and systems, together with trained and competent people, are in place throughout the Company. The Company uses an established program of comprehensive risk self-assessments in conjunction with independent internal audits to monitor and assess inherent operational risks and the effectiveness of internal controls. External auditors review the effectiveness of internal controls to the extent necessary to conduct an audit of the Company's financial statements. Both the internal and external auditors report independently to the Audit and Risk Management Committee on the findings of their audits. Established global risk management programs for potential high risks, including business interruption, technology management, information security and privacy, and regulatory compliance, ensure risk controls are effective enterprise-wide.

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

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

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements on page 42. Certain of these accounting policies are recognized as critical as they require the Company to make estimates and assumptions about matters that are inherently uncertain and because actual results could differ from those estimates. The most significant estimation processes of life insurance companies relate to the provisioning for asset impairment and the determination of actuarial liabilities as described in Notes 3 and 4 to the consolidated financial statements, respectively.

Allowance for Asset Impairment

The allowance for credit losses adjusts the value of assets to reflect their estimated realizable value. In assessing the estimated realizable value, the Company must rely on estimates. Judgment is exercised relating to matters including economic factors, developments affecting companies in particular industries, and specific issues with respect to single borrowers, for which the ultimate outcome is unknown.

Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. Additional information on the process and methodology for determining the allowance for credit losses is included in the discussion of credit risk on page 32.

Actuarial Liabilities

Actuarial liabilities have two major components: a best estimate reserve and a provision for adverse deviation. In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions are designed to minimize the extent to which the Company is financially exposed to measurement uncertainty related to existing policy liabilities.

Best estimate reserve assumptions are made for the lifetime of the policies and include assumptions related to mortality and morbidity, investment returns, rates of policy termination, operating expenses and certain taxes. To recognize the uncertainty that is involved in establishing these best estimate reserve assumptions, the Appointed Actuary is required to include a margin in each assumption to allow for possible deterioration in experience and to provide greater comfort that the policy liabilities are adequate to pay future benefits. The impact of these margins is to increase actuarial liabilities and decrease the income that would have been recognized at inception of the policy.

The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the determination of policy liabilities are appropriate to the circumstances and that such actuarial liabilities will be adequate to meet the Company's future obligations under insurance and annuity contracts at each valuation date. Assumptions are regularly reviewed and updated where appropriate.

Contractual Obligations

In the normal course of business, the Company enters into contracts that give rise to obligations fixed by agreement as to the timing and dollar amount of payment.

Contractual Obligations

As at December 31, 2003

Payments due by period (Canadian $ in millions)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Debt	$ 1,123	$ –	$ 323	$ –	$ 800
Capital Trust Securities	1,650	–	–	–	1,650
Purchase obligations	829	141	237	193	258
Operating leases	133	26	73	30	4
Other	75	3	7	5	60
Total contractual obligations	$ 3,810	$ 170	$ 640	$ 228	$ 2,772

In the normal course of business, the Company enters into investment commitments, which are not reflected in the consolidated financial statements. As at December 31, 2003, there were $507 million of investment commitments, of which $438 million matures within one year and $69 million matures within one to three years.

Responsibility for Financial Reporting

The accompanying consolidated financial statements of Manulife Financial Corporation are the responsibility of management and have been approved by the Board of Directors. It is also the responsibility of management to ensure that all information in the annual report to shareholders is consistent with these consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and the accounting requirements of the Superintendent of Financial Institutions (Canada). Appropriate accounting policies and estimates are also used in the determination of the information prepared in accordance with United States generally accepted accounting principles. When alternative accounting methods exist, or when estimates and 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.

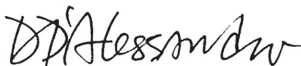
Appropriate systems of internal control, policies and procedures have been maintained, within reasonable cost, to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by the Company's internal audit department.

The actuary appointed by the Board of Directors (the "Appointed Actuary") is responsible for ensuring that assumptions and methods used in the determination of policy liabilities are appropriate to the circumstances and that reserves will be adequate to meet the Company's future obligations under insurance and annuity contracts.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit and Risk Management Committee of unrelated and independent directors appointed by the Board of Directors.

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

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has full and free access to management and the Audit and Risk Management Committee.



Dominic D'Alessandro
President and Chief Executive Officer

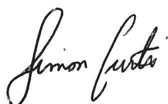
Peter H. Rubenovitch
Executive Vice President and Chief Financial Officer

Toronto, Canada
February 5, 2004

Appointed Actuary's Report to the Shareholders and Directors

I have valued the policy liabilities of Manulife Financial Corporation for its Consolidated Balance Sheets as at December 31, 2003 and 2002 and their change in the Consolidated Statements of Operations for the years then ended in accordance with actuarial practice generally accepted in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.



Simon Curtis, F.C.I.A.

Senior Vice President and Appointed Actuary

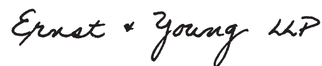
Toronto, Canada
February 5, 2004

Auditors' Report to the Shareholders and Directors

We have audited the Consolidated Balance Sheets of Manulife Financial Corporation and the Consolidated Statements of Net Assets of its Segregated Funds as at December 31, 2003 and 2002 and the Consolidated Statements of Operations, Equity, Cash Flows and Changes in Net Assets of its Segregated Funds for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company and its Segregated Funds as at December 31, 2003 and 2002 and the results of the Company's operations and cash flows and the changes in the net assets of its Segregated Funds for the years then ended in accordance with Canadian generally accepted accounting principles.



Ernst & Young LLP

Chartered Accountants

Toronto, Canada
February 5, 2004

Consolidated Statements of Operations

For the years ended December 31 (Canadian $ in millions, except per share amounts)	2003	2002
Revenue		
Premium income	$ 10,540	$ 10,779
Investment income (note 3(b))	4,561	4,235
Other revenue	1,555	1,518
Total revenue	$ 16,656	$ 16,532
Policy benefits and expenses		
To policyholders and beneficiaries		
Death and disability benefits	$ 3,109	$ 3,388
Maturity and surrender benefits	3,200	4,045
Annuity payments	1,268	1,342
Policyholder dividends and experience rating refunds	889	932
Net transfers to segregated funds	865	656
Change in actuarial liabilities (note 4(e))	1,147	307
General expenses	2,559	2,490
Commissions	1,280	1,207
Interest expense	253	243
Premium taxes	119	111
Non-controlling interest in subsidiaries	57	72
Trust preferred securities issued by subsidiaries	58	65
Total policy benefits and expenses	$ 14,804	$ 14,858
Income before income taxes	$ 1,852	$ 1,674
Income taxes (note 5)	(316)	(304)
Net income	$ 1,536	$ 1,370
Loss attributed to participating policyholders	$ 10	$ 8
Net income attributed to shareholders	$ 1,546	$ 1,378
Preferred share dividends	7	–
Net income available to common shareholders	$ 1,539	$ 1,378
Weighted average number of common shares outstanding (in millions)	463	476
Weighted average number of diluted common shares outstanding (in millions)	466	479
Basic earnings per common share	$ 3.33	$ 2.90
Diluted earnings per common share	$ 3.31	$ 2.88

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

Consolidated Balance Sheets

As at December 31 (Canadian $ in millions)	**2003**	2002
Assets		
Invested assets (note 3)		
Bonds	**$ 42,216**	$ 46,677
Mortgages	**10,401**	9,294
Stocks	**5,866**	6,898
Real estate	**3,962**	3,570
Policy loans	**4,348**	4,939
Cash and short-term investments	**5,877**	5,143
Manulife Bank loans	**934**	566
Other investments	**861**	475
Total invested assets	**$ 74,465**	$ 77,562
Other assets		
Accrued investment income	**$ 914**	$ 1,010
Outstanding premiums	**490**	558
Future income tax asset (note 5)	**–**	132
Goodwill	**589**	634
Miscellaneous	**1,058**	1,299
Total other assets	**$ 3,051**	$ 3,633
Total assets	**$ 77,516**	$ 81,195
Segregated funds net assets	**$ 71,464**	$ 58,831
Liabilities and Equity		
Actuarial liabilities (note 4)	**$ 51,647**	$ 56,397
Benefits payable and provision for unreported claims	**2,083**	2,693
Policyholder amounts on deposit	**2,499**	2,835
Deferred realized net gains (note 3)	**3,343**	3,297
Manulife Bank deposits	**2,550**	1,437
Future income tax liability (note 5)	**170**	–
Other liabilities	**3,156**	2,499
	$ 65,448	$ 69,158
Subordinated debt (note 6)	**1,123**	1,436
Non-controlling interest in subsidiaries (note 7)	**1,037**	1,059
Trust preferred securities issued by subsidiaries (note 8)	**650**	794
Equity		
Participating policyholders' equity	**82**	92
Shareholders' equity		
Preferred shares (note 9)	**344**	–
Common shares (note 9)	**599**	596
Contributed surplus (note 10)	**14**	–
Retained earnings and currency translation account	**8,219**	8,060
Total equity	**$ 9,258**	$ 8,748
Total liabilities and equity	**$ 77,516**	$ 81,195
Segregated funds net liabilities	**$ 71,464**	$ 58,831

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

Dominic D'Alessandro
President and
Chief Executive Officer

Arthur R. Sawchuk
Chairman of the
Board of Directors

Consolidated Statements of Equity

For the years ended December 31 (Canadian $ in millions)	Participating policyholders	Shareholders	**2003**	2002
Preferred shares				
Balance, January 1	$ –	$ –	**$ –**	$ –
Preferred shares issued (note 9)	–	350	**350**	–
Issuance costs, net of tax	–	(6)	**(6)**	–
Balance, December 31	$ –	$ 344	**$ 344**	$ –
Common shares				
Balance, January 1	$ –	$ 596	**$ 596**	$ 614
Issued on exercise of options (note 9)	–	3	**3**	8
Purchase and cancellation (note 9)	–	–	**–**	(26)
Balance, December 31	$ –	$ 599	**$ 599**	$ 596
Contributed surplus				
Balance, January 1	$ –	$ –	**$ –**	$ –
Stock-based compensation expense (note 10)	–	14	**14**	–
Balance, December 31	$ –	$ 14	**$ 14**	$ –
Retained earnings				
Balance, January 1	$ 92	$ 7,723	**$ 7,815**	$ 7,392
Net income (loss)	(10)	1,546	**1,536**	1,370
Preferred share dividends	–	(7)	**(7)**	–
Common share dividends	–	(361)	**(361)**	(285)
Purchase and cancellation of common shares (note 9)	–	(9)	**(9)**	(700)
Transfer of participating policyholders' retained earnings from acquisition	–	–	**–**	38
Balance, December 31	$ 82	$ 8,892	**$ 8,974**	$ 7,815
Currency translation account				
Balance, January 1	$ –	$ 337	**$ 337**	$ 287
Change during the year	–	(1,010)	**(1,010)**	50
Balance, December 31	$ –	$ (673)	**$ (673)**	$ 337
Total retained earnings and currency translation account	$ 82	$ 8,219	**$ 8,301**	$ 8,152
Total equity	$ 82	$ 9,176	**$ 9,258**	$ 8,748

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

Consolidated Statements of Cash Flows

For the years ended December 31 (Canadian $ in millions)	2003	2002
Operating activities		
Operating cash inflows		
Premiums and annuity considerations	**$ 10,540**	$ 10,705
Investment income received	**4,058**	4,124
Other revenue	**1,555**	1,518
Total operating cash inflows	**$ 16,153**	$ 16,347
Operating cash outflows		
Benefit payments	**$ 7,794**	$ 8,505
Insurance expenses and taxes (notes 5 and 6)	**4,367**	4,042
Policyholder dividends and experience rating refunds	**889**	932
Net transfers to segregated funds	**865**	656
Change in other assets and liabilities	**(417)**	71
Total operating cash outflows	**$ 13,498**	$ 14,206
Cash provided by operating activities	**$ 2,655**	$ 2,141
Investing activities		
Purchases and mortgage advances	**$ (38,420)**	$ (46,259)
Disposals and repayments	**35,699**	44,980
Cash received from assumptions and acquisitions of businesses, net of cash paid	**–**	(139)
Cash used in investing activities	**$ (2,721)**	$ (1,418)
Financing activities		
Increase (decrease) in repurchase agreements and securities sold but not yet purchased	**$ 420**	$ (356)
Repayment of subordinated debt (note 6)	**(213)**	–
Manulife Bank deposits, net	**1,113**	668
Preferred share dividends	**(7)**	–
Common share dividends	**(361)**	(285)
Repayment of funds, net	**(1)**	(2)
Common shares issued on exercise of options (note 9)	**3**	8
Purchase and cancellation of common shares (note 9)	**(9)**	(726)
Preferred shares issued, net (note 9)	**344**	–
Cash provided by (used in) financing activities	**$ 1,289**	$ (693)
Cash and short-term investments		
Increase during the year	**$ 1,223**	$ 30
Currency impact on cash and short-term investments	**(577)**	117
Balance, January 1	**4,908**	4,761
Balance, December 31	**$ 5,554**	$ 4,908
Composition of cash and short-term investments		
Beginning of year		
Gross cash and short-term investments	**$ 5,143**	$ 4,995
Net payments in transit, included in other liabilities	**(235)**	(234)
Net cash and short-term investments, January 1	**$ 4,908**	$ 4,761
End of year		
Gross cash and short-term investments	**$ 5,877**	$ 5,143
Net payments in transit, included in other liabilities	**(323)**	(235)
Net cash and short-term investments, December 31	**$ 5,554**	$ 4,908

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

Segregated Funds Consolidated Statements of Net Assets

As at December 31 (Canadian $ in millions)		2003		2002
Investments, at market value				
Bonds	$	**5,157**	$	3,698
Stocks		**63,213**		51,014
Mortgages		**–**		26
Cash and short-term investments		**3,005**		4,119
Accrued investment income		**15**		10
Other assets (liabilities), net		**74**		(36)
Total segregated funds net assets	$	**71,464**	$	58,831
Composition of segregated funds net assets:				
Held by policyholders	$	**71,173**	$	58,450
Held by the Company		**291**		381
Total segregated funds net assets	$	**71,464**	$	58,831

Segregated Funds Consolidated Statements of Changes in Net Assets

For the years ended December 31 (Canadian $ in millions)		2003		2002
Additions				
Deposits from policyholders	$	**17,713**	$	17,013
Net realized and unrealized investment gains (losses)		**11,143**		(10,552)
Interest and dividends		**1,421**		1,332
Net transfers from general fund		**865**		656
Funds assumed and acquired (note 11)		**–**		40
Total additions	$	**31,142**	$	8,489
Deductions				
Payments to policyholders	$	**7,562**	$	7,617
Management and administrative fees		**879**		870
Currency revaluation		**10,068**		377
Total deductions	$	**18,509**	$	8,864
Net addition (reduction) to segregated funds for the year	$	**12,633**	$	(375)
Segregated funds net assets, January 1		**58,831**		59,206
Segregated funds net assets, December 31	$	**71,464**	$	58,831

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

Notes to the Consolidated Financial Statements

(Canadian $ in millions unless otherwise stated)

Note 1 □ Nature of Operations and Significant Accounting Policies

Manulife Financial Corporation ("MFC") is a publicly traded stock life insurance company and the holding company of The Manufacturers Life Insurance Company ("Manufacturers Life"), a Canadian life insurance company. Manulife Financial Corporation and its subsidiaries (collectively, "Manulife Financial" or the "Company") provide a wide range of financial products and services, including individual life insurance, group life and health insurance, pension products, annuities and mutual funds, to individual and group customers in Canada, the United States, Asia and Japan. The Company also offers reinsurance services, primarily life and property and casualty retrocession, and investment management services with respect to the Company's general fund assets, segregated funds assets and mutual funds and, in Canada and Asia, to institutional customers.

MFC is registered under the Insurance Companies Act (Canada) ("ICA"), which requires that financial statements be prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), including the accounting requirements of the Office of the Superintendent of Financial Institutions (Canada) ("OSFI"). None of the accounting requirements of OSFI is an exception to Canadian GAAP. The preparation of financial statements, in conformity with GAAP, requires that management makes estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. The most significant estimation processes are related to the determination of actuarial liabilities and provisioning for asset impairment. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below:

a) Basis of consolidation MFC consolidates the financial statements of all subsidiary companies and eliminates on consolidation all significant inter-company balances and transactions. The results of operations of subsidiaries are included in the consolidated financial statements from their dates of acquisition. The equity method is used to account for investments over which the Company exerts significant influence. Gains and losses on sales of these investments are included in income when realized, while expected losses on other than temporary impairments are recognized immediately.

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

	Carrying value	Recognition of realized gains and losses on normal business activities	Recognition of impairment
Bonds	At amortized cost less an allowance for specific losses. No recognition of unrealized gains and losses unless there is impairment.	Deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the bond sold.	Impairment is recognized on a specific bond when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. In such cases, the bond is written down to its net realizable value and the charge is recorded in income in the period the impairment is recognized.

	Carrying value	Recognition of realized gains and losses on normal business activities	Recognition of impairment
Mortgages	At amortized cost less repayments and an allowance for specific losses. No recognition of unrealized gains and losses unless there is impairment.	Deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the mortgage sold.	Impairment is recognized on a specific mortgage when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Such impaired mortgages are carried at their estimated realizable value, determined for each asset by discounting the expected future cash flows at the original interest rate inherent in the asset. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at either the fair value of any security underlying the mortgage, net of expected costs of realization and any amounts legally required to be paid to borrowers, or at observable market prices for the mortgages. Mortgages are classified as impaired whenever payments are three months or more in arrears or if there is a provision against the mortgage. At the time of foreclosure, mortgages are written down to net realizable value. Declines in the net realizable value of foreclosed properties are charged to income immediately.
Stocks	Recognition of unrealized gains and losses is on a moving average market basis whereby carrying values are adjusted towards market value at 5% per quarter.	Deferred and brought into income at the rate of 5% of unamortized deferred realized gains and losses each quarter.	Specific stocks are written down to market value if an impairment in the value of the entire stock portfolio (determined net of deferred realized gains) is considered to be other than temporary.
Real estate	Recognition of unrealized gains and losses is on a moving average market basis whereby carrying values are adjusted towards market value at 3% per quarter.	Deferred and brought into income at the rate of 3% of unamortized deferred realized gains and losses each quarter.	Specific properties are written down to market value if an impairment in the value of the entire real estate portfolio (determined net of deferred realized gains) is considered to be other than temporary.
Policy loans	At their unpaid balance.	Not applicable. Fully secured by the cash surrender value of the policies on which the loans are made.	Not applicable. Fully secured by the cash surrender value of the policies on which the loans are made.

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

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

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

c) Cash and short-term investments Cash and short-term investments in the Consolidated Statements of Cash Flows comprise cash, current operating accounts, overnight bank and term deposits with an original maturity of three months or less, and fixed-income securities with an original term to maturity of three months or less. Net payments in transit and overdraft bank balances are included in other liabilities.

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

e) Miscellaneous assets Included in miscellaneous assets are amounts due from reinsurers and capital assets. The latter are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from two to ten years.

f) Segregated funds The Company manages a number of segregated funds on behalf of policyholders. The investment returns on these funds accrue directly to the policyholders, with the Company assuming no risk. Consequently, these funds are segregated and presented separately from the general fund of the Company. Income earned from fund management fees is included in other revenue in the general fund. Investments held in segregated funds are carried at market value.

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

g) Actuarial liabilities Actuarial liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future policy benefits, policyholder dividends, taxes (other than income taxes) and expenses on policies in force. The Company's Appointed Actuary is responsible for determining the amount of actuarial liabilities that must be set aside each year to ensure that sufficient funds will be available in the future to meet these obligations. The valuation methods employed by the Appointed Actuary are based on standards established by the Canadian Institute of Actuaries. In accordance with Canadian generally accepted actuarial practices, liabilities have been determined using the Canadian Asset Liability Method ("CALM").

h) Income taxes The Company provides for income taxes using the liability method of tax allocation. Under this method, the provision for income taxes is calculated based on income tax laws and income tax rates substantively enacted as at the Consolidated Balance Sheet dates. The income tax provision is comprised of two components: current income taxes and future income taxes. Current income taxes are amounts expected to be payable or recoverable as a result of operations in the current year. Future income taxes arise from changes during the year in cumulative temporary differences between the accounting carrying value of assets and liabilities and their respective tax bases. A future income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not, with a valuation allowance for the excess.

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

j) Stock-based compensation The Company provides compensation to certain employees and directors in the form of stock options, deferred share units and restricted share units. The Company changed its accounting policy from the intrinsic value method to the fair value method effective January 1, 2002 for stock-based compensation awarded to non-employees, direct awards of stock, awards that call for settlement in cash or other assets and stock appreciation rights awarded to employees after January 1, 2002. Effective January 1, 2003, the Company changed its accounting policy for stock options granted to employees from the intrinsic value method to the fair value method for awards granted on or after January 1, 2002. The value is recognized over the applicable vesting period as an increase in compensation expense and contributed surplus. For restricted share units, the related compensation expense is recognized over the vesting period.

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

The defined contribution plans were established in 1998 and provide pension benefits based on the accumulated contributions and fund earnings. The cost of defined contribution benefits is the required contribution provided by the Company in exchange for the services of employees rendered during the period.

The defined benefit plans provide pension benefits based on length of service and final average earnings. The cost of defined benefit pension benefits is recognized using the projected benefit method pro-rated on services. Actuarial gains and losses are amortized to income over the estimated average remaining service lives of plan members.

The Company also provides supplementary pension, health, dental and life insurance benefits to qualifying employees upon retirement. The estimated present value of these benefits is charged to income over the employees' years of service to their dates of full entitlement.

l) Derivatives The Company uses derivatives to manage exposures to foreign currency, interest rate and other market risks arising from its on-balance sheet financial instruments. These derivatives are designated and effective as hedges, as there is a high correlation between changes in market value of the derivative and the underlying hedged item at inception and over the life of the hedge. Realized and unrealized gains and losses on these derivatives are accounted for on the same basis as the underlying assets and liabilities. Realized and unrealized gains and losses on derivative transactions established as hedges but no longer considered hedges are included in income from the date at which they are no longer considered to be hedges. Derivative income and expenses related to invested assets and financial liabilities are included in investment income and interest expense, respectively, in the Consolidated Statements of Operations. Cash flows relating to derivatives associated with invested assets and financial liabilities are included in the Consolidated Statements of Cash Flows on a basis consistent with the cash flows from the underlying invested assets and financial liabilities. Derivative assets and liabilities are included in Other investments and Other liabilities, respectively, and deferred realized net gains are presented as such in the Consolidated Balance Sheets.

m) Premium income and related expenses Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due.

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

Note 2 □ Changes in Accounting Policies and Estimates and Newly Issued Accounting Pronouncements

a) Business combinations and goodwill and other intangible assets Effective January 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1581, "Business Combinations" and Section 3062, "Goodwill and Other Intangible Assets." Section 1581 requires that all business combinations be accounted for using the purchase method and provides specific criteria for recognizing intangible assets separately from goodwill. Under Section 3062, goodwill and intangible assets with indefinite useful lives are no longer amortized but are reviewed for impairment annually, or more frequently if impairment indicators arise. The Company completed the transitional and annual impairment tests and determined that goodwill is not impaired.

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

c) Hedging relationships In November 2001, the CICA issued Accounting Guideline 13, "Hedging Relationships," effective for fiscal years beginning on or after July 1, 2003, which requires the identification, documentation, designation and determination of effectiveness of a hedging relationship to apply hedge accounting. However, it does not specify hedge accounting methods. The new Guideline also outlines conditions whereby hedge accounting for hedging relationships established in prior periods can be continued. The Company is in the process of reviewing its hedging relationships in relation to the new Guideline and the impact of this Guideline is not expected to materially impact the consolidated financial statements.

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

e) Disclosure of guarantees The CICA issued Accounting Guideline 14, "Disclosure of Guarantees," in February 2003 effective for financial statements of interim and annual periods commencing on or after January 1, 2003. The Guideline clarifies disclosure requirements for certain guarantees.

f) Consolidation of variable interest entities In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities," effective for financial statements of interim and annual periods commencing on or after January 1, 2004, which clarifies the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. The Company is currently evaluating the impact of this Guideline.

g) Financial instruments In November 2003, the Accounting Standards Board approved a revision to CICA Handbook Section 3860, "Financial Instruments: Disclosure and Presentation," to require certain obligations that must or could be settled with a variable number of the issuer's own equity instruments to be presented as a liability. This revision will result in the Company having to reclassify its preferred shares out of shareholders' equity, as the preferred shares are convertible into a variable number of common shares. The revision is effective for fiscal years beginning on or after November 1, 2004.

Note 3 □ Invested Assets and Investment Income

a) Invested assets

As at December 31 2003	Carrying value	Fair value	Unrealized gains	Unrealized losses	Deferred realized net gains	Total realized and unrealized net gains
Bonds (fixed maturity)						
Canadian government & agency	**$ 8,568**	**$ 9,506**	**$ 955**	**$ (17)**	**$ 382**	**$ 1,320**
Foreign governments & agency	**8,684**	**8,856**	**224**	**(52)**	**387**	**559**
Corporate	**24,476**	**26,240**	**1,839**	**(75)**	**1,092**	**2,856**
Mortgage/asset-backed securities	**488**	**517**	**33**	**(4)**	**22**	**51**
Mortgages	**10,401**	**11,145**	**755**	**(11)**	**41**	**785**
Stocks	**5,866**	**6,126**	**1,087**	**(827)**	**1,281**	**1,541**
Real estate	**3,962**	**4,293**	**422**	**(91)**	**87**	**418**
Policy loans	**4,348**	**4,348**	**–**	**–**	**–**	**–**
Cash and short-term investments	**5,877**	**5,877**	**–**	**–**	**–**	**–**
Manulife Bank loans	**934**	**949**	**15**	**–**	**–**	**15**
Other investments	**861**	**878**	**17**	**–**	**51**	**68**
Total invested assets	**$ 74,465**	**$ 78,735**	**$ 5,347**	**$ (1,077)**	**$ 3,343**	**$ 7,613**
2002						
Bonds (fixed maturity)						
Canadian government & agency	$ 8,505	$ 9,877	$ 1,374	$ (2)	$ 272	$ 1,644
Foreign governments & agency	10,114	10,724	611	(1)	322	932
Corporate	27,092	28,521	1,785	(356)	865	2,294
Mortgage/asset-backed securities	966	1,033	69	(2)	31	98
Mortgages	9,294	10,023	735	(6)	46	775
Stocks	6,898	5,799	566	(1,665)	1,632	533
Real estate	3,570	3,868	372	(74)	100	398
Policy loans	4,939	4,939	–	–	–	–
Cash and short-term investments	5,143	5,144	1	–	–	1
Manulife Bank loans	566	566	–	–	–	–
Other investments	475	511	46	(10)	29	65
Total invested assets	$ 77,562	$ 81,005	$ 5,559	$ (2,116)	$ 3,297	$ 6,740

Fair values are determined with reference to quoted market prices where available. Fair values of mortgages and Manulife Bank loans reflect changes in interest rates, which have occurred since the mortgages and loans were originated, and changes in the creditworthiness of individual borrowers. For fixed-rate mortgages and Manulife Bank loans, fair value is determined by discounting the expected future cash flows at market interest rates for mortgages and loans with similar credit risks. Fair values of real estate are determined by a combination of internal and external appraisals utilizing expected net cash flows discounted at market interest rates. Foreclosed properties of $17 are included in real estate as at December 31, 2003 (2002 – $13). Included in Other investments are oil and gas properties, the fair value of which is determined by external appraisals. Fair values of policy loans, cash and short-term investments and the remaining other investments approximate their carrying values due to their short-term nature.

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

Bonds

As at December 31		**2003**		2002
	Carrying value	Fair value	Carrying value	Fair value
Maturity				
Due in one year or less	**$ 4,123**	**$ 4,192**	$ 4,111	$ 4,147
Due after one year through five years	**11,433**	**11,893**	14,993	15,487
Due after five years through ten years	**9,782**	**10,367**	9,682	10,414
Due after ten years	**16,390**	**18,150**	16,925	19,074
Mortgage/asset-backed securities	**488**	**517**	966	1,033
Total	**$ 42,216**	**$ 45,119**	$ 46,677	$ 50,155

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

Mortgages

As at December 31		**2003**		2002
	Carrying value	Fair value	Carrying value	Fair value
Residential	**$ 2,383**	**$ 2,497**	$ 2,064	$ 2,171
Office	**2,708**	**2,939**	2,619	2,869
Retail	**2,735**	**2,926**	2,196	2,357
Industrial	**2,308**	**2,497**	2,160	2,350
Other	**267**	**286**	255	276
Total	**$ 10,401**	**$ 11,145**	$ 9,294	$ 10,023

The carrying value of government-insured mortgages was 4% of the total carrying value of the mortgage portfolio as at December 31, 2003 (2002 – 4%) and the value of privately-insured mortgages was 1.1% of the total mortgage portfolio as at December 31, 2003 (2002 – 1.1%).

b) Investment income

For the years ended December 31 **2003**	Gross investment income (loss)	Provision for impairment, net (note 3(e))	Amortization of net realized and unrealized gains	Total	Yield (%)
Bonds	**$ 2,318**	**$ 13**	**$ 280**	**$ 2,611**	**6.38**
Mortgages	**676**	**(17)**	**14**	**673**	**7.18**
Stocks	**156**	**–**	**197**	**353**	**7.03**
Real estate	**277**	**–**	**54**	**331**	**9.53**
Policy loans	**368**	**–**	**–**	**368**	**8.02**
Cash and short-term investments	**109**	**–**	**–**	**109**	**N/A**
Manulife Bank loans	**43**	**–**	**–**	**43**	**6.06**
Other investments	**44**	**(1)**	**30**	**73**	**N/A**
Total	**$ 3,991**	**$ (5)**	**$ 575**	**$ 4,561**	**6.50**
2002					
Bonds	$ 2,627	$ (198)	$ 160	$ 2,589	5.82
Mortgages	635	(3)	15	647	7.95
Stocks	101	–	185	286	5.84
Real estate	272	4	50	326	10.64
Policy loans	393	–	–	393	8.23
Cash and short-term investments	77	–	–	77	N/A
Manulife Bank loans	27	–	–	27	5.44
Other investments	(113)	–	3	(110)	N/A
Total	$ 4,019	$ (197)	$ 413	$ 4,235	5.93

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

c) Securities lending The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for periods of time. Collateral, which exceeds the market value of the loaned securities, is lodged by the borrower with the Company and retained by the Company until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value fluctuates. As at December 31, 2003, the Company had loaned securities (which are included in invested assets) with a carrying value and market value of approximately $3,022 and $3,062, respectively (2002 – $3,347 and $3,387, respectively).

d) Mortgage securitization In prior years, the Company sold commercial mortgages for cash, with limited recourse. The maximum recourse on these mortgages was less than 10% of the proceeds. When the mortgages were sold, they were removed from the Company's Consolidated Balance Sheets with any resultant gain or loss deferred and amortized to investment income. During 2003, the securitized mortgage trusts were closed and the outstanding balance of sold mortgages with limited recourse as at December 31, 2003 was nil (2002 – $313).

e) Credit risk Credit risk is the risk that a party to a financial instrument, such as a mortgage borrower, will fail to fully honour its financial obligations to the Company. Credit risks are primarily associated with investment, derivative and reinsurance counterparties (see reinsurance risk in note 4(d)).

The Company has provided for credit risks by establishing allowances against the carrying value of impaired assets in the Consolidated Balance Sheets. In addition to these allowances, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of actuarial liabilities (note 4(c)).

The carrying value of impaired assets was as follows:

As at December 31 **2003**	Gross amount	Allowance	Carrying value
Bonds	**$ 273**	**$ 193**	**$ 80**
Mortgages	**96**	**37**	**59**
Total	**$ 369**	**$ 230**	**$ 139**
2002			
Bonds	$ 377	$ 270	$ 107
Mortgages	36	20	16
Total	$ 413	$ 290	$ 123

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

Allowance for impairment	2003	2002
Balance, January 1	**$ 290**	$ 208
Net provisions during the year	**5**	197
Write-offs, net of recoveries	**(65)**	(115)
Balance, December 31	**$ 230**	$ 290

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

As at December 31, 2003, 96% of bonds (2002 – 96%) were rated at investment grade "BBB" or higher, and 79% (2002 – 81%) were rated "A" or higher. Government bonds represented 41% (2002 – 40%) of the bond portfolio. The Company's highest exposure to a single non-government issuer was $399 (2002 – $436). Mortgages and real estate are diversified geographically and by property type. The Company's largest concentration of mortgages and real estate was in Ontario, Canada and amounted to $4,930 (2002 – $4,222). Income-producing commercial office properties were the largest concentration in the real estate portfolio with $3,050 (2002 – $2,530). As at December 31, 2003, 96% (2002 – 95%) of the stock portfolio was comprised of publicly listed corporations. The largest single issuer represented 6% (2002 – 6%) of the portfolio.

The Company's exposure to loss on derivatives is limited to the extent that default by counterparties to these contracts results in the loss of any gains that may have accrued. All contracts are held with counterparties rated "A" or higher. As at December 31, 2003, 58% (2002 – 48%) of the exposed amount was with counterparties rated "AA" or higher. The largest single counterparty exposure as at December 31, 2003 was $88 (2002 – $61).

Note 4 □ Actuarial Liabilities

a) Composition Actuarial liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends, taxes (other than income taxes) and expenses on policies in force. Under Canadian GAAP, the determination of actuarial liabilities is based on an explicit projection of cash flows using best estimate assumptions for each material cash flow item and contingency. Investment returns are based on projected investment income using the current asset portfolios and projected reinvestment strategies. Each assumption is adjusted by a margin for adverse deviation. For investment returns, this margin is established by scenario testing. For other assumptions, this margin is established by directly adjusting the best estimate assumption.

For minimum guarantees on segregated funds, the Company determines actuarial liabilities using stochastic models as defined by the Canadian Institute of Actuaries. The models are based on the nature of the segregated fund guarantees. Investment performance, mortality and termination assumptions are the key variables that are modeled.

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

As at December 31	Individual life insurance		Annuities	Other insurance	
2003	Participating	Non-participating	and pensions	liabilities	Total
United States	**$ 9,544**	**$ 3,621**	**$ 5,417**	**$ 1,254**	**$ 19,836**
Canada	**3,127**	**3,149**	**11,174**	**2,090**	**19,540**
International	**9,018**	**1,893**	**1,225**	**135**	**12,271**
Total	**$ 21,689**	**$ 8,663**	**$ 17,816**	**$ 3,479**	**$ 51,647**
2002					
United States	$ 11,294	$ 3,735	$ 7,000	$ 1,360	$ 23,389
Canada	2,914	2,840	10,892	1,953	18,599
International	11,070	1,827	1,423	89	14,409
Total	$ 25,278	$ 8,402	$ 19,315	$ 3,402	$ 56,397

For participating policies in force as at demutualization, separate sub-accounts were established within the participating account. These sub-accounts permit this participating business to be operated as separate “closed blocks” of business. As at December 31, 2003, $14,079 (2002 – $15,983) of both assets and actuarial liabilities related to the participating policyholders’ account were included in the closed blocks.

b) Assets backing liabilities and equity The Company has established target invested asset portfolio mixes, which take into account the risk attributes of the liabilities supported by the assets, expectations of market performance, and a generally conservative investment philosophy. Assets are segmented and matched to liabilities with similar underlying characteristics by product line and major currency. Liabilities with rate and term guarantees, such as annuities and pensions, are predominantly backed by fixed-rate instruments such as bonds and commercial and mortgage loans. Insurance products, such as participating whole life insurance, are backed by a broader range of asset classes. The Company’s equity is primarily invested in North American and international securities and North American real estate.

Changes in the fair value of assets backing actuarial liabilities would have a limited impact on the Company’s equity, as it would be substantially offset by a corresponding change in the fair value of the liabilities. The fair value of assets backing actuarial liabilities as at December 31, 2003 was estimated at $54,412 (2002 – $59,087).

A change in the fair value of assets supporting capital and other liabilities results in a corresponding change in equity when recognized, offset by changes in related liabilities when recognized. The fair value of assets backing capital and other liabilities as at December 31, 2003 was estimated at $27,358 (2002 – $25,551).

The deferred realized net gains taken into account in the computation of actuarial liabilities as at December 31, 2003 were $1,776 (2002 – $1,859).

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

As at December 31 2003	Individual life insurance Participating	Non-participating	Annuities and pensions	Other[1]	Capital[2]	Total
Assets						
Bonds	**$ 11,155**	**$ 4,844**	**$ 10,480**	**$ 9,965**	**$ 5,772**	**$ 42,216**
Mortgages	**1,639**	**1,081**	**3,960**	**3,350**	**371**	**10,401**
Stocks	**1,984**	**447**	**258**	**851**	**2,326**	**5,866**
Real estate	**1,836**	**773**	**77**	**1,143**	**133**	**3,962**
Other	**5,075**	**1,518**	**3,041**	**2,008**	**3,429**	**15,071**
Total	**$ 21,689**	**$ 8,663**	**$ 17,816**	**$ 17,317**	**$ 12,031**	**$ 77,516**
2002						
Assets						
Bonds	$ 13,809	$ 5,197	$ 12,412	$ 9,507	$ 5,752	$ 46,677
Mortgages	1,583	880	3,886	2,393	552	9,294
Stocks	2,317	311	307	1,157	2,806	6,898
Real estate	1,772	483	61	915	339	3,570
Other	5,797	1,531	2,649	2,250	2,529	14,756
Total	$ 25,278	$ 8,402	$ 19,315	$ 16,222	$ 11,978	$ 81,195

(1) Other includes group insurance, reinsurance and non-insurance liabilities and non-controlling interest in subsidiaries.
(2) Capital represents total equity, subordinated debt, non-controlling interest in Manulife Financial Capital Trust and trust preferred securities issued by subsidiaries.

c) Significant reserve assumptions The preparation of financial statements involves the use of estimates and assumptions; however, actual results may differ from those estimates. The most significant estimation processes for insurance companies relate to the determination of actuarial liabilities and provisioning for asset impairment.

Actuarial liabilities have two major components: a best estimate amount and a provision for adverse deviation. In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions are designed to minimize the extent to which the Company is financially exposed to measurement uncertainty.

Best estimate reserve assumptions In the computation of actuarial liabilities, best estimate reserve assumptions are made. Assumptions are made for the lifetime of the policies and include assumptions with respect to mortality and morbidity, investment returns, rates of policy termination, operating expenses and certain taxes. Actuarial assumptions may be subject to change in the future. Actual experience is monitored regularly to ensure that the assumptions remain appropriate. Assumptions are discussed in more detail in the following table:

	Nature of factor and assumption methodology	Risk management
Mortality and morbidity	Mortality relates to the occurrence of death. Mortality assumptions are based on past and emerging Company and industry experience. Assumptions are differentiated by sex, underwriting class and policy type. Morbidity relates to the occurrence of accidents and sickness. Morbidity assumptions are based on Company and industry experience.	The Company establishes appropriate underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. Exposure to large claims is managed by establishing policy retention limits, which vary by market and geographic location. Policies in excess of the limits are reinsured with other companies. Mortality is monitored monthly and 2003 experience was favourable when compared with the Company's assumptions. Morbidity is also monitored monthly and 2003 experience was favourable when compared with the Company's assumptions.

	Nature of factor and assumption methodology	Risk management
Investment returns	The Company matches assets and liabilities by business segment, using investment objectives that are appropriate for each line of business. The projected cash flows from these assets are combined with future reinvestment rates derived from the current economic outlook and the Company's investment policy in order to determine expected rates of return on these assets for all future years. Investment return assumptions include expected future asset defaults. Asset defaults are projected based on both past Company and industry experience and specific reviews of the current investment portfolio.	The Company's policy of closely matching cash flows of the assets with those of the corresponding liabilities reduces the Company's exposure to future changes in interest rates. The interest rate risk positions in business segments are monitored on an ongoing basis. Under the Canadian Asset Liability Method (CALM), the reinvestment rate is quantified by using interest rate scenario testing. The exposure to asset default is managed by policies and procedures, which limit concentrations by issuer, connections, ratings, sectors and geographic regions. On certain policies, such as for participating insurance and universal life, asset default experience is passed back to policyholders through the investment return crediting formula. The Company holds explicit provisions in actuarial liabilities for asset credit risk, which including provisions for adverse deviation, totaled $1,574 as at December 31, 2003 (2002 – $1,699). In 2003, default experience on both bonds and mortgages continued to be favourable when compared to the Company's assumptions. Stocks and real estate are used primarily to support liabilities where investment return experience is passed back to policyholders through dividends or credited investment return adjustments. A limited amount of stocks are also used to support long-dated obligations in the Company's U.S. annuity and pension businesses, and for insurance liabilities in Japan.
Policy terminations	Lapse relates to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are based on the Company's experience adjusted for expected future conditions. Assumptions reflect differences in geographic markets and lapse patterns for different types of contracts.	The Company designs its products in order to minimize financial exposure to lapse and surrender risk. In addition, the Company monitors lapse and surrender experience monthly. In aggregate, 2003 lapse experience on insurance products was unfavourable when compared to the Company's assumptions used in the computation of actuarial liabilities.
Expenses and taxes	Operating expense assumptions reflect the projected costs of maintaining and servicing in force policies and associated overhead expenses. These expenses are derived from the Company's internal cost studies projected into the future with an allowance for inflation. Taxes reflect assumptions for future premium taxes and other non-income related taxes. The impact of income taxes, projected on the basis of the valuation assumptions (expected plus margin for adverse deviation), is also included.	The Company prices its products to cover the expected costs of servicing and maintaining them. In addition, the Company monitors expenses monthly, including comparisons of actual expenses to expense levels allowed for in pricing and valuation. Maintenance expenses for 2003 were favourable when compared with the Company's assumptions used in the computation of actuarial liabilities. The Company prices its products to cover the expected cost of taxes.

Provision for adverse deviation assumptions The basic assumptions made in establishing actuarial liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these best estimate reserve assumptions, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

The impact of these margins is to increase actuarial liabilities and decrease the income that would be recognized at inception of the policy. Minimum conditions are prescribed by the Canadian Institute of Actuaries for determining margins related to interest rate risk. For other risks, which are not specifically addressed by the Canadian Institute of Actuaries, a range is defined as 5% to 20% of the expected experience assumption, taking into account the risk profiles of the business. The Company uses assumptions at the conservative end of the permissible ranges.

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

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

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

For the years ended December 31		2003		2002
1% increase	$	**(58)**	$	(31)
1% decrease	$	**(31)**	$	46

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

Foreign currency risk The Company's strategy of matching the currency of its assets with the currency of the liabilities that these assets support results in minimal financial exposure related to foreign currency fluctuations on assets backing actuarial liabilities. The Company also generally matches the currency of its equity with the currency of its liabilities.

As at December 31, 2003, assets exceeded liabilities denominated in foreign currencies by approximately $5,398 (2002 – $4,318), of which $4,909 as at December 31, 2003 (2002 – $3,360) related to the U.S. dollar. The impact of a 1% strengthening of the Canadian dollar relative to the U.S. dollar would have resulted in a $9 decrease in net income for the year ended December 31, 2003 (2002 – $8) and a $49 decrease in equity as at December 31, 2003 (2002 – $34).

Liquidity risk Liquidity risk is the risk that the Company will not have access to sufficient funds to meet its liabilities as they become due. Certain of the Company's policies have features that allow them to be terminated at short notice, creating a potential liquidity exposure. In the normal course of business, the Company matches the maturity of invested assets to the maturity of actuarial liabilities. The economic impact of dis-intermediation risk is captured as part of the interest rate risk testing in the CALM methodology.

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

The Company's strategic liquidity was as follows:

As at December 31				2003				2002
		Immediate scenario		Ongoing scenario		Immediate scenario		Ongoing scenario
Adjusted liquid assets	$	**47,723**	$	**48,414**	$	52,463	$	53,231
Adjusted actuarial liabilities	$	**8,596**	$	**11,641**	$	9,176	$	12,617
Liquidity ratio		**555%**		**416%**		572%		422%

Reinsurance risk In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. In order to minimize losses from reinsurer insolvency, the Company monitors the concentration of credit risk both geographically and with any one reinsurer. In addition, the Company selects reinsurers with high credit ratings.

As a result of ceded reinsurance, actuarial liabilities have been reduced by $3,255 as at December 31, 2003 (2002 – $3,306).

The effect of reinsurance on premium income was as follows:

For the years ended December 31		2003		2002
Direct premium income	$	**10,398**	$	10,272
Reinsurance assumed		**788**		1,109
Reinsurance ceded		**(646)**		(602)
Total premium income	$	**10,540**	$	10,779

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

For the years ended December 31	2003	2002
Balance, January 1	$ 56,397	$ 54,690
Normal change		
New policies	1,597	1,605
In force	(509)	(1,307)
Changes in methods and assumptions	59	9
Changes due to acquisition and assumption transactions	88	668
Currency impact	(5,985)	732
Balance, December 31	$ 51,647	$ 56,397

The Company examines the assumptions used in determining actuarial liabilities on an ongoing basis. Policy liabilities are increased when expected benefit costs and related risks increase, and vice versa. Policy liabilities include actuarial liabilities and liabilities for policy benefits in the course of settlement.

In 2003, changes in methods and assumptions used in the determination of actuarial and policy liabilities resulted in a net increase of $59 (2002 – $9) in actuarial liabilities and $19 (2002 – nil) in benefits payable and provision for unreported claims. A portion of the net increase was in a non-wholly owned subsidiary, reducing the impact on pre-tax income to $58 (2002 – $9). The income statement impact of the changes in methods and assumptions is reported in the "Corporate and Other" segment.

Changes to persistency assumptions, reflecting recent persistency experience, increased actuarial liabilities principally in the U.S. and Japan. Actuarial liabilities also increased due to changes in interest rate assumptions, which reflect lower interest rates in Asia and more conservative reinvestment assumptions in North America, offset by improvements in the Japanese interest rate environment. Updates to methods and models also resulted in an increase in policy liabilities. Partially offsetting the impact of these increases in policy liabilities were changes to mortality and morbidity assumptions, which reflect the recent trend of favourable experience, most significantly in Japan and Reinsurance Divisions. As well, changes to expense assumptions, including taxes, resulted in a decrease to policy liabilities.

Note 5 □ Income Taxes

The effective income tax rate for the provision for income taxes varies from the income taxes computed at the Canadian statutory tax rate of 36% as at December 31, 2003 (2002 – 38%) for the following reasons:

Reconciliation of income tax expense

For the years ended December 31	2003	2002
Income tax at Canadian statutory tax rate	$ 667	$ 636
Increase (decrease) in taxes due to:		
Tax-exempt investment income	(76)	(80)
Differences in tax rates on income not subject to tax in Canada	(260)	(265)
Recognition of tax benefit from prior years	(14)	(15)
Changes in future tax asset from statutory rate changes	–	(14)
Other	(1)	42
Income tax expense	$ 316	$ 304

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

For the years ended December 31	2003	2002
Canadian income tax expense:		
Current	$ 64	$ 96
Future	76	28
	$ 140	$ 124
Foreign income tax expense:		
Current	$ 50	$ (105)
Future	126	285
	$ 176	$ 180
Income tax expense	$ 316	$ 304

The amount of income taxes paid in cash during the year ended December 31, 2003 was $91 (2002 – $103).

Income taxes are included in the Consolidated Financial Statements as follows:

For the years ended December 31	2003	2002
Consolidated Statements of Operations		
Income taxes	$ 316	$ 304
Consolidated Statements of Equity		
Currency translation adjustment	102	–
Income taxes	$ 418	$ 304

Undistributed earnings of non-Canadian subsidiaries may be taxed upon repatriation to Canada. The Company has recognized a future tax liability on these undistributed earnings to the extent that management expects it will be incurred on earnings repatriated in the foreseeable future. If undistributed earnings were repatriated, the taxes that would be payable as at December 31, 2003 are estimated to be $370 (2002 – $380).

The following table presents future income taxes in total, and the principal components:

As at December 31	2003	2002
Future income tax asset:		
Gains on sale of invested assets	$ 409	$ 457
Other	1,086	1,185
	$ 1,495	$ 1,642
Valuation allowance	(160)	(174)
Future income tax asset	$ 1,335	$ 1,468
Future income tax liability:		
Actuarial liabilities	$ (997)	$ (613)
Real estate	(327)	(392)
Securities	(101)	(245)
Other	(80)	(86)
Future income tax liability	$ (1,505)	$ (1,336)
Net future income tax asset (liability)	$ (170)	$ 132

As at December 31, 2003, the Company has approximately $3,130 (2002 – $2,903) of tax loss carryforwards available, which expire between the years 2005 and 2017. A future tax benefit has been recognized in the amount of $940 (2002 – $843). A future tax benefit in the amount of $160 (2002 – $174) has not been recognized.

Note 6 □ Subordinated Debt

As at December 31	2003	2002
7.875% U.S. dollar	$ 323	$ 395
8.25% U.K. pound	–	241
5.70% Canadian dollar	250	250
6.24% Canadian dollar	550	550
Total	$ 1,123	$ 1,436
Fair value	$ 1,199	$ 1,523

The fair value of subordinated debt is determined by reference to current market prices. These issues form part of the Company's regulatory capital. During the period the U.K. pound subordinated debt was outstanding, the Company used derivatives to reduce exposure to foreign exchange fluctuations.

The cash amount of interest paid during the year ended December 31, 2003 was $93 (2002 – $98).

a) 7.875% U.S. dollar subordinated notes During 1995, the Company issued U.S. $250 ($341) in 7.875% subordinated notes due April 15, 2005. This debt was issued as a private placement under Rule 144A of the Securities Act (United States).

b) 8.25% U.K. pound subordinated notes On January 1, 1996, on amalgamation with North American Life Assurance Company, the Company assumed £100 ($202) in 8.25% subordinated notes. Concurrently, £5 ($10) of debt, which was held by the Company, was extinguished. The Company redeemed the remaining £95 notes on November 17, 2003.

c) Canadian dollar subordinated debt On February 16, 2001, the Company issued, in two tranches, $800 in unsecured subordinated debentures, redeemable in whole or in part by the Company at any time. Debentures with principal of $250, maturing on February 16, 2011, bear interest at a fixed rate of 5.70% for five years and thereafter at a rate of 1% plus the 90-day Bankers Acceptance Rate (adjusted quarterly). In addition, debentures with principal of $550, maturing on February 16, 2016, bear interest at

a fixed rate of 6.24% for 10 years and thereafter at a rate of 1% plus the 90-day Bankers Acceptance Rate (adjusted quarterly). Proceeds to Manufacturers Life, net of issuance costs, were approximately $796. The debt constitutes Tier 2B regulatory capital.

Note 7 □ Non-Controlling Interest in Subsidiaries

As at December 31	2003	2002
Non-controlling interest in common equity of subsidiaries	$ **37**	$ 59
Manulife Financial Capital Securities – Series A	**60**	60
Manulife Financial Capital Securities – Series B	**940**	940
Total	$ **1,037**	$ 1,059

On December 10, 2001, Manulife Financial Capital Trust (the "Trust"), a wholly-owned open-end trust, issued 60,000 Manulife Financial Capital Securities ("MaCS") – Series A and 940,000 Manulife Financial Capital Securities – Series B. These securities are exchangeable into newly issued Manufacturers Life Class A Shares Series 2, in the case of MaCS – Series A, or newly issued Manufacturers Life Class A Shares Series 4, in the case of MaCS – Series B, under certain circumstances.

Each MaCS – Series A entitles the holder to receive fixed cash distributions payable semi-annually in the amount of $35.00. Each MaCS – Series B entitles the holder to receive fixed cash distributions payable semi-annually in the amount of $33.50.

The MaCS, with regulatory approval, may be redeemed in whole, upon the occurrence of certain tax or regulatory capital changes, or on or after December 31, 2006, at the option of the Trust.

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

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

Note 8 □ Trust Preferred Securities Issued by Subsidiaries

As at December 31	2003	2002
Trust preferred securities	$ **650**	$ 794

Capital Trust Pass-through Securities Units of U.S. $500 ($672) were issued by subsidiaries of MFC in January 1997, maturing February 1, 2027.

Each unit consists of one 8.25% trust preferred security, issued by the trust subsidiary, and one 0.125% preferred purchase contract, issued by Manufacturers Investment Corporation ("MIC"). The trust subsidiary's only asset is an investment in notes issued by MIC. Holders of each purchase contract may be required to purchase 20 non-cumulative perpetual preferred shares, Series A of MIC, at U.S. $50 per share. Holders may satisfy this purchase by delivering the trust preferred securities to MIC in exchange for the perpetual preferred shares.

The Securities Units were issued as a private placement under Rule 144A of the Securities Act (United States).

From the Company's perspective, the issue is equivalent to a combination of 8.25% subordinated debt maturing February 1, 2027, and an option exercisable by the Company, requiring contract holders to purchase an equivalent amount of perpetual preferred shares in MIC. The securities form part of the Company's regulatory capital.

Note 9 □ Share Capital

The authorized capital of MFC consists of:

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

Preferred shares On June 19, 2003, MFC issued 14 million Class A Shares, Series 1 ("Series 1 Preferred Shares") at a price of $25.00 per share, for an aggregate amount of $350. The Series 1 Preferred Shares are non-voting and are entitled to non-cumulative preferential cash dividends payable quarterly, if and when declared, at a per annum rate of 4.10% per Series 1 Preferred Share. With regulatory approval, the Series 1 Preferred Shares may be redeemed by MFC on or after June 19, 2010, in whole or in part, at declining premiums that range from $1.25 to nil per Series 1 Preferred Share, by either payment of cash or the issuance of MFC common shares. On or after December 19, 2015, the Series 1 Preferred Shares will be convertible at the option of the holder into MFC common shares, the amount of which is determined by a prescribed formula, and is subject to the right of MFC prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares.

Common shares On October 30, 2003, MFC received acceptance from the Toronto Stock Exchange (the "Exchange") of the Company's intention to make a normal course issuer bid to purchase up to 46 million of its common shares, representing approximately 9.9% of common shares then outstanding. Purchases made under the bid will be executed on the Exchange in the 12 months following the commencement of the bid on November 4, 2003. Transactions will be executed on the Exchange at prevailing market prices in amounts and at times determined by MFC, subject to compliance with applicable law and regulations. Any common shares purchased as part of the bid will be cancelled.

A previous normal course issuer bid program terminated on October 16, 2003.

During the year ended December 31, 2003, MFC purchased and subsequently cancelled 220,200 (2002 – 20 million) of its common shares pursuant to normal course issuer bids at a total cost of $9 (2002 – $726).

	2003			2002		
For the years ended December 31	Number of shares (in millions)		Amount	Number of shares (in millions)		Amount
Common shares						
Balance, January 1	**463**	**$**	**596**	482	$	614
Issued on exercise of stock options and deferred share units (note 10)	**–**		**3**	1		8
Normal course issuer bids – purchased for cancellation	**–**		**–**	(20)		(26)
Balance, December 31	**463**	**$**	**599**	463	$	596

Note 10 □ Stock-Based Compensation

Under the Company's Executive Stock Option Plan ("ESOP"), stock options are periodically granted to selected individuals. Options provide the holder with the right to purchase common shares at an exercise price equal to the closing market price of MFC's common shares on the Exchange on the business day immediately preceding the date the options were granted. The options vest over a period not exceeding four years and expire not more than 10 years from the grant date. A total of 36,800,000 common shares have been reserved for issuance under the ESOP.

In 2000, the Company also granted deferred share units ("DSUs") to certain employees under the ESOP. The DSUs vest over a four-year period and each unit entitles the holder to receive one common share on retirement or termination of employment. The DSUs attract dividends in the form of additional DSUs at the same rate as dividends on the common shares. No DSUs were granted during 2003 and 2002. The number of DSUs outstanding was two million as at December 31, 2003 (2002 – two million).

Effective January 1, 2001, the Company established the Global Share Ownership Plan ("GSOP") for its eligible employees and the Stock Plan for Non-Employee Directors.

Under the Company's GSOP, qualifying employees can choose to have up to 5% of their annual base earnings applied toward the purchase of common shares of MFC. Subject to certain conditions, the Company will match 50% of the employee's eligible contributions. The Company's contributions vest immediately. All contributions will be used by the plan's trustee to purchase common shares in the open market.

Under the Company's Stock Plan for Non-Employee Directors, each eligible director may elect to receive DSUs or common shares in lieu of cash equal to his or her annual director's retainer and fees. Upon termination of Board service, the eligible director may elect to receive cash or common shares equal to the value of the DSUs accumulated in his or her account. A total of 500,000 common shares have been reserved for issuance under the Stock Plan for Non-Employee Directors.

The Company also granted stock options to eligible directors under the Director Equity Incentive Plan ("DEIP"). The exercise price of each option is equal to the closing market price of MFC's common shares on the Exchange on the business day immediately preceding the date the option was granted. These DEIP options vest immediately and expire not more than 10 years from the grant date. A total of 500,000 common shares have been reserved for issuance under the DEIP.

During the first quarter of 2003, the Company established a new Restricted Share Unit ("RSU") plan and granted 969,000 RSUs to certain eligible employees. RSUs represent phantom common shares of MFC that entitle a participant to receive payment equal to the market value of the same number of common shares at the time the RSUs vest. RSUs vest and are paid out in 34 months and the related compensation expense is recognized over the period. Compensation expense related to RSUs was $13 for the year ended December 31, 2003.

For the years ended December 31			2003			2002
	Number of options (in millions)		Weighted average exercise price	Number of options (in millions)		Weighted average exercise price
Outstanding, January 1	**11**	**$**	**38.20**	8	$	36.22
Granted	**1**	**$**	**36.38**	3	$	42.76
Outstanding, December 31	**12**	**$**	**37.87**	11	$	38.20
Exercisable, as at December 31	**6**	**$**	**35.54**	4	$	33.91

The exercise price of stock options outstanding ranged from $31.60 to $46.95 and had a weighted average contractual remaining life of 7.5 years.

The weighted average fair value of each option granted in the year has been estimated at $10.75 (2002 – $13.85) using the Black-Scholes option-pricing model. The pricing model uses the following weighted average assumptions for these options: risk-free interest rate of 4.8% (2002 – 5.2%), dividend yield of 1.8% (2002 – 1.4%), expected volatility of 25% (2002 – 25%) and expected life of seven (2002 – seven) years.

Effective January 1, 2003, the Company changed its accounting policy on a prospective basis for stock options granted to employees on or after January 1, 2002, from the intrinsic value method to the fair value method, and recorded an additional compensation expense, with an offsetting increase to contributed surplus, of $14 during the year ended December 31, 2003.

Note 11 □ Acquisition and Assumption Transactions

a) Proposed Business Combination with John Hancock Financial Services, Inc. On September 28, 2003, the Company announced that it had entered into an agreement with John Hancock Financial Services, Inc. (“JHF”) under which JHF will merge with a newly-formed wholly-owned subsidiary of MFC. In conjunction with this transaction, MFC expects to issue approximately 337 million common shares, subject to adjustment, and replace JHF’s existing stock options with MFC stock options. The transaction is expected to close in the second quarter of 2004 and is subject to customary closing conditions, including the receipt of applicable regulatory approvals.

b) Other The fair value of assets acquired or assumed was as follows:

		Fair value of assets acquired or assumed			
Transaction date	Company/business		General fund		Segregated funds
November 25, 2002	CMG Life Insurance Co., Inc. and CMG Plans, Inc.	$	134	$	–
March 25, 2002	Zurich Life Insurance Company of Canada		754		40

Note 12 □ Employee Future Benefits

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

	Pension benefits				Other employee benefits			
For the years ended December 31		2003		2002		2003		2002
Changes in accrued benefit obligation:								
Balance, January 1	**$**	**810**	$	727	**$**	**141**	$	130
Service cost		**26**		25		**6**		6
Interest cost		**47**		47		**8**		8
Plan participants’ contributions		**1**		1		**–**		–
Amendments		**6**		4		**–**		–
Actuarial loss		**63**		52		**12**		–
Benefits paid		**(50)**		(48)		**(3)**		(3)
Currency impact		**(30)**		2		**(7)**		–
Balance, December 31	**$**	**873**	$	810	**$**	**157**	$	141

For the years ended December 31		Pension benefits 2003		2002		Other employee benefits 2003		2002
Changes in plan assets:								
Fair value of plan assets, January 1	**$**	**558**	$	632	**$**	**–**	$	–
Actual return on plan assets		**68**		(33)		**–**		–
Employer contribution		**16**		6		**3**		3
Plan participants' contributions		**1**		1		**–**		–
Benefits paid		**(50)**		(48)		**(3)**		(3)
Currency impact		**(18)**		–		**–**		–
Fair value of plan assets, December 31	**$**	**575**	$	558	**$**	**–**	$	–

As at December 31		Pension benefits 2003		2002		Other employee benefits 2003		2002
Funded status, end of year	**$**	**(298)**	$	(252)	**$**	**(157)**	$	(141)
Unrecognized net actuarial loss (gain)		**188**		174		**(39)**		(56)
Unrecognized initial transition gain		**(1)**		(5)		**–**		–
Unrecognized prior service cost		**23**		20		**–**		–
Accrued benefit liability	**$**	**(88)**	$	(63)	**$**	**(196)**	$	(197)
Amounts recognized in the Consolidated Balance Sheets consist of:								
Prepaid benefit – cost	**$**	**104**	$	120	**$**	**–**	$	–
Accrued benefit liability		**(192)**		(183)		**(196)**		(197)
Accrued benefit liability	**$**	**(88)**	$	(63)	**$**	**(196)**	$	(197)

As at December 31, 2003, pension plans subject to regulatory required contributions consist of assets of $575 (2002 – $558) and pension benefit obligations of $625 (2002 – $585).

Of the $298 unfunded amount (2002 – $252), $193 (2002 – $174) relates to the Company's executive supplementary pension plan of which $133 (2002 – $126) has been charged to earnings to date. Charges for other unfunded plans amount to $52 (2002 – $49) and have been charged to earnings or otherwise accrued for in the Company's accounts. The assets supporting these pension liabilities are not separately segregated and form part of the general fund assets of the Company.

Components of the net benefit expense were as follows:

For the years ended December 31		Pension benefits 2003		2002		Other employee benefits 2003		2002
Defined benefit service cost	**$**	**26**	$	25	**$**	**6**	$	6
Defined contribution service cost		**17**		15		**–**		–
Interest cost		**47**		47		**8**		8
Expected return on plan assets		**(41)**		(47)		**–**		–
Net amortization and deferrals		**5**		1		**(3)**		(4)
Net benefit expense	**$**	**54**	$	41	**$**	**11**	$	10

For the years ended December 31	Pension benefits 2003	2002
Weighted-average assumptions:		
Discount rate	**6.0%**	6.6%
Expected return on plan assets	**7.2%**	7.7%
Rate of compensation increase	**3.6%**	3.6%

Assumed health care cost trends have a significant effect on the amounts reported for the health care plan. The impact of a 100 basis-point change in assumed health care cost trend rates would have been as follows:

	100 basis-point increase	100 basis-point decrease
Effect on total service and interest costs	**3**	**(2)**
Effect on post-employment benefit obligation	**22**	**(15)**

Note 13 □ Commitments and Contingencies

a) Legal proceedings The Company is subject to legal actions arising in the ordinary course of business. These legal actions are not expected to have a material adverse effect on the consolidated financial position of the Company.

b) Investment commitments In the normal course of business, various investment commitments are outstanding which are not reflected in the consolidated financial statements. There were $507 of outstanding investment commitments as at December 31, 2003, of which $198 mature in 30 days, $240 mature in 31 to 365 days and $69 mature in 2005 or later. There were $706 of outstanding investment commitments as at December 31, 2002, of which $127 matured in 30 days, $383 matured in 31 to 365 days and $196 mature in 2004 or later.

c) Letters of credit In the normal course of business, third party relationship banks issue letters of credit on the Company's behalf. As at December 31, 2003, letters of credit in the amount of $2,211 (2002 – $2,739), which included nil (2002 – $21) against which assets have been pledged, were outstanding.

d) Pledged assets In the normal course of business, certain of MFC's subsidiaries pledge their assets as security for liabilities incurred. The amounts pledged were as follows:

As at December 31		**2003**		2002
	Bonds	Other	Bonds	Other
In respect of:				
Letters of credit	**$ –**	**$ –**	$ 21	$ –
Derivatives	**–**	**7**	–	7
Regulatory requirements	**43**	**–**	49	–
Real estate	**–**	**74**	–	87
Total	**$ 43**	**$ 81**	$ 70	$ 94

e) Capital requirements Dividends and capital distributions are restricted under the ICA. The ICA requires Canadian insurance companies to maintain, at all times, minimum levels of capital (which principally includes common shareholders' equity (including retained earnings), non-cumulative perpetual preferred shares, subordinated debt, other financial instruments that qualify as regulatory capital and the participating account) calculated in accordance with Minimum Continuing Capital and Surplus Requirements. In addition to the requirements under Canadian law, MFC must also maintain minimum levels of capital for its foreign subsidiaries. Such amounts of capital are based on the local statutory accounting basis in each jurisdiction. The most significant of these are the Risk Based Capital requirements for MFC's U.S. insurance subsidiaries. The Company maintains capital well in excess of the minimum required in all foreign jurisdictions in which the Company does business.

There are additional restrictions on distributions in foreign jurisdictions in relation to shareholder dividends. In the U.S., MFC's principal insurance subsidiary is domiciled in Michigan. Michigan regulatory approval is required if a shareholder dividend distribution from a Michigan insurance subsidiary to the parent company would exceed that subsidiary's earned surplus. Regulatory approval is also required if the distribution (together with other distributions during the previous 12 months) exceeds the greater of the subsidiary's statutory net operating income for the previous year or 10% of its surplus determined at the end of the previous year. The determination must be made in accordance with statutory accounting principles.

f) Participating business In some territories where the Company maintains participating accounts, there are regulatory restrictions on the amounts of profit that can be transferred to shareholders. Where applicable, these restrictions generally take the form of a fixed percentage of the policyholder dividends. For participating business operating as separate "closed blocks," transfers are governed by the terms of Manufacturers Life's Plan of Demutualization.

Note 14 □ Fair Value of Financial Instruments

Financial instruments refer to both on- and off-balance sheet instruments and may be assets or liabilities. They are contracts that ultimately give rise to a right for one party to receive an asset and an obligation for another party to deliver an asset. Fair values are management's best estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties and are generally calculated based on the characteristics of the instrument and the current economic and competitive environment. These calculations are subjective in nature, involve uncertainties and matters of significant judgment and do not include any tax impact.

Both the fair values and the basis for determining the fair value of invested assets, actuarial liabilities, subordinated debt and derivative financial instruments are disclosed in notes 3, 4, 6 and 15, respectively.

The fair values of accrued investment income, outstanding premiums, miscellaneous assets, policy benefits in the course of settlement, provision for unreported claims, policyholder amounts on deposit and other liabilities approximate their carrying values due to their short-term nature.

The fair value of Manulife Bank deposits is estimated at $2,554 as at December 31, 2003 (2002 – $1,444) compared to a carrying value of $2,550 as at December 31, 2003 (2002 – $1,437). The fair value of these financial instruments is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and conditions.

Note 15 □ Derivative Financial Instruments

Derivative financial instruments are financial contracts, the values of which are derived from underlying assets or interest or foreign exchange rates. In the ordinary course of business, the Company enters into primarily over-the-counter contracts for asset liability management purposes. Derivatives such as foreign exchange contracts, interest rate and cross currency swaps, forward contracts, total return swaps, futures agreements and options are used to manage exposures to interest rate, foreign currency and equity fluctuations in order to ensure a consistent stream of earnings.

Swaps are contractual agreements between the Company and a third party to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating interest rate payments based on a notional value in a single currency. Cross currency swaps involve the exchange of fixed or floating interest payments in one currency for the receipt of fixed or floating interest payments in another currency. Equity contracts involve the exchange of floating rate interest payments for the receipt of returns from an equity market index.

Notional amount represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The notional principal amounts are not included in the Consolidated Balance Sheets.

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

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

Credit risk equivalent is the sum of replacement cost and the potential future credit exposure. Replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value. The amounts do not take into consideration legal contracts that permit offsetting of positions or any collateral that may be obtained. The potential future credit exposure represents the potential for future changes in value based upon a formula prescribed by OSFI.

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

Fair value is summarized by derivative type and represents the unrealized net gain or loss, accrued interest receivable or payable, and premiums paid or received. Substantially all derivative financial instruments wholly or partially offset the change in fair values of related on-balance sheet assets and liabilities.

The Company had the following amounts outstanding:

	Remaining term to maturity (notional amounts)				Fair value				
As at December 31 2003	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Net	Credit risk equivalent	Risk-weighted amount
Interest rate contracts:									
Swap contracts	**$ 492**	**$ 1,448**	**$ 451**	**$ 2,391**	**$ 59**	**$ (74)**	**$ (15)**	**$ 42**	**$ 11**
Futures contracts	**3**	**–**	**–**	**3**	**–**	**–**	**–**	**–**	**–**
Options written	**–**	**15**	**–**	**15**	**–**	**(1)**	**(1)**	**–**	**–**
Sub-total	**$ 495**	**$ 1,463**	**$ 451**	**$ 2,409**	**$ 59**	**$ (75)**	**$ (16)**	**$ 42**	**$ 11**
Foreign exchange:									
Swap contracts	**948**	**2,257**	**664**	**3,869**	**259**	**(130)**	**129**	**307**	**88**
Forward contracts	**1,537**	**65**	**–**	**1,602**	**48**	**(3)**	**45**	**26**	**6**
Commodity contracts	**35**	**1**	**–**	**36**	**–**	**(2)**	**(2)**	**–**	**–**
Equity contracts	**461**	**7**	**–**	**468**	**21**	**(1)**	**20**	**32**	**10**
Total	**$ 3,476**	**$ 3,793**	**$ 1,115**	**$ 8,384**	**$ 387**	**$ (211)**	**$ 176**	**$ 407**	**$ 115**
2002									
Interest rate contracts:									
Swap contracts	$ 868	$ 1,645	$ 1,110	$ 3,623	$ 111	$ (118)	$ (7)	$ 136	$ 35
Futures contracts	11	–	–	11	–	–	–	–	–
Options written	72	34	–	106	–	(3)	(3)	–	–
Sub-total	$ 951	$ 1,679	$ 1,110	$ 3,740	$ 111	$ (121)	$ (10)	$ 136	$ 35
Foreign exchange:									
Swap contracts	1,011	3,010	485	4,506	96	(294)	(198)	293	81
Forward contracts	2,890	274	–	3,164	25	(18)	7	67	13
Equity contracts	374	68	–	442	12	(3)	9	34	10
Total	$ 5,226	$ 5,031	$ 1,595	$ 11,852	$ 244	$ (436)	$ (192)	$ 530	$ 139

Note 16 ▫ Segmented Information

The Company provides a wide range of financial products and services, including individual life insurance, group life and health insurance, pension products, annuities and mutual funds, to individual and group customers in the United States, Canada, Asia and Japan. The Company also offers reinsurance services, primarily life and property and casualty retrocession, and provides investment management services with respect to the Company's general fund assets, segregated fund assets and mutual funds and, in Canada and Asia, to institutional customers.

The Company's business segments include the U.S., Canadian, Asian, Japan and Reinsurance Divisions. Each division has profit and loss responsibility and develops products, services and distribution strategies based on the profile of its business and the needs of its market.

The accounting policies of the segments are the same as those described in note 1, Nature of Operations and Significant Accounting Policies.

The results of the Company's business segments differ from geographic segmentation primarily as a consequence of segmenting the results of the Company's Reinsurance Division into the different geographic segments to which its business pertains.

By segment **For the year ended December 31, 2003**	U.S. Division	Canadian Division	Asian Division	Japan Division	Reinsurance Division	Corporate & Other	Total
Revenue							
Premium income							
Life and health insurance	$ 2,100	$ 2,684	$ 1,488	$ 1,232	$ 736	$ –	$ 8,240
Annuities and pensions	1,373	832	95	–	–	–	2,300
Total premium income	$ 3,473	$ 3,516	$ 1,583	$ 1,232	$ 736	$ –	$ 10,540
Investment income	1,746	1,896	342	160	222	195	4,561
Other revenue	1,022	290	133	34	45	31	1,555
Total revenue	$ 6,241	$ 5,702	$ 2,058	$ 1,426	$ 1,003	$ 226	$ 16,656
Interest expense	$ 15	$ 90	$ 41	$ 2	$ 3	$ 102	$ 253
Income (loss) before income taxes	$ 631	$ 653	$ 328	$ 129	$ 279	$ (168)	$ 1,852
Income taxes	(176)	(158)	(17)	(23)	(63)	121	(316)
Net income (loss)	$ 455	$ 495	$ 311	$ 106	$ 216	$ (47)	$ 1,536
Segregated fund deposits	$ 14,014	$ 1,993	$ 1,013	$ 667	$ –	$ –	$ 17,687
As at December 31, 2003							
Actuarial liabilities	$ 19,271	$ 19,100	$ 4,156	$ 7,783	$ 833	$ 504	$ 51,647
Funds under management							
General fund	$ 22,756	$ 27,480	$ 6,435	$ 10,458	$ 3,450	$ 6,937	$ 77,516
Segregated funds	56,242	10,702	3,420	1,100	–	–	71,464
Mutual funds	–	1,739	1,621	–	–	–	3,360
Other managed funds	–	–	1,947	–	–	2,388	4,335

By geographic location **For the year ended December 31, 2003**	United States	Canada	Asia	Other	Total
Revenue					
Premium income					
Life and health insurance	$ 2,383	$ 2,744	$ 2,720	$ 393	$ 8,240
Annuities and pensions	1,373	832	95	–	2,300
Total premium income	$ 3,756	$ 3,576	$ 2,815	$ 393	$ 10,540
Investment income	1,874	2,136	502	49	4,561
Other revenue	1,049	308	174	24	1,555
Total revenue	$ 6,679	$ 6,020	$ 3,491	$ 466	$ 16,656

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

By geographic location For the year ended December 31, 2002	United States	Canada	Asia	Other	Total
Revenue					
Premium income					
Life and health insurance	$ 2,281	$ 2,511	$ 2,875	$ 675	$ 8,342
Annuities and pensions	1,616	726	95	–	2,437
Total premium income	$ 3,897	$ 3,237	$ 2,970	$ 675	$ 10,779
Investment income	1,880	1,872	415	68	4,235
Other revenue	1,022	315	154	27	1,518
Total revenue	$ 6,799	$ 5,424	$ 3,539	$ 770	$ 16,532

Note 17 □ Material Differences Between Canadian and United States Generally Accepted Accounting Principles

The consolidated financial statements of the Company are presented in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from U.S. generally accepted accounting principles ("U.S. GAAP"). The material differences between U.S. and Canadian GAAP for a life insurance company relate to the treatment of invested assets, deferred acquisition costs and actuarial liabilities. Generally, these differences will result in materially different earnings emergence patterns between statements of operations prepared in accordance with U.S. GAAP as compared to statements of operations prepared in accordance with Canadian GAAP.

a) Condensed consolidated balance sheets

As at December 31		2003		2002	
	Note 17 Reference	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
Assets					
Bonds	e (i)	**$ 45,119**	**$ 42,216**	$ 50,155	$ 46,677
Mortgages	e (ii)	**10,349**	**10,401**	9,182	9,294
Stocks	e (iii)	**6,126**	**5,866**	5,799	6,898
Real estate	e (iv)	**3,031**	**3,962**	2,641	3,570
Policy loans		**4,348**	**4,348**	4,939	4,939
Cash and short-term investments		**5,877**	**5,877**	5,143	5,143
Manulife Bank loans		**934**	**934**	566	566
Other investments		**774**	**861**	298	475
Total invested assets		**$ 76,558**	**$ 74,465**	$ 78,723	$ 77,562
Other assets					
Accrued investment income		**$ 914**	**$ 914**	$ 1,010	$ 1,010
Outstanding premiums		**490**	**490**	558	558
Deferred acquisition costs	e (vi)	**6,945**	**–**	7,110	–
Future income tax asset[1]		**–**	**–**	–	132
Reinsurance deposits and amounts recoverable	f (vi)	**1,602**	**–**	1,760	–
Miscellaneous		**1,867**	**1,647**	2,153	1,933
Total other assets		**$ 11,818**	**$ 3,051**	$ 12,591	$ 3,633
		$ 88,376	**$ 77,516**	$ 91,314	$ 81,195
Segregated funds net assets[2]	f (iv)	**71,464**	**–**	58,831	–
Total assets		**$ 159,840**	**$ 77,516**	$ 150,145	$ 81,195
Segregated funds net assets[2]	f (iv)		**$ 71,464**		$ 58,831
Liabilities and equity					
Actuarial liabilities	e (v), f (iii)	**$ 60,521**	**$ 51,647**	$ 65,450	$ 56,397
Other policy-related benefits		**5,205**	**4,582**	5,996	5,528
Future income tax liability[1]		**1,058**	**170**	592	–
Deferred realized net gains	e (i) – e (iv)	**–**	**3,343**	–	3,297
Manulife Bank deposits		**2,550**	**2,550**	1,437	1,437
Other liabilities		**4,090**	**3,156**	3,192	2,499
		$ 73,424	**$ 65,448**	$ 76,667	$ 69,158
Subordinated debt		**1,123**	**1,123**	1,436	1,436
Non-controlling interest in subsidiaries		**1,041**	**1,037**	1,075	1,059
Trust preferred securities issued by subsidiaries		**650**	**650**	794	794
Segregated funds net liabilities[2]	f (iv)	**71,464**	**–**	58,831	–
Preferred shares		**344**	**344**	–	–
Contributed surplus		**14**	**14**	–	–
Common shares and retained earnings		**10,166**	**8,900**	9,930	8,748
Accumulated effect of comprehensive income on equity		**1,614**	**–**	1,412	–
Total liabilities and equity		**$ 159,840**	**$ 77,516**	$ 150,145	$ 81,195
Segregated funds net liabilities[2]	f (iv)		**$ 71,464**		$ 58,831

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

b) Condensed consolidated statements of operations

For the years ended December 31		2003		2002	
	Note 17 Reference	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
Revenue					
Premium income	e (vii), f (i)	**$ 6,175**	**$ 10,540**	$ 6,533	$ 10,779
Fee income	e (vii)	**1,939**	**–**	1,829	–
Investment income	e (i) – (iv), e (viii)	**3,845**	**4,561**	4,005	4,235
Realized investment gains (losses)	e (i) – (iv), e (viii)	**1,098**	**–**	(350)	–
Other revenue		**272**	**1,555**	237	1,518
Total revenue		**$ 13,329**	**$ 16,656**	$ 12,254	$ 16,532
Policy benefits and expenses					
Policyholder payments	f (ii)	**$ 6,497**	**$ 9,331**	$ 7,154	$ 10,363
Change in actuarial liabilities	f (i), f (iii)	**1,416**	**1,147**	694	307
General expenses	e (vi), f (iii)	**3,395**	**4,211**	3,030	4,051
Non-controlling interest in subsidiaries		**55**	**57**	72	72
Trust preferred securities issued by subsidiaries		**58**	**58**	65	65
Total policy benefits and expenses		**$ 11,421**	**$ 14,804**	$ 11,015	$ 14,858
Income before income taxes		**$ 1,908**	**$ 1,852**	$ 1,239	$ 1,674
Income taxes		**(348)**	**(316)**	(266)	(304)
Net income		**$ 1,560**	**$ 1,536**	$ 973	$ 1,370
Weighted average number of common shares outstanding (in millions):					
Basic		**463**	**463**	476	476
Diluted		**466**	**466**	479	479
Earnings per share:					
Basic		**$ 3.37**	**$ 3.33**	$ 2.05	$ 2.90
Diluted		**$ 3.35**	**$ 3.31**	$ 2.03	$ 2.88

c) Reconciliation of Canadian GAAP net income and equity to U.S. GAAP net income, comprehensive income and equity:

For the years ended December 31	Note 17 Reference	Net income 2003	Net income 2002	Equity 2003	Equity 2002
Net income and equity determined in accordance with Canadian GAAP		**$ 1,536**	$ 1,370	**$ 9,258**	$ 8,748
Bonds	e (i)	**409**	338	**1,784**	1,507
Mortgages	e (ii)	**51**	85	**(11)**	(67)
Stocks	e (iii)	**11**	(932)	**350**	503
Real estate	e (iv)	**(106)**	(43)	**(844)**	(829)
Actuarial liabilities	e (v)	**(1,106)**	(901)	**(6,648)**	(6,754)
Deferred acquisition costs[1]	e (vi)	**1,018**	1,249	**7,381**	7,529
Deferred revenue	e (vii)	**(195)**	(181)	**(756)**	(610)
Future income taxes[2]		**(33)**	38	**(392)**	(274)
Derivative instruments and hedging activities	e (viii)	**18**	(12)	**53**	29
Other reconciling items		**(43)**	(38)	**349**	148
Reclassification of preferred shares		**–**	–	**(344)**	–
Net income and equity determined in accordance with U.S. GAAP		**$ 1,560**	$ 973	**$ 10,180**	$ 9,930
Effect of unrealized gains and losses on available-for-sale bonds and stocks:					
Bonds	e (i)	**(575)**	1,508	**2,903**	3,478
Stocks	e (iii)	**1,122**	(813)	**1,103**	(19)
Actuarial liabilities	e (v)	**(323)**	(91)	**(1,210)**	(887)
Deferred acquisition costs	e (vi)	**(18)**	(252)	**(436)**	(418)
Deferred revenue	e (vii)	**(13)**	30	**22**	35
Other		**83**	(59)	**(6)**	(89)
Future income taxes[2] on above		**(163)**	(71)	**(694)**	(531)
SFAS 133 adjustments[4]		**89**	165	**(68)**	(157)
Foreign currency translation[3]		**(958)**	52	**–**	–
Comprehensive income and equity determined in accordance with U.S. GAAP[5]		**$ 804**	$ 1,442	**$ 11,794**	$ 11,342

(1) Deferred acquisition costs consist of $1,576 (2002 – $1,509) of capitalized expenditures less $558 (2002 – $260) of amortization charged to income.
(2) U.S. GAAP terminology is deferred income taxes.
(3) Included a gain of $107 (2002 – loss of $1), net of tax, arising from hedges of foreign currency exposure of a net investment in a foreign operation.
(4) Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." Other comprehensive income related to SFAS 133 is net of $28 in income taxes (2002 – $83).
(5) Included in comprehensive equity was gross unrealized investment gains and gross unrealized investment losses of $4,760 and $754 (2002 – $4,238 and $779), respectively.

d) Additional information required to be reported under U.S. GAAP:

(i) Fair value of actuarial liabilities of investment contracts The fair value of actuarial liabilities of investment contracts as at December 31, 2003 was estimated at $15,171 (2002 – $17,237).

(ii) Derivative instruments and hedging activities The Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement of Financial Accounting Standards No. 138, on January 1, 2001.

For fair value hedges, the Company is hedging changes in the fair value of assets, liabilities or firm commitments with changes in fair values of the derivative instruments recorded in income. For cash flow hedges, the Company is hedging the variability of cash flows related to variable rate assets, liabilities or forecasted transactions. The effective portion of changes in fair values of derivative instruments is recorded in other comprehensive income and reclassified into income in the same period or periods during which the hedged transaction affects earnings. The Company estimates that deferred net losses of $53, included in other comprehensive income as at December 31, 2003 (2002 – $37), will be reclassified into earnings within the next twelve months. Cash flow hedges include hedges of certain forecasted transactions up to a maximum of 40 years. For a hedge of its net investment in a foreign operation, the Company is hedging the foreign currency exposure of a net investment in a foreign subsidiary with changes in fair values of derivative instruments recorded in the cumulative translation account.

e) Valuation and income recognition differences between Canadian GAAP and U.S. GAAP:

	Canadian GAAP	U.S. GAAP
(i) Bonds	Bonds are carried at amortized cost, less an allowance for specific losses. Allowances are provided on a specific bond whenever a decline in the value of the bond is considered to be other than temporary. Realized gains and losses on sale are deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the bond sold.	Bonds may be classified as "available-for-sale," "held to maturity" or "trading" securities. All bonds are classified as "available-for-sale" by the Company and are carried at fair value in the Consolidated Balance Sheets. A decline in the value of a specific bond that is considered to be other than temporary results in a write-down in the cost basis of the bond and a charge to income in the period of recognition. Realized gains and losses on sale are recognized in income immediately. Unrealized gains and losses, other than losses considered to be other than temporary, are excluded from income and reported net of tax in other comprehensive income, a component of equity.
(ii) Mortgages	Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses are deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the mortgage sold.	Mortgages are carried at amortized cost less repayments and an allowance for losses. Realized gains and losses are recognized in income immediately.
(iii) Stocks	Stocks are carried at a moving average market basis whereby carrying values are adjusted towards market value at 5% per quarter. Specific stocks are written down to fair value if an impairment in the value of the entire stock portfolio (determined net of deferred realized gains) is considered to be other than temporary. Realized gains and losses are deferred and brought into income at the rate of 5% of the unamortized deferred realized gains and losses each quarter.	Stocks may be classified as "available-for-sale" or "trading" securities. All stocks are classified as "available-for-sale" by the Company and are carried at fair value in the Consolidated Balance Sheets. Other than temporary declines in the value of stocks result in a write-down in the cost basis of the stocks and a charge to income in the period of recognition. Realized gains and losses are recognized in income immediately. Unrealized gains and losses, other than losses considered to be other than temporary, are excluded from income and reported net of tax in other comprehensive income, a component of equity.

	Canadian GAAP	U.S. GAAP
(iv) Real estate	Real estate is carried at a moving average market basis whereby the carrying values are adjusted towards market value at 3% per quarter. Specific properties are written down to market value if an impairment in the value of the entire real estate portfolio (determined net of deferred realized gains) is considered to be other than temporary. Realized gains and losses are deferred and brought into income at the rate of 3% of the unamortized deferred realized gains and losses each quarter.	Real estate is carried at cost less accumulated depreciation. Specific properties are written down, taking into account discounted cash flows, if an impairment in the value of the property is considered to be other than temporary. Realized gains and losses are recognized in income immediately.
(v) Actuarial liabilities	Actuarial liabilities for all types of policies are calculated using the Canadian Asset Liability Method (CALM) and represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends, tax (other than income taxes) and expenses on policies in force. Actuarial liabilities are comprised of a best estimate reserve and provisions for adverse deviation. Best estimate reserve assumptions are made for the term of the liabilities and include assumptions with respect to mortality and morbidity trends, investment returns, rates of policy termination, policyholder dividend payments, operating expenses and certain taxes. To recognize the uncertainty in the assumptions underlying the calculation of best estimate reserves, to allow for possible deterioration in experience and to provide greater comfort that actuarial liabilities are adequate to pay future benefits, the Appointed Actuary is required to add a margin to each assumption. These margins result in the calculation of provisions for adverse deviation, the impact of which is to increase actuarial liabilities and decrease the income that would otherwise be recognized when products are sold. Assumptions are updated regularly and the effects of any changes in assumptions are recognized in income immediately. The provisions for adverse deviations are recognized in income over the term of the liabilities as the risk of deviation from estimates declines.	There are three main standards for valuing actuarial liabilities as follows: Statement of Financial Accounting Standards No. 60, "Accounting and Reporting by Insurance Enterprises" ("SFAS 60") applies to non-participating insurance, including whole life and term insurance, payout annuities, disability insurance and certain reinsurance contracts. Actuarial liabilities are calculated using a net level premium method and represent the present value of future benefits to be paid to, or on behalf of, policyholders and related expenses, less the present value of future net premiums. The assumptions include expected investment yields, mortality, morbidity, terminations and maintenance expenses. A provision for adverse deviation is also included. The assumptions are based on best estimates of long-term experience at the time of policy issue. The assumptions are not changed for future valuations unless it is determined that future income is no longer adequate to recover the existing Deferred Acquisition Cost ("DAC") asset, in which case the DAC asset is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable. Statement of Financial Accounting Standards No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments" ("SFAS 97") applies to universal life type contracts and investment contracts. The actuarial liability for these contracts is equal to the policyholder account value. There is no provision for adverse deviation. If it is determined that future income for universal life type contracts is no longer adequate to recover the existing DAC, the DAC asset is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable. Statement of Financial Accounting Standards No. 120, "Accounting and Reporting by Mutual Life Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts" ("SFAS 120") applies to participating insurance contracts. The actuarial liability for these contracts is computed using a net level premium method with mortality and interest assumptions consistent with the non-forfeiture assumptions. There is no provision for adverse deviation. The assumptions are not changed unless it is determined that future income is no longer adequate to recover the existing DAC, in which case the DAC asset is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable.

	Canadian GAAP	U.S. GAAP
(v) Actuarial liabilities (cont'd)		In addition, in accordance with Emerging Issues Task Force Topic No. D-41 ("EITF D-41"), U.S. GAAP requires that actuarial liabilities be adjusted to reflect the changes that would have been necessary if the unrealized gains and losses not already provided for on bonds and stocks had been realized. This adjustment to actuarial liabilities is recognized directly in equity and is not included in income.
(vi) Deferred acquisition costs	The cost of acquiring new insurance and annuity business, consisting primarily of commissions and underwriting and issue expenses, is implicitly recognized as a reduction in actuarial liabilities for most policies.	Acquisition costs which vary with, and are primarily related to, the production of new business are deferred and recorded as an asset. This DAC asset is amortized into income in proportion to different measures, depending on the policy type. DAC associated with SFAS 60 policies are amortized and charged to income in proportion to premium income recognized. For non-participating limited payment policies, including annuities not classified as investment contracts, the DAC asset is amortized in proportion to the amount of the expected future benefit payments for payout annuities and in proportion to the face amount for insurance contracts. DAC associated with SFAS 97 and SFAS 120 policies (i.e. universal life type contracts, investment contracts and participating insurance contracts) are amortized and charged to income in proportion to the estimated gross profit margins expected to be realized over the life of the contracts. Under SFAS 97 and SFAS 120, the assumptions used to estimate future gross profits change as experience emerges. In addition, EITF D-41 requires that DAC related to SFAS 97 and SFAS 120 contracts should be adjusted to reflect the changes that would have been necessary if the unrealized gains and losses on available-for-sale bonds and stocks had actually been realized. This adjustment to the DAC asset is recognized directly in equity and is not included in income.
(vii) Deferred revenue	All premium income is recorded as revenue. The anticipated costs of future services are included within the actuarial liabilities.	Under SFAS 97, fees assessed to policyholders relating to services that are to be provided in future years are recorded as deferred revenue. Deferred revenue is amortized to fee income in the same pattern as the amortization of the DAC asset.
(viii) Derivatives	Derivatives are designated and effective as hedges if there is a high correlation between changes in market value of the derivative and the underlying hedged item at inception and over the life of the hedge. Realized and unrealized gains and losses on derivatives designated and effective as hedges are accounted for on the same basis as the underlying assets and liabilities. Realized and unrealized gains and losses on derivatives no longer considered hedges are included in income from the date they are no longer considered hedges.	All derivatives are reported in the Consolidated Balance Sheets at their fair values, with changes in fair values recorded in income or equity, depending on the nature and effectiveness of the hedge. Changes in the fair value of derivatives not designated as hedges will be recognized in current period earnings. Specific guidance is provided relating to the types of hedges, the measurement of hedge ineffectiveness and hedging strategies.

f) Presentation differences between Canadian GAAP and U.S. GAAP:

	Canadian GAAP	U.S. GAAP
(i) Premiums	All premium income is reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Consolidated Statements of Operations.	Under SFAS 60 and SFAS 120, gross premiums are reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Consolidated Statements of Operations. Premiums collected on SFAS 97 contracts are not reported as revenue in the Consolidated Statements of Operations but are recorded as deposits to policyholders' account balances. Fees assessed against policyholders' account balances relating to mortality charges, policy administration and surrender charges are recognized as revenue.
(ii) Death, maturity and surrender benefits	All death, maturity and surrender benefits are reported in the Consolidated Statements of Operations when incurred. Additionally, to the extent these amounts have previously been provided for in actuarial liabilities, a corresponding release of actuarial liabilities is recorded in the Consolidated Statements of Operations.	For SFAS 60 and SFAS 120 contracts, all death, maturity and surrender benefits are reported in the Consolidated Statements of Operations when incurred. Additionally, to the extent these amounts have previously been provided for in actuarial liabilities, a corresponding release of actuarial liabilities is recorded in the Consolidated Statements of Operations. For universal life type contracts and investment contracts accounted for under SFAS 97, benefits incurred in the period in excess of related policyholders' account balances are recorded in the Consolidated Statements of Operations.
(iii) Change in actuarial liabilities	Interest credited on policyholders' account balances is included in change in actuarial liabilities in the Consolidated Statements of Operations.	Interest required to support SFAS 97 contracts is included in actuarial liabilities in the Consolidated Balance Sheets and is classified in general expenses in the Consolidated Statements of Operations.
(iv) Segregated funds assets and liabilities	Investments held in segregated funds are carried at market value. Segregated funds are managed separately from those of the general fund of the Company and are, therefore, presented in a separate schedule and are not included in the general fund Consolidated Balance Sheets or Consolidated Statements of Operations.	Assets and liabilities are called separate accounts and are presented in summary lines in the Consolidated Balance Sheets. Assets and liabilities are carried at market values and contract values, respectively.
(v) Consolidated statements of cash flows	The cash flows from investment contracts, including deferred annuities and group pensions, are disclosed as an operating activity in the Consolidated Statements of Cash Flows.	The cash flows from investment contracts accounted for under SFAS 97 are disclosed as a financing activity in the Consolidated Statements of Cash Flows.
(vi) Reinsurance	Reinsurance recoverables relating to ceded life insurance risks and ceded annuity contract risks are recorded as an offset to actuarial liabilities.	Where transfer of risk has occurred, life insurance actuarial liabilities are presented as a gross liability with the reinsured portion included as reinsurance recoverable. Actuarial liabilities related to annuities are also presented on a gross basis with the reinsured portion accounted for as deposits with reinsurers.
(vii) Equity	Shares issued to policyholders are recorded at nominal value and shares issued in a treasury offering are recorded at proceeds received net of share issuance costs in the Consolidated Balance Sheets.	Surplus is reclassified to share capital net of share issuance costs. Shares issued in a treasury offering are recorded at proceeds received net of share issuance costs.

g) Newly issued accounting statements *Statement of Position 03-1 – "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" ("SOP 03-1")*

In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued SOP 03-1. SOP 03-1 provides guidance on a number of topics including separate account presentation, interests in separate account, gains and losses on the transfer of assets from the general account to a separate account, liability valuation, returns based on a contractually referenced pool of assets or index, accounting for contracts that contain death or other insurance benefit features, accounting for reinsurance and other similar contracts, accounting for annuitization guarantees, and sales inducements to contract holders.

SOP 03-1 will be effective for the Company's financial statements on January 1, 2004. The Company is currently evaluating the impact of adopting SOP 03-1 on its consolidated financial statements.

Statement of Financial Accounting Standards No. 15 – "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No.150")

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150. SFAS No.150 changes the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. It requires that certain financial instruments be classified as liabilities on issuer balance sheets, including those instruments that are issued in shares and are mandatorily redeemable, those instruments that are not issued in shares but give the issuer an obligation to repurchase previously issued equity shares, and certain financial instruments that give the issuer the option of settling an obligation by issuing more equity shares. SFAS No.150 is effective for all financial instruments issued into or modified after May 31, 2003. The adoption of SFAS No. 150 has resulted in the Company reclassifying its preferred shares out of shareholders' equity, as the preferred shares are convertible into a variable number of common shares. Dividends paid on the preferred shares are classified as interest expense.

FASB Interpretation 46 – Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51("FIN 46")

In January 2003, the FASB issued FIN 46 which clarifies the consolidation accounting guidance in Accounting Research Bulletin No.51, "Consolidated Financial Statements," as it applies to certain entities in which equity investors which do not have the characteristics of a controlling financial interest, or do not have sufficient equity at risk for the entities to finance their activities without additional subordinated financial support from other parties. This interpretation is effective immediately for variable interest entities created after January 31, 2003 and on January 1, 2004 for all other variable interest entities. The Company is currently evaluating the impact of this pronouncement for variable interest entities created before January 31, 2003.

FASB Derivative Implementation Group SFAS No.133 Implementation Issue No.36 – "Embedded Derivatives: Bifurcation of a Debt Instrument that Incorporates Both Interest Rate Risk and Credit Rate Risk Exposures that are Unrelated or Only Partially Related to the Creditworthiness of the Issuer of that Instrument" ("DIG B36")

In April 2003, the FASB's Derivative Implementation Group ("DIG") released DIG B36, which addresses whether SFAS No.133 requires bifurcation of a debt instrument into a debt host contract and an embedded derivative if the debt instrument incorporates both interest rate risk and credit risk exposures that are unrelated or only partially related to the creditworthiness of the issuer of that instrument. Under DIG B36, modified coinsurance and coinsurance with funds withheld reinsurance agreements as well as other types of receivables and payables where interest is determined by reference to a pool of fixed maturity assets or a total return debt index are examples of arrangements containing embedded derivatives requiring bifurcation. The effective date of the implementation guidance is January 1, 2004. The Company has determined that certain of its reinsurance agreements contain embedded derivatives requiring bifurcation. The Company has not yet determined the fair value of the embedded derivatives or completed its evaluation of the pronouncement.

SFAS No.148 – "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No.123" ("SFAS No.148")

In December 2002, the FASB issued SFAS No.148, "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No.123," which is effective for fiscal years ending after December 31, 2002.

SFAS No.148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation, which is an optional alternative method of accounting presented in SFAS No.123, "Accounting for Stock-Based Compensation." The Company adopted the fair value provisions of SFAS No.123 on January 1, 2003 and utilized the transition provisions described in SFAS No.148 on a prospective basis. For the periods prior to January 1, 2003, Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" was applied. Had the Company applied the fair value recognition provisions of SFAS No.123 to all stock-based employee compensation, net income for the year ended December 31, 2003 would have been reduced by $22 (2002 – $33). Basic and diluted earnings per common share for the year ended December 31, 2003 would have decreased by $0.05 (2002 – $0.07).

Note 18 □ Comparatives

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

Table 1 □ Key Performance Measures

As at and for the years ended December 31 (Canadian $ in millions unless otherwise stated)	**2003**	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Net income	**1,536**	1,370	1,167	1,068	866	710	743	503	481	281	187
Net operating income	**1,536**	1,370	1,167	1,068	866	710	624	503	372	281	187
Shareholders' net income[1]	**1,546**	1,378	1,159	1,075	874	710	743	503	481	281	187
Capital[2]	**12,031**	11,978	11,513	8,555	7,771	7,415	6,377	4,859	3,826	3,052	2,771
Operating return on common shareholders' equity (%)[3]	**17.7%**	16.2%	15.1%	16.1%	14.0%	12.9%	13.6%	12.4%	11.4%	9.6%	7.0%
Capital[2] as a per cent of liabilities	**18.4%**	17.3%	17.2%	16.7%	16.1%	16.2%	14.4%	11.5%	10.6%	8.2%	7.8%

(1) For years prior to 2000, shareholders' net income refers to earnings from mutual operations (prior to demutualization) and net income attributed to shareholders (after demutualization).
(2) Capital includes total equity, subordinated debt, non-controlling interest in Manulife Financial Capital Trust and trust preferred securities issued by subsidiaries.
(3) Reported as operating return on surplus prior to demutualization.

Table 2 □ Summary Consolidated Statements of Operations

For the years ended December 31 (Canadian $ in millions)	**2003**	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Revenue											
Premium income	**10,540**	10,779	10,247	8,515	8,672	5,696	5,622	5,694	5,193	4,988	4,456
Investment income	**4,561**	4,235	4,479	4,350	4,369	4,123	4,010	3,734	3,231	2,882	2,853
Other revenue	**1,555**	1,518	1,505	1,287	1,015	792	574	447	212	218	151
Total revenue	**16,656**	16,532	16,231	14,152	14,056	10,611	10,206	9,875	8,636	8,088	7,460
Policy benefits and expenses											
Payments to policyholders and beneficiaries	**8,442**	9,431	10,134	7,654	6,608	6,385	6,508	5,883	5,132	4,678	3,764
Policyholder dividends and experience rating refunds	**889**	932	900	859	738	604	508	471	356	312	267
Change in actuarial liabilities	**1,147**	307	(208)	822	2,628	252	169	873	1,089	1,214	1,788
General expenses and commissions	**3,839**	3,697	3,611	3,277	2,703	2,118	1,868	1,693	1,220	1,204	1,058
Interest expense	**253**	243	257	191	179	158	156	161	203	243	281
Premium taxes	**119**	111	105	96	84	74	83	72	64	57	50
Non-controlling interest in subsidiaries	**57**	72	4	(151)	(114)	7	11	6	2	1	2
Trust preferred securities issued by subsidiaries	**58**	65	65	63	62	62	54	–	–	–	–
Total policy benefits and expenses	**14,804**	14,858	14,868	12,811	12,888	9,660	9,357	9,159	8,066	7,709	7,210
Income before unusual items and income taxes	**1,852**	1,674	1,363	1,341	1,168	951	849	716	570	379	250
Unusual items	**–**	–	–	–	–	–	176	–	126	–	–
Income taxes	**(316)**	(304)	(196)	(273)	(302)	(241)	(282)	(213)	(215)	(98)	(63)
Net income	**1,536**	1,370	1,167	1,068	866	710	743	503	481	281	187
Net income (loss) attributed to:											
Participating policyholders (after demutualization)	**(10)**	(8)	8	(7)	(8)	–	–	–	–	–	–
Net income attributed to:											
Shareholders (after demutualization)	**1,546**	1,378	1,159	1,075	267	–	–	–	–	–	–
Mutual operations (prior to demutualization)	**–**	–	–	–	607	710	743	503	481	281	187
Adjusted shareholders' net income	**1,546**	1,378	1,159	1,075	874	710	743	503	481	281	187
Net income	**1,536**	1,370	1,167	1,068	866	710	743	503	481	281	187

Table 3 □ Summary Consolidated Balance Sheets

As at December 31 (Canadian $ in millions)	**2003**	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Assets											
Bonds	**42,216**	46,677	46,070	33,270	30,853	30,691	28,662	25,627	21,259	18,452	16,763
Mortgages	**10,401**	9,294	7,902	7,174	6,867	7,702	7,809	8,106	6,917	8,555	9,368
Stocks	**5,866**	6,898	6,964	4,621	4,832	4,042	3,529	2,796	2,592	2,954	2,684
Real estate	**3,962**	3,570	3,484	3,262	3,179	2,992	2,806	3,044	2,888	3,350	3,395
Policy loans	**4,348**	4,939	4,644	3,616	3,207	3,137	2,663	2,354	1,973	1,856	1,651
Cash and short-term investments	**5,877**	5,143	4,995	3,783	3,047	1,329	1,842	2,600	1,792	2,683	2,447
Other investments	**1,795**	1,041	693	884	1,180	499	479	292	173	209	368
Total invested assets	**74,465**	77,562	74,752	56,610	53,165	50,392	47,790	44,819	37,594	38,059	36,676
Other assets	**3,051**	3,633	3,861	3,457	3,543	2,710	2,733	2,424	2,268	2,168	1,818
Total assets	**77,516**	81,195	78,613	60,067	56,708	53,102	50,523	47,243	39,862	40,227	38,494
Liabilities											
Actuarial liabilities	**51,647**	56,397	54,690	41,384	39,748	38,738	37,227	36,248	31,257	31,296	29,028
Other liabilities	**13,801**	12,761	12,346	9,829	8,439	6,873	6,865	6,088	4,759	5,863	6,678
Subordinated debt	**1,123**	1,436	1,418	588	582	627	581	566	341	–	–
Non-controlling interest in subsidiaries	**1,037**	1,059	1,064	299	750	76	54	48	20	16	17
Trust preferred securities issued by subsidiaries	**650**	794	802	756	735	783	728	–	–	–	–
Total equity [1]	**9,258**	8,748	8,293	7,211	6,454	6,005	5,068	4,293	3,485	3,052	2,771
Total liabilities and equity	**77,516**	81,195	78,613	60,067	56,708	53,102	50,523	47,243	39,862	40,227	38,494

(1) Reported as surplus prior to demutualization.

Table 4 □ Summary Consolidated Statements of Equity [1]

For the years ended December 31 (Canadian $ in millions)	**2003**	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Balance, January 1	**8,748**	8,293	7,211	6,454	6,005	5,068	4,293	3,485	3,052	2,771	2,584
Net income for the year	**1,536**	1,370	1,167	1,068	866	710	743	503	481	281	187
Preferred shareholder dividends	**(7)**	–	–	–	–	–	–	–	–	–	–
Common shareholder dividends	**(361)**	(285)	(231)	(193)	–	–	–	–	–	–	–
Adjustment to equity [1]	**–**	–	–	–	–	–	(48)	321	–	–	–
Conversion costs	**–**	–	–	–	(31)	–	–	–	–	–	–
Cash distributions to policyholders	**–**	–	–	–	(694)	–	–	–	–	–	–
Issue of common shares	**3**	8	2	–	694	–	–	–	–	–	–
Issue of preferred shares	**350**	–	–	–	–	–	–	–	–	–	–
Initial public offering costs	**–**	–	–	–	(58)	–	–	–	–	–	–
Purchase and cancellation of common shares	**(9)**	(726)	–	(206)	(128)	–	–	–	–	–	–
Transfer of participating policyholders' retained earnings on acquisition	**–**	38	–	–	–	–	–	–	–	–	–
Issuance costs	**(6)**	–	(12)	–	–	–	–	–	–	–	–
Stock-based compensation expense	**14**	–	–	–	–	–	–	–	–	–	–
Change in Currency Translation Account	**(1,010)**	50	156	88	(200)	227	80	(16)	(48)	–	–
Balance, December 31	**9,258**	8,748	8,293	7,211	6,454	6,005	5,068	4,293	3,485	3,052	2,771

(1) Reported as surplus prior to demutualization.

Table 5 □ Funds under Management

As at December 31 (Canadian $ in millions)	**2003**	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Funds under management by category											
General fund	**77,516**	81,195	78,613	60,067	56,708	53,102	50,523	47,243	39,862	40,227	38,494
Segregated funds	**71,464**	58,831	59,206	54,908	49,055	38,200	27,018	18,553	5,532	5,445	4,012
Mutual funds	**3,360**	2,167	1,653	1,563	1,641	1,708	2,125	2,782	934	746	563
Securitized funds	**–**	–	–	–	–	–	–	–	–	4,622	4,477
Other managed funds (1)	**4,335**	3,982	2,710	6,982	4,732	3,680	2,652	2,944	330	279	–
Total	**156,675**	146,175	142,182	123,520	112,136	96,690	82,318	71,522	46,658	51,319	47,546

(1) Other managed funds included Seamark Asset Management Ltd. ("Seamark") third party managed funds of $4,288, $3,074, $2,314, $1,797 and $931 as at December 31, 2000, 1999, 1998, 1997 and 1996, respectively. Disposition of a portion of the Company's controlling interest in Seamark occurred in July 2001, at which time the Company ceased consolidation of the assets and liabilities and results of operations of Seamark and commenced accounting for this investment on an equity basis.

Table 6 □ Premiums and Deposits by Line of Business and Geographic Territory

For the years ended December 31 (Canadian $ in millions)	**2003**	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
General fund premiums by line of business											
Life and health insurance	**7,504**	7,279	6,594	5,284	5,552	3,953	3,758	3,743	3,089	2,836	2,541
Annuities and pensions	**2,300**	2,437	2,862	2,463	2,304	994	1,067	1,298	1,535	1,598	1,417
Reinsurance	**736**	1,063	791	768	816	749	797	653	569	554	498
Total	**10,540**	10,779	10,247	8,515	8,672	5,696	5,622	5,694	5,193	4,988	4,456
General fund premiums by geographic territory											
United States	**3,756**	3,897	4,187	3,652	3,498	2,276	2,202	2,181	2,152	2,241	2,373
Canada	**3,576**	3,237	2,963	2,540	3,347	2,292	2,294	2,549	2,142	1,963	1,548
International	**3,208**	3,645	3,097	2,323	1,825	1,120	1,121	964	806	685	438
Divested operations	**–**	–	–	–	2	8	5	–	93	99	97
Total	**10,540**	10,779	10,247	8,515	8,672	5,696	5,622	5,694	5,193	4,988	4,456
Segregated fund deposits by geographic territory											
United States	**14,014**	14,229	11,790	12,650	9,031	6,837	5,376	3,365	931	670	385
Canada	**1,993**	1,283	1,190	1,681	1,347	1,730	1,418	757	323	671	488
International	**1,680**	1,501	1,064	446	331	279	232	169	113	78	57
Divested operations	**–**	–	–	–	–	–	–	–	37	171	162
Total	**17,687**	17,013	14,044	14,777	10,709	8,846	7,026	4,291	1,404	1,590	1,092

Table 7 □ Quarterly Information – Summary Statements of Operations

For the three months ended (Canadian $ in millions)	12/31/03	9/30/03	6/30/03	3/31/03	12/31/02	9/30/02	6/30/02	3/31/02
Revenues								
Premium income	**2,643**	**2,459**	**2,598**	**2,840**	2,765	2,826	2,668	2,520
Investment income	**1,164**	**1,126**	**1,186**	**1,085**	1,163	1,031	924	1,117
Other revenue	**428**	**394**	**372**	**361**	392	378	371	377
Total revenue	**4,235**	**3,979**	**4,156**	**4,286**	4,320	4,235	3,963	4,014
Policy benefits and expenses								
Payments to policyholders and beneficiaries	**2,220**	**1,963**	**2,147**	**2,112**	2,305	2,054	2,390	2,682
Policyholder dividends and experience rating refunds	**229**	**233**	**215**	**212**	247	239	237	209
Change in actuarial liabilities	**171**	**245**	**252**	**479**	208	554	(126)	(329)
General expenses and commissions	**1,029**	**922**	**946**	**942**	1,000	878	902	917
Interest expense	**63**	**65**	**63**	**62**	63	67	59	54
Premium taxes	**32**	**27**	**31**	**29**	27	28	28	28
Non-controlling interest in subsidiaries	**(1)**	**20**	**19**	**19**	17	17	19	19
Trust preferred securities issued by subsidiaries	**13**	**15**	**14**	**16**	16	16	16	17
Total policy benefits and expenses	**3,756**	**3,490**	**3,687**	**3,871**	3,883	3,853	3,525	3,597
Income before income taxes	**479**	**489**	**469**	**415**	437	382	438	417
Income taxes	**(63)**	**(94)**	**(82)**	**(77)**	(68)	(58)	(95)	(83)
Net income	**416**	**395**	**387**	**338**	369	324	343	334
Less: net income (loss) attributed to participating policyholders	**(12)**	**(1)**	**1**	**2**	(3)	(3)	(1)	(1)
Net income attributed to shareholders	**428**	**396**	**386**	**336**	372	327	344	335
Net income	**416**	**395**	**387**	**338**	369	324	343	334
Return on common shareholders' equity (annualized)	**19.1%**	**17.9%**	**18.0%**	**15.8%**	17.2%	15.2%	16.1%	16.3%
Capital as a per cent of liabilities	**18.4%**	**18.6%**	**18.5%**	**17.6%**	17.3%	17.2%	17.9%	17.4%

Source of Earnings

Manulife uses the Source of Earnings to identify the primary sources of gains or losses in each reporting period. It is one of the key tools in understanding and managing our business.

In the Source of Earnings, the components of the business are attributed to one of six categories: expected profit from in force business, the impact of new business, experience gains or losses comparing actual to expected outcomes, the impact of changes in actuarial methods and assumptions, earnings on surplus funds and the cost of taxes. In aggregate, these elements generated the published $1,546 million in shareholders' net income in 2003.

The expected profit from in force business represents the formula-driven release of Provisions for Adverse Deviation ("PfADs") on the non-fee income insurance businesses and the expected annual income on fee businesses.

Writing new business creates economic value but Manulife follows conservative actuarial practices and establishes strong initial reserves on new business. Consequently, the Company reported an overall loss in the income statement from new business in the first year. The value created by the new business is reflected in the embedded value calculation. In the financial statements, this value is offset by the conservative PfADs in the actuarial reserves. The impact of new business also includes any acquisition expenses that are not fully covered by the product pricing at time of issue.

The experience gains or losses arise from items such as claims, investment returns and expenses, where the actual experience in the current period differs from the expected results assumed in the actuarial reserves or where the current period fee income differs from the amount expected due to investment market performance. The Company believes its expected assumptions are prudent. This is consistent with a history of favourable experience variances.

Future assumption changes in the actuarial reserves flow through the income statement and are reflected in the changes in actuarial methods and assumptions line.

Earnings on surplus funds reflect the actual investment returns on the assets supporting the Company's surplus (capital). These assets comprise a diversified portfolio and returns will vary in harmony with the underlying asset categories.

Income taxes represent the tax charges to earnings based on the varying tax rates in the jurisdictions in which we conduct business.

Manulife's shareholders' net income increased to $1,546 million in 2003 from $1,378 million the previous year.

Source of Earnings

(Canadian $ in millions)

For the years ended December 31	**2003**	2002	2001	2000	1999
Expected profit from in force business	**$ 1,190**	$ 1,068	$ 918	$ 805	$ 747
Impact of new business	**(183)**	(119)	(195)	(82)	(242)
Experience gains	**362**	215	118	69	136
Changes in actuarial methods and assumptions	**(78)**	(9)	(131)	(93)	(3)
Earnings on surplus funds	**571**	527	645	649	538
Income before income taxes	**$ 1,862**	$ 1,682	$ 1,355	$ 1,348	$ 1,176
Income taxes	**(316)**	(304)	(196)	(273)	(302)
Net income attributed to shareholders	**$ 1,546**	$ 1,378	$ 1,159	$ 1,075	$ 874

Embedded Value

Manulife Financial's embedded value represents the value of shareholders' equity plus an estimated value of the Company's in force business. The calculation values the future profit stream from the in force business adjusted for the cost of regulatory capital deployed to support this business. As at December 31, 2003, Manulife's embedded value was $15.4 billion.

The actual value of the Company (from an investor's perspective) is measured by the value of the Company's shares on any particular day. In valuing the Company's shares, investors take into account the value of shareholders' equity, the value of the in force business, the value of future business (i.e. the franchise value), and other considerations.

During the fourth quarter of 2003, Manulife's market value, measured by its market capitalization, ranged from $17.5 billion to $19.9 billion. Normally, the embedded value of a company would be less than its market value because the embedded value excludes the value of future business.

Embedded Value

(Canadian $ in millions)

For the years ended December 31	**2003**	2002	2001	2000
Embedded value as at January 1	**$ 15,014**	$ 14,000	$ 11,300	$ 9,900
Interest on year-start embedded value	**1,106**	1,190	1,090	1,000
Value of new business	**903**	664	580	600
Acquisitions	**13**	118	850	–
Equity market impact	**711**	(1,206)	(970)	–
Other experience variances and assumption changes	**267**	453	620	–
Embedded value before discount rate, currency and capital changes	**$ 18,014**	$ 15,219	$ 13,470	$ 11,500
Discount rate changes	**(150)**	774	360	–
Currency movement	**(2,096)**	24	400	–
Shareholder dividends	**(361)**	(285)	(230)	(200)
Share repurchases and other capital	**9**	(718)	–	–
Embedded value as at December 31	**$ 15,416**	$ 15,014	$ 14,000	$ 11,300
Embedded value per share	**$ 33.32**	$ 32.46	$ 29.03	$ 23.43
Annual growth rate (before impact of discount rate, currency and capital changes)	**20%**	9%	19%	16%

The principal economic assumptions used in the embedded value calculations in 2003 were as follows:

	Canada	**US**	**Hong Kong**	**Japan**
MCCSR ratio	150%	150%	150%	150%
Discount rate	8.75%	8.25%	9.25%	6.50%
Risk premium	4.00%	4.00%	5.00%	5.00%
Equity return	8.75%	8.25%	9.25%	6.50%
Inflation	2.0%	2.0%	2.5%	0.0%
Income tax rate	33% decreasing to 31%	35%	Included in premium taxes	36%

Discount rates have been derived from government bond rates in the respective countries, plus risk premiums varying from four per cent to five per cent. Higher discount rates were used in some Asian businesses.

Embedded value has been calculated using the financial position of the Company as at June 30, 2003 projected to December 31, 2003, allowing for the actual change in key elements such as the market value of securities, new business contributions and in force policy experience. The future stream of profits has been calculated on a Canadian GAAP basis in all countries using assumptions consistent with those used in the calculation of the actuarial liabilities. The Company's target equity/debt structure has been utilized, which assumes that 25 per cent of the capital is in the form of debt.

Subsidiary Listing

As at December 31, 2003 (Canadian $ in millions)	Ownership Percentage	Equity Interest	Address	Description
MANULIFE FINANCIAL CORPORATION			Toronto, Canada	Publicly traded stock life insurance company
The Manufacturers Life Insurance Company	100	$ 2,534	Toronto, Canada	Canadian-based financial services company that offers a diverse range of financial protection and wealth management products and services
The Manufacturers Investment Corporation	100	2,035	Bloomfield Hills, Michigan, U.S.A.	Holding company
The Manufacturers Life Insurance Company (U.S.A.)	100			U.S.-based life insurance company that provides individual life insurance, annuities, and group pension products in all states in the U.S. except New York
The Manufacturers Life Insurance Company of New York	100			Provides individual life insurance, annuities, and group pension products in the State of New York
Manufacturers Securities Services, LLC	100			Investment advisor
Manulife Reinsurance Limited	100			Provides financial reinsurance
Manulife Holdings (Bermuda) Limited	100	429	Hamilton, Bermuda	Holding company
Manufacturers P&C Limited	100			Provides property and casualty and financial reinsurance
Manulife International Holdings Limited	100	988	Hamilton, Bermuda	Holding company
Manulife (International) Limited	100			Life insurance company serving Hong Kong
Manulife-Sinochem Life Insurance Co. Ltd.	51			Chinese life insurance company
Manulife Asset Management (Asia) Limited	100			Holding company
Manulife Asset Management (Hong Kong) Limited	100			Investment management and advisory company marketing mutual funds
Manulife Bank of Canada	100	77	Waterloo, Canada	Provides integrated banking products and service options not available from an insurance company
Manulife Canada Ltd.	100	49	Waterloo, Canada	Canadian life insurance company
FNA Financial Inc.	100	18	Toronto, Canada	Holding company
Elliott & Page Limited	100			Investment counseling, portfolio and mutual fund management in Canada
First North American Insurance Company	100	6	Toronto, Canada	Canadian property and casualty insurance company
NAL Resources Management Limited	100	9	Calgary, Canada	Management company for oil and gas properties
3550435 Canada Inc.	100	136	Waterloo, Canada	Holding company
MFC Insurance Company Limited	100			Canadian life insurance company
Manulife Securities International Ltd.	100	–	Waterloo, Canada	Mutual fund dealer for Canadian operations
Manulife International Capital Corporation Limited	100	52	Toronto, Canada	A specialized financing corporation and holding company
Regional Power Inc.	80			Operator of hydro-electric power projects
MLI Resources Inc.	100	660	Calgary, Canada	Holding company for oil and gas assets and Japanese operations
Manulife Life Insurance Company	100			Japanese life insurance company
P.T. Asuransi Jiwa Manulife Indonesia	71	29	Jakarta, Indonesia	Indonesian life insurance company
The Manufacturers Life Insurance Co. (Phils.), Inc.	100	58	Manila, Philippines	Filipino life insurance company
Manulife (Singapore) Pte. Ltd.	100	22	Singapore	Singaporean life insurance company
Manulife (Vietnam) Limited	100	34	Ho Chi Minh City, Vietnam	Vietnamese life insurance company
Manulife Europe Ruckversicherungs-Aktiengesellschaft	100	74	Cologne, Germany	European property and casualty reinsurance company
MFC Global Fund Management (Europe) Limited	100	4	London, England	Investment management company for Manulife Financial's international funds
Manulife European Holdings 2003 (Alberta) Limited	100	58	Calgary, Canada	Holding company for European financing subsidiary
MREFCP Trust	100	113	Toronto, Canada	Real estate trust
Total		**$ 7,385**		

Corporate Governance Practices

Manulife Financial's approach to corporate governance reflects its core values and supports its vision to be the most professional life insurance company in the world. The Company believes that adopting appropriate governance practices is fundamental to a well-run company, to the execution of its chosen strategies and to its successful business and financial performance. The Company is committed to continuing the tradition of remaining at the forefront of good governance and to ensuring the highest standards of corporate governance for its shareholders.

For a full report on Manulife Financial Corporation's corporate governance practices, please refer to the Company's Management Proxy Circular, where you will find the Company's Statement of Corporate Governance Practices, Directors' biographies, Board and Committee attendance and additional information relating to the Company's corporate governance practices. The Proxy Circular also contains reports from the Board's Committees, including Audit and Risk Management, Conduct Review and Ethics, Corporate Governance and Nominating, and Management Resources and Compensation.

Effective as at March 10, 2004

Arthur R. Sawchuk [1, 2, 3, 4]
Chairman,
Manulife Financial
Toronto, ON, Canada
Director Since: 1993

Dominic D'Alessandro
President and
Chief Executive Officer,
Manulife Financial
Toronto, ON, Canada
Director Since: 1994

Kevin E. Benson [1, 2]
President and
Chief Executive Officer,
Laidlaw International Inc.
Naperville, IL, U.S.A.
Director Since: 1995

John M. Cassaday [3]
President and
Chief Executive Officer,
Corus Entertainment Inc.
Toronto, ON, Canada
Director Since: 1993

Lino J. Celeste [1, 2]
Corporate Director
Saint John, NB, Canada
Director Since: 1994

Gail C.A. Cook-Bennett [4]
Chairperson,
Canada Pension Plan
Investment Board
Toronto, ON, Canada
Director Since: 1978

Robert E. Dineen, Jr. [1, 2]
Partner,
Shearman & Sterling
New York City, NY, U.S.A.
Director Since: 1999

Pierre Y. Ducros [3]
President,
P. Ducros & Associates Inc.
Montreal, QC, Canada
Director Since: 1999

Allister P. Graham [1, 2]
Chairman,
Nash Finch Company
Minneapolis, MN, U.S.A.
Director Since: 1996

Thomas E. Kierans [1, 2]
Chairman,
The Canadian Institute for
Advanced Research
Toronto, ON, Canada
Director Since: 1990

Lorna R. Marsden [4]
President & Vice-Chancellor,
York University
Toronto, ON, Canada
Director Since: 1995

Hugh W. Sloan, Jr. [3, 4]
Deputy Chairman,
Woodbridge Foam
Corporation
Troy, MI, U.S.A.
Director Since: 1985

Gordon G. Thiessen [4]
Chair,
Canadian Public
Accountability Board
Ottawa, ON, Canada
Director Since: 2002

Michael H. Wilson [4]
Chairman,
UBS Global Asset
Management (Canada) Co.
Toronto, ON, Canada
Director Since: 1995

"Director Since" refers to the year of first election to the Board of Directors of The Manufacturers Life Insurance Company. The Committees listed are those on which the Directors serve for Manulife Financial Corporation, not including Special Committees.

1 Audit and Risk Management

2 Conduct Review and Ethics

3 Corporate Governance and Nominating

4 Management Resources and Compensation

Officer Listing

Effective as at March 10, 2004

Executive Committee

Dominic D'Alessandro
President and
Chief Executive Officer

Victor S. Apps
Executive Vice President and
General Manager,
Asia

Diane Bean
Senior Vice President,
Corporate Human Resources
& Communications

John D. DesPrez III
Executive Vice President,
U.S. Operations and
Chairman and President,
Manulife USA

Bruce Gordon
Executive Vice President and
General Manager,
Canadian Operations

Donald Guloien
Executive Vice President and
Chief Investment Officer

John C. Mather
Executive Vice President and
Chief Administrative Officer

Trevor J. Matthews
Executive Vice President,
Japan and
President and
Chief Executive Officer,
Manulife Life Insurance
Company

Peter H. Rubenovitch
Executive Vice President and
Chief Financial Officer

Management Committee
Includes members of the
Executive Committee plus:

Jim Boyle
Senior Vice President,
U.S. Annuities

Robert T. Cassato
President,
Manulife Wood Logan

Robert A. Cook
Senior Vice President,
U.S. Insurance

Geoff Crickmay
Senior Vice President,
Sales and Marketing, Japan

Simon Curtis
Senior Vice President and
Chief Actuary

J. Roy Firth
Senior Vice President,
Individual Wealth
Management,
Canadian Operations

Geoff Guy
Senior Vice President and
Chief Financial Officer,
Canadian Operations

Marianne Harrison
Senior Vice President and
Controller

Peter Hutchison
Senior Vice President,
Corporate Taxation

Edward Lau
Senior Vice President,
Regional Operations,
Asia

Norman Light
Senior Vice President and
Chief Financial Officer,
Investment Division

Steve Mannik
Senior Vice President and
General Manager,
Reinsurance Operations

Beverly S. Margolian
Senior Vice President and
Chief Risk Officer

Jim O'Malley
Senior Vice President,
U.S. Group Pensions

Paul Rooney
Senior Vice President,
Individual Insurance,
Canadian Operations

Dale W. J. Scott
Senior Vice President and
General Counsel

Marc Sterling
Senior Vice President,
Regional Operations,
Asia

Warren Thomson
Senior Vice President,
Investments

Keith Walter
Senior Vice President,
Marketing, Investment
Division

Office Listing

CORPORATE HEADQUARTERS

Manulife Financial Corporation
Tel. (416) 926-3000
200 Bloor Street East
Toronto, ON
Canada M4W 1E5

CANADIAN DIVISION

Head Office
Tel. (519) 747-7000
500 King Street North
Waterloo, ON
Canada N2J 4C6

Elliott & Page
Tel. (416) 581-8300 or
1-800-363-6647
200 Bloor Street East, NT-3
Toronto, ON
Canada M4W 1E5

Manulife Bank of Canada
Tel. (519) 747-7000
500 King Street North
Waterloo, ON
Canada N2J 4C6

Manulife Securities International Ltd.
Tel. (519) 747-7000
500 King Street North
Waterloo, ON
Canada N2J 4C6

U.S. DIVISION

National Sales and Marketing Office
Tel. (617) 854-4300
73 Tremont Street
Suite 1300
Boston, MA 02108-3915
U.S.A.

U.S. Division Head Office Toronto
Tel. (416) 926-3000
200 Bloor Street East, NT-G
Toronto, ON
Canada M4W 1E5

U.S. Annuities
Tel. 1–800-344-1029
500 Boylston Street
Suite 400
Boston, MA 02116-3739
U.S.A.

Manulife Wood Logan
Tel. 1-800-334-4437
680 Washington Boulevard
9th Floor
Stamford, CT 06901-3710
U.S.A.

The Manufacturers Life Insurance Company of New York
Tel. 1-877-391-3748
100 Summit Lake Drive
2nd Floor
Valhalla, NY 10595
U.S.A.

ASIAN DIVISION

Head Office
Tel. (852) 2510-5888
48/F., Manulife Plaza
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

Hong Kong

Manulife (International) Limited
Tel. (852) 2510-5600
31/F., Manulife Tower
169 Electric Road
North Point
Hong Kong

Manulife Provident Funds Trust Company Limited
Tel. (852) 2510-5600
16/F., Manulife Provident Funds Place
345 Nathan Road
Kowloon
Hong Kong

Manulife Asset Management (Hong Kong) Limited
Tel. (852) 2510-3388
47/F., Manulife Plaza
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

Indonesia

Manulife Indonesia
Tel. (62-21) 230-3223
Jl. Pegangsaan Timur No. 1A
Jakarta 10320
Indonesia

Philippines

Manulife Philippines
Tel. (63-2) 884-5433
LKG Tower
6801 Ayala Avenue
1226 Makati City
Philippines

Taiwan

Manulife Taiwan
Tel. (886-2) 2757-5888
2/F., 89 Sungren Road
Taipei 110
Taiwan

China

Manulife-Sinochem Life Insurance Co. Ltd.
Tel. (86-21) 5049-2288
21/F., Jin Mao Tower
88 Century Boulevard
Pudong New Area
Shanghai 200121
PR China

Manulife-Sinochem Life Insurance Co. Ltd.
Tel. (86-20) 8356-9988
Guangzhou Branch
26/F., GIE Tower
403 Huanshi Road East
Guangzhou 510095
PR China

Singapore

Manulife (Singapore) Pte Ltd.
Tel. (65) 6737-1221
491B River Valley Road
#07-00 Valley Point
Singapore 248373

Vietnam

Manulife (Vietnam) Limited
Tel: (84-8) 825-7722
12/F., Diamond Plaza
34 Le Duan St.
Ho Chi Minh City
Vietnam

JAPAN DIVISION

Manulife Life Insurance Company
Tel. (81-424) 89-8080
4-34-1, Kokuryo-cho
Chofu-shi, Tokyo
Japan 182-8621

REINSURANCE DIVISION

Manulife Reinsurance
Tel. (416) 926-3000
200 Bloor Street East, NT-8
Toronto, ON
Canada M4W 1E5

INVESTMENT OPERATIONS

Mortgages
Tel. (416) 926-5925 (Canada)
Tel. (416) 926-5840 (U.S.A.)
200 Bloor Street East, NT-4
Toronto, ON
Canada M4W 1E5

Real Estate
Tel. (416) 926-5500
250 Bloor Street East,
8th Floor
Toronto, ON
Canada M4W 1E5

Securities
Tel. (416) 926-5977
200 Bloor Street East, NT-6
Toronto, ON
Canada M4W 1E5

MFC Global Investment Management (Canada)
(a division of Elliott & Page Limited)
Tel : (416) 926-6262
200 Bloor Street East, NT-6
Toronto, ON
Canada M4W 1E5

Manulife Capital
Tel. (416) 926-5727
200 Bloor Street East, NT-6
Toronto, ON
Canada M4W 1E5

MFC Global Investment Management (Europe) Limited
Tel (44-20) 7956-2015
1, Liverpool Street
London, EC2M 7QD
England

NAL Resources Management Limited
Tel. (403) 294-3600
550 6th Avenue S.W.
Suite 600
Calgary, AB
Canada T2P 0S2

Shareholder Information

Transfer Agent and Registrar
Contact our Transfer Agent for information regarding your shareholdings, including changes of address, changes in registration, direct deposit of dividends (Canada, United States and Hong Kong), lost certificates, to eliminate duplicate mailings of shareholder material or to receive shareholder material electronically.

Transfer Agent in Canada
CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, ON
Canada M5C 2W9
Local: (416) 643-6268
Toll Free: 1-800-783-9495
Fax: 1-877-713-9291
E-mail:
inquiries@cibcmellon.com

CIBC Mellon offices are also available in Montreal, Halifax, Winnipeg, Vancouver and Calgary.

Transfer Agent in the United States
Mellon Investor Services
85 Challenger Road
Ridgefield Park, NJ 07660
U.S.A.
Or
P.O. Box 3420
South Hackensack, NJ
07606-3420 U.S.A.
Tel: 1-800-783-9768
E-mail:
shrrelations@mellon.com

Transfer Agent in Hong Kong
Computershare Hong Kong
Investor Services Limited
Shops 1712 – 1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
Tel: (852) 2862-8628

Transfer Agent in the Philippines
The Hong Kong and Shanghai Banking Corporation Limited
Stock Transfer Department
30/F Discovery Suites
25 ADB Avenue
Ortigas Center, Pasig City
Philippines
Tel: (632) 683-2685

Auditors
Ernst & Young LLP
Chartered Accountants
Toronto, Canada

Common Share Trading Summary

	Toronto (Canadian $)	New York (U.S. $)	Hong Kong (Hong Kong $)	Philippines (Philippine Peso)
Year 2003				
Fourth Quarter				
High	$ 43.00	$ 32.46	$ 255.00	P 1,770
Low	$ 37.70	$ 28.40	$ 226.00	P 1,500
Close	$ 41.85	$ 32.30	$ 253.00	P 1,750
Third Quarter				
High	$ 43.70	$ 32.04	$ 247.00	P 1,725
Low	$ 37.39	$ 27.05	$ 213.00	P 1,420
Close	$ 39.03	$ 28.90	$ 236.00	P 1,625
Second Quarter				
High	$ 39.63	$ 29.49	$ 227.00	P 1,550
Low	$ 34.95	$ 23.74	$ 184.50	P 1,200
Close	$ 38.19	$ 28.21	$ 215.00	P 1,460
First Quarter				
High	$ 38.30	$ 25.74	$ 196.50	P 1,370
Low	$ 33.90	$ 21.80	$ 174.00	P 1,150
Close	$ 35.15	$ 23.93	$ 187.00	P 1,280
Year 2002				
Fourth Quarter				
High	$ 40.62	$ 25.79	$ 195.00	P 1,325
Low	$ 27.62	$ 17.37	$ 147.50	P 915
Close	$ 34.39	$ 21.71	$ 174.00	P 1,150
Third Quarter				
High	$ 43.16	$ 28.65	$ 215.00	P 1,410
Low	$ 31.05	$ 19.70	$ 161.00	P 1,050
Close	$ 33.48	$ 21.01	$ 168.00	P 1,080
Second Quarter				
High	$ 46.85	$ 29.99	$ 234.00	P 1,480
Low	$ 40.40	$ 26.45	$ 208.00	P 1,280
Close	$ 43.65	$ 28.60	$ 213.00	P 1,390
First Quarter				
High	$ 45.60	$ 28.75	$ 220.00	P 1,425
Low	$ 39.85	$ 25.05	$ 202.00	P 1,260
Close	$ 43.72	$ 27.45	$ 213.00	P 1,305

Common Share Dividends

(Canadian $)	Record Date	Payment Date	Per Share Amount
Year 2003			
Fourth Quarter	February 17, 2004	March 19, 2004	0.21
Third Quarter	November 17, 2003	December 19, 2003	0.21
Second Quarter	August 15, 2003	September 19, 2003	0.21
First Quarter	May 15, 2003	June 19, 2003	0.18
Year 2002			
Fourth Quarter	February 14, 2003	March 19, 2003	0.18
Third Quarter	November 15, 2002	December 19, 2002	0.18
Second Quarter	August 15, 2002	September 19, 2002	0.14
First Quarter	May 15, 2002	June 19, 2002	0.14

Manulife Financial

www.manulife.com

Manulife Financial Corporation

Head Office
200 Bloor Street East
Toronto, ON, Canada M4W 1E5
Tel: (416) 926-3000
Fax: (416) 926-5454

Investor Relations
Tel: 1-800-795-9767
Fax: (416) 926-3503
E-mail: investor_relations@manulife.com

Being a good corporate citizen is an integral part of Manulife Financial's vision of being a world-class Canadian-based global financial services company. Through partnerships with charitable and non-profit organizations that involve donations, sponsorships, and support of the volunteer activities of our employees and distribution partners, Manulife concentrates on the areas of healthy futures, supporting leaders of tomorrow and partnering in the community with the aim of making a positive difference in the future.

Ce rapport annuel de la Financière Manuvie est aussi disponible en français.

The following Manulife Financial documents are available online at **www.manulife.com**
- Annual Report
- Notice of Annual Meeting and Proxy Circular
- Public Accountability Statement
- Corporate Governance Material

Diversity

Manulife Financial is dedicated to bias-free employee practices and to the attraction and retention of employees with diverse backgrounds that reflect the many communities and markets we serve throughout the world.

Manulife Financial and the block design are registered service marks and trademarks of The Manufacturers Life Insurance Company and are used by it and its affiliates including Manulife Financial Corporation.

IR3805E

Quick Reference Guide

ANNUAL MEETING OF SHAREHOLDERS

Shareholders are invited to attend the annual meeting of Manulife Financial Corporation to be held on:

April 29, 2004

11:00 a.m.

The International Room
200 Bloor Street East
Toronto, ON
Canada M4W 1E5

Manulife Financial Corporation Head Office
200 Bloor Street East
Toronto, ON
Canada M4W 1E5

Tel: (416) 926-3000
Fax: (416) 926-5454
Web site:
www.manulife.com

Investor Relations
Institutional investors, brokers, security analysts and other investors requiring financial information may contact our Investor Relations Department or access our Web site at www.manulife.com.
Tel: 1-800-795-9767
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