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A Global Vision: President's Message

At Manulife Financial, our mission is to become the most professional life insurance company in the world and in the year 2000, we made significant progress towards that goal. By almost any measure, the year was one of accomplishment for our fine company. Shareholders' net income rose to a record \$1,075 million, return on shareholders' equity exceeded 16 per cent and, in the first full year as a public company, our stock price increased by 154 per cent. While we are obviously pleased with this performance, we remain very aware of the need to continue to position ourselves for the future. Accordingly, we have undertaken what we believe are a remarkable number of initiatives to improve our prospects. These initiatives include the expansion of our distribution networks, the introduction of new products and the launch of new businesses. It is my pleasure to provide brief highlights of the year's activity below.

A more complete description is found in the pages which follow.

Operating results

In 2000, total premiums and deposits grew by 20 per cent to almost \$25 billion. Adjusting for the impact of last year's purchase of a disability block that added \$766 million to revenues, the growth was actually 25 per cent. Investment income remained largely unchanged from the prior year at \$4.4 billion, despite a decline in interest rate levels and the weakness in global equity markets. Other revenue, consisting principally of fees on our wealth management business, grew by 27 per cent to \$1.3 billion. Shareholders' net income grew by 23 per cent over the prior year to \$1,075 million, making Manulife the first Canadian insurance company to ever surpass the one billion dollar mark in earnings. As a result of the growth in net income and well timed common share

buybacks early in the year, earnings per share increased by 27 per cent to \$2.22.

United States

In the U.S., Manulife is a highly regarded provider of financial protection and wealth management solutions to financially sophisticated consumers. This strategic positioning has translated into outstanding growth across all three of our U.S. businesses. Premiums and deposits increased to \$16 billion in 2000, a 32 per cent increase from the prior year as a result of record sales of insurance, variable annuities and 401(k) pension products. Net income from the U.S. was \$477 million in 2000, up from \$365 million in 1999.

There are a number of reasons for this outstanding performance. Demand for all three of the product lines we have chosen to concentrate in has been very strong, supported by favourable demographics

and a buoyant economy. The quality of our product offerings is second to none. Comparisons are continuously made and care is taken to ensure that our products are as up to date and value creating for the customer as possible. Investment in technology has also been maintained at a very high level so as to deliver customer service in a convenient and cost-efficient manner. Both our variable annuity and pension business, where measurements are regularly made by independent bodies, have been the recipients of awards for their quality of service. The investment management options offered to clients are also of a very high quality across all product lines. Investment performance is monitored continuously and changes of fund managers made whenever necessary. All three businesses have been

the highly competitive and large American marketplace gives us confidence that we can do well in other parts of the world.

Canada

In 2000, the Canadian Division delivered strong results – with significant increases in both profit margins and market share. Total premiums and deposits increased by 10 per cent to \$5.3 billion on a comparable year over year basis. New annualized premium sales for the Insurance business increased by 81 per cent to \$439 million. This reflected the strong growth in the Group Benefits business, which won a number of large new accounts, together with a healthy growth in all our lines of business in Canada. The increased revenues together with a noticeable improvement in the unit costs of all

strong platform for future growth.

In December 2000, two important acquisitions were announced, both of which will close in early 2001. We agreed to acquire Commercial Union's Canadian Life insurance operations, which will add approximately \$1 billion to funds under management and \$115 million to premiums and will give us capability in critical illness products. We also announced the purchase from Zurich Canada of its Group Life and Health operations, which will add some \$100 million to annual premiums and improve our market share in the small case segment of the group benefit market.

Asia

All of our businesses in Asia had a good year in 2000 as total premiums and deposits grew to \$2.5 billion, up 29 per

return on equity exceeded 16% and,
in the first full year as a public company,
our stock price increased by 154%

successful in growing and diversifying their distribution capabilities. Today, Manulife products in the U.S. are available through banks, national and local broker dealers, producer groups, wire houses, Third Party Administrators, financial planners as well as the traditional independent agents. Manulife's distribution capabilities are increasingly recognized as being among the most effective in the marketplace. We are optimistic that opportunities to lever this competence over complementary products will present themselves.

Of all of our many successes over the past few years, we are particularly proud of the transformation that has occurred in our U.S. Division. Where we once had only one line of business that was increasingly vulnerable, today we enjoy three robust and rapidly growing businesses. Needless to say, our success in

business lines were the key factors making it possible for the Canadian operations to report a year over year increase in earnings of 18 per cent to \$275 million.

Distribution capacity in Canada was considerably expanded with a number of new marketing alliances. Individual products are now distributed through an ever increasing number of life insurance advisors, financial planners, stockbrokers and general agents while group products are made available through employee benefit consultants and consulting actuaries. Internet services were upgraded and now advisors and customers can inquire and make changes to their investment holdings electronically. Also noteworthy was the launch of ManulifeDirect, which offers term insurance over the Web to those customers who do not require the help of a professional advisor. A very broad base of distribution provides a

cent from the prior year and net income rose even more sharply, by 39 per cent, to \$193 million. All eight of Manulife's operations in the region contributed to the excellent results.

Our flagship operation in Hong Kong had another strong year as it moved up to second place in market share of individual insurance sales. Also, we established ourselves as the leading insurance company in the Mandatory Provident Fund with close to 300,000 participants. Deposits from this expanded client base will begin early in 2001. In the People's Republic of China, our joint venture in Shanghai completed its fourth year of operation, expanded its sales force to 2,000 strong and achieved sales growth of 71 per cent over 1999. We are ready for an expansion into other regions of China and anticipate that once China has acceded to the WTO, the authorities will extend our license

beyond Shanghai. In Vietnam, our experience has been excellent. Demand for our products has exceeded expectations and we now have a field force of 1,700 agents in Hanoi and Ho Chi Minh City.

In Japan, in our second year of operation, new agent compensation arrangements were put into effect, new products were introduced, the distribution network was restructured and substantial reductions in operating costs were made. Premiums and deposits grew by 46 per cent over the prior year. Perhaps most importantly, we successfully negotiated the acquisition of the inforce block of Daihaku Mutual. This transaction will add 1.5 million policies, \$2 billion of annualized premiums and nearly \$17 billion in tangible assets to Manulife's operations in Japan. The acquisition, which is scheduled to close on April 2, 2001, will reunite the 4,700 Manulife sales agents in Japan with their original customer base and will give us a substantial and viable operation in this market much earlier than planned. The Japanese financial services industry is undergoing profound change. We are very excited about the opportunities that this change will present.

The success story is similar in our other Asian operations: Philippines, Indonesia, Taiwan and Singapore where we continue to leverage our global expertise to provide products that are attractive to our local customers. Manulife is very proud of its long history in the region where we have operated for more than one hundred years. Despite difficulties that may be encountered from time to time, such as the completely unfounded dispute that arose during the year concerning ownership of shares in our Indonesian subsidiary, our commitment to Asia is firm and we expect our business there to continue to grow at a fast pace.

Reinsurance

In 2000, reinsurance premiums decreased by six per cent to \$768 million

as growth in financial reinsurance of property and casualty risks was more than offset by a planned decline in the accident and health line and a contraction in life retrocession premiums. Income for the year of \$108 million was up marginally from a \$105 million in 1999.

The past few years have been challenging for the Reinsurance Division largely due to adverse claims experience in the medical and personal accident pools in which the Division now no longer participates. Going forward, the Division will focus on growing its leadership position in the life retrocession business and developing its financial reinsurance activities.

Investments

Total funds under management grew by 10 per cent to \$123.5 billion, despite the end of year weakness in global equity markets. Of this amount, approximately 63 per cent is managed by Manulife and 37 per cent by outside fund managers. Clients are offered a full range of investment management choices and it is gratifying that a large number of both individual and institutional clients are choosing to have their savings managed by our Investment Operation.

Approximately one half, \$63 billion, of the funds under management are segregated or separate account assets, where the investment performance is directly attributable to the account owner. The other half are "on-balance sheet assets," which support liabilities and total equity. The yield on invested assets was 8.6 per cent in 2000, compared with nine per cent in the previous year. The decline is explained by the generally lower level of interest rates that prevailed during the year, which was only partially offset by improved returns from real estate and other asset categories.

The quality of our balance sheet remained extremely high, reflecting our conservative approach to both provisions and valuations.

Employees, partners and customers

Needless to say, we are very proud of the year's achievements and are excited about our prospects for the future. Clearly, this success would not be possible without the dedication and commitment of our employees, agents and business partners, who distinguish themselves by the quality of the work that they do for Manulife and our clients. I thank them for this effort.

In November of 2000, we made available a share ownership plan enabling employees to purchase stock in the Company. It is gratifying to report that almost 70 per cent of eligible employees have elected to become owners of Manulife, indicating that they share our confidence for our future.

I would also like to thank our millions of customers around the world. Today's markets offer you and your advisors a great variety of choice, and we appreciate that you have chosen Manulife for your financial protection and wealth management needs.

Dominic D'Alessandro
President and Chief Executive Officer