

President's Message



Dominic D'Alessandro
President and
Chief Executive Officer

Arthur R. Sawchuk
Chairman

It is a time of unprecedented change for our industry. Demographics, globalization, convergence and consolidation are just a few of the many forces that are shaping the nature of the services we offer and how we organize ourselves to deliver them. Amidst such turbulence, clarity and constancy of purpose are virtues.

We remain firmly committed to our vision of becoming the most professional life insurer in the world. The realization of this vision depends on the values and capabilities that are described in this Report. I believe that your Company continues to make commendable progress towards the achievement of its objectives.

Manulife Financial delivered an eighth consecutive year of record financial performance in 2001.

Manulife Financial delivered an eighth consecutive year of record financial performance in 2001.

This is a testament to the strong risk management culture, conservative accounting and actuarial practices, and the geographic and product diversity that differentiates us from many of our peers.

I am proud to report that shareholders' net income grew eight per cent to \$1,159 million in 2001. Excluding the impact of non-recurring items, shareholders' net income was \$1,223 million, an increase of 18 per cent over comparable earnings in 2000. Return on shareholders' equity excluding non-recurring items was 15.9 per cent for the year compared with 15.5 per cent in 2000.

Premiums and deposits for the year were \$25.8 billion, five per cent higher than a year ago. The benefits of new product introductions, our acquisitions in Japan and Canada, and a large increase in the agency force in Asia were offset to a large extent by the effects of weakening

economies and falling equity markets around the world.

Notwithstanding that the increase in revenue levels was more modest than we had planned, we did manage to grow our customer base very significantly. More than 8.5 million individuals now do business with us around the world, an increase of 25 per cent during the year. This growth was driven by acquisitions, the expansion of our distribution networks and the introduction of innovative products and services. We are obviously very pleased that so many new customers have chosen Manulife Financial as their provider of protection and wealth management services.

United States

In the United States, net income for the year was \$373 million, a decline of 22 per cent from the very strong results of the prior year. Poor equity markets and a slowing U.S. economy undermined consumer and investor confidence affecting sales across all business

lines throughout most of the year. Conditions were particularly difficult in the period immediately following the tragic events of September 11th, when a traumatized world struggled to absorb the enormity of the terrorist attacks and paused to assess the implications. Like many other resilient organizations in the U.S. and elsewhere, our Company responded well to the changed environment and accelerated its plans to reduce costs and introduce new products. As a result, the fourth quarter saw a strong rebound in earnings and sales, which we are optimistic will continue in 2002.

Prolonged debate and uncertainty over estate tax reform slowed life insurance sales for much of the year. However, new products designed to address the newly enacted estate tax legislation, coupled with focused marketing initiatives, drove a significant increase in sales in the fourth quarter.

In 2001, Manulife was recognized as the number one seller of defined contribution plans in the U.S. The number of plan participants served by our 401(k) group pension operation increased by 22 per cent to more than 850,000 during the year.

Activity in the variable annuities market also picked up in the last few months of the year as investors and advisors were attracted to new products and as equity markets improved. During the year we were the first insurance company to enter the

very promising college savings market, a natural complement to our existing product line-up with its focus on tax-advantaged savings.

Canada

With growth in all businesses and earnings up 22 per cent overall to \$335 million, 2001 was a very successful year for our Canadian operations.

Penetration of alternate sales channels through new strategic alliances, selective entry into the managing general agent channel, and a continued focus on the stock brokerage channel have

been key to growing sales. In addition, the acquisition of the Canadian insurance operations of Commercial Union and the group life and health employee benefits business of Zurich Canada have given us ready access to new products, including critical illness and long-term care insurance, and strengthened our position in the small care group sector.

As in the U.S., sales in our wealth management operations were affected by declining equity markets. However, product enhancements, a new fund line-up and good fund performance, together with a more positive economic outlook, augur well for 2002.

Asia

Our Asian operations continued to perform strongly, with earnings increasing by 65 per cent to \$317 million in 2001 and premiums and deposits reaching \$4 billion. While our acquisition in Japan contributed significantly to this growth, we also saw excellent performance in our flagship Hong Kong operations.

During the year we successfully integrated the business of our former Japanese partner. This brought significant scale to our recently established Japanese operation. The introduction of universal life and in 2002, variable

annuity products, which are still relatively new to the local market, positions us for future growth in one of the world's largest life insurance markets.

Our client base in Hong Kong has also expanded significantly, largely as a result of the huge success of our Mandatory Provident Fund pension product that was launched a little over a year ago.

Our presence in Asia has been strengthened through a number of expansion initiatives including receipt of regulatory approval late in the year to establish a branch of our Chinese joint venture in Guangzhou. This new office will

More than 8.5 million individuals now do business with us around the world, an increase of 25 per cent during the year.

complement our existing Shanghai operation, which began five years ago and currently serves more than 100,000 customers.

In Vietnam, we increased the ownership of our local business to 100 per cent. This significantly strengthens our position in a rapidly growing market where, in two years, we have grown to more than 5,000 sales representatives and 100,000 customers. In Taiwan, early in 2002, we purchased the business of CIGNA Taiwan, which added customers and a small but high quality group of agents.

Our Company responded well to the changed environment and accelerated its plans to reduce costs and introduce new products.

Our exclusive sales force throughout Asia, including Japan, grew by 35 per cent during the year and now numbers more than 20,000 representatives.

Reinsurance

As a result of the September 11th terrorist attacks, net income of \$48 million in Reinsurance was down sharply from a year ago. We recorded an after-tax charge of \$145 million for reinsurance losses related to September 11th. At this time, we remain confident that this charge will be sufficient to cover the claims related to this event. We are now seeing significant rate hardening in sectors of the reinsurance market and expect that this will result in improved profitability in 2002.

Investments and Capital Strength

Total funds under management increased 15 per cent to \$142.2 billion, reflecting the addition of assets from acquisitions in Japan and Canada, offset in part by reductions of approximately \$8 billion due to equity market declines. Investment performance compared favourably against benchmarks over the year. The quality of our balance sheet remains extremely strong. Asset quality and capital levels have never been higher.

In addition to the growth in retained earnings, we completed two very attractively priced capital transactions during the year that added a further \$1.8 billion to our capital base. Total capital at the end of the year stood at \$11.5 billion, giving us the means to pursue any opportunities that may present themselves.

Going Forward

While 2001 has been a successful year, it has also shown that we are not immune to the economic conditions affecting the larger global community in which we operate. In view of a business environment that remains uncertain, we are continuing to implement an ambitious program to contain and, where appropriate,

reduce our operating costs.

In February 2002, the quarterly dividend was raised to \$0.14 per share underscoring our confidence that the many initiatives undertaken during the past year will allow us to sustain the strong financial performance that we are committed to deliver.

I would like to take this opportunity to thank John Richardson, who recently retired from his role of Senior Executive Vice President of Manulife Financial and from our Board of Directors, for his outstanding service and dedication to the Company over the past 10 years. I would also like to thank Joseph Pietroski, Senior Vice President and Corporate Secretary for his 25 years of service to the Company and wish him well on his retirement this year.

Our employees, agents and business partners are dedicated to working together to realize our vision to become the most professional life insurance company in the world. I believe that our Company is recognized as being one of the world's leading life insurers. And, I expect that our diversity and commitment to excellence will enable us to deliver ever-increasing value to all of our stakeholders.

Dominic D'Alessandro
President and
Chief Executive Officer