

MEASURING OUR PERFORMANCE

This section is presented as an aid to understanding the Company's financial results and the measures we use to evaluate our performance. In 2001, Manulife became the first major Canadian insurer to disclose its Embedded Value. In 2002, Manulife expanded its financial disclosure to include a Source of Earnings statement. The following pages describe how these metrics are linked to our income statement and balance sheet. Our commitment is to work to improve the financial transparency of our results for our shareholders, customers and the analyst community so that they can properly assess the Company's financial performance, financial strength and prospects for the future.

CONSOLIDATED STATEMENTS OF OPERATIONS

Please refer to page 60 for the complete statements.

CONSOLIDATED FINANCIAL STATEMENTS		
CONSOLIDATED STATEMENTS OF OPERATIONS		
For the years ended December 31		
	2002	2001
Revenue	\$ 10,379	\$ 10,247
Investment income (loss net)	4,235	4,479
Other income	1,516	1,505
Total revenue	\$ 16,130	\$ 16,231
Policy benefits and expenses:		
To policyholders and beneficiaries	\$ 3,388	\$ 3,188
Death and disability benefits	4,284	4,171
Annuity payments	1,262	1,307
Participating dividends and expenses relating efforts	182	905
Net transfers to segregated funds	855	1,470
Change in actuarial liabilities, net of	287	(228)
Capital expense	2,840	2,473
Contingencies	1,241	1,123
Other expense	241	235
Pension loans	111	105
Non-qualified interest on subsidiaries	23	—
Trust preferred securities issued to subsidiaries	45	62
Total policy benefits and expenses	\$ 14,628	\$ 14,642
Income before income taxes	\$ 1,502	\$ 1,589
Income taxes	(106)	(108)
Net income	\$ 1,396	\$ 1,481
Net income (loss) attributed to participating policyholders	\$ 18	\$ —
Net income (loss) attributable to shareholders	\$ 1,378	\$ 1,481
Net income	\$ 1,378	\$ 1,481
Weighted average number of common shares outstanding (in thousands)	476	462
Weighted average number of diluted common shares outstanding (in thousands)	479	462
Earnings per share	\$ 2.88	\$ 3.20
Diluted earnings per share	\$ 2.88	\$ 3.20

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

SOURCE OF EARNINGS

Please refer to page 99 for a discussion of Source of Earnings.

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EMBEDDED VALUE

Please refer to pages 100-101 for a discussion of Embedded Value.

The principal economic assumption used in the embedded value calculation was as follows:

	100%	75%	50%	25%
SECURE rates	100%	75%	50%	25%
Discount rate	8.75%	8.00%	8.00%	8.00%
Current retention rates (CR)	1.58	0.20	0.20	0.03

EMBEDDED VALUE

Manulife Financial's embedded value represents the value of shareholder equity plus an estimated value of the Company's In Force business. The calculation value the future profit stream for the In Force business adjusted for the cost of regulatory capital required to support that business. As at December 31, 2002, Manulife's embedded value was more than \$20 billion.

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

During the first six months of 2002, Manulife's market value increased by 20 million dollars, equal to 0.02 billion to \$26.6 billion. Normally, the embedded value of a company tends to rise over the market value because the embedded value excludes the value of In Force business.

EMBEDDED VALUE	2002	2001	2000
Embedded value at January 1	\$ 14,000	\$ 13,000	\$ 9,000
Impact on year-end embedded value	1,900	1,000	1,000
New business	654	580	620
Acquisitions	115	800	-
Other operations activities and other adjustments	(1,294)	(970)	-
Dividend and share repurchases	493	600	-
Current adjustment	774	360	-
Shareholder dividends and share repurchases	(200)	(230)	(250)
Shareholder dividends	(100)	(110)	(120)
Share repurchases	(100)	(120)	(130)
Embedded value at December 31	\$ 15,914	\$ 14,230	\$ 11,300

EMBEDDED VALUE	2002	2001	2000
Embedded value before shareholder dividends and share repurchases	\$ 16,917	\$ 14,230	\$ 11,300
Embedded value net share repurchases	\$ 16,917	\$ 14,230	\$ 11,300
Shareholder dividends and share repurchases	\$ 1,022	\$ 1,022	\$ 1,022
Annual growth rate	12%	25%	



CONSOLIDATED BALANCE SHEETS

Please refer to page 61 for the complete statements.

CONSOLIDATED BALANCE SHEETS

As at December 31	2002	2001
ASSETS		
Investment securities (note 4)	\$ 44,877	\$ 41,070
Monies due	2,254	1,762
Receivables	4,200	4,564
Real estate	1,270	1,270
Other assets	6,219	6,068
Goodwill	1,142	1,142
Other intangibles	1,651	1,651
Total identified assets	\$ 57,922	\$ 54,527
Other assets		
Accrued investment income	\$ 1,810	\$ 1,041
Outstanding premiums	518	462
Future income taxes (note 5)	122	577
Goodwill	1,044	1,044
Other intangibles	1,270	1,270
Total other assets	\$ 4,764	\$ 4,394
Total assets	\$ 62,686	\$ 58,921
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	\$ 54,207	\$ 54,600
Deferred income tax (note 5)	2,493	2,471
Participating interests in subsidiaries (note 7)	2,825	2,702
Deferred related party payables	2,257	1,263
Banking liabilities	1,427	789
Other liabilities	2,000	1,800
Subordinated debt (note 8)	\$ 43,138	\$ 42,200
Noncontrolling interests in subsidiaries (note 7)	1,619	1,476
Trust preferred securities issued by subsidiaries (note 8)	794	802
Equity		
Participating preferred equity	62	62
Shareholders' equity	1,600	1,614
Common shares (note 9)	\$ 200	\$ 200
Subordinated retained earnings	\$ 1,400	\$ 1,414
Commitments and contingencies (notes 11 and 16)	\$ 2,176	\$ 2,176
Total liabilities and equity	\$ 62,686	\$ 58,921
Consolidated funds net liabilities	\$ 58,231	\$ 52,200

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



 DOMINIC D'ALESSANDRO ARTHUR S. SAWCHUK
 President and Chief Executive Officer Chairman of the Board of Directors

MFC 2002 Annual Report 61



The **Consolidated Statements of Operations** (income statement) show the revenues, policy benefits, expenses and taxes that have resulted in shareholders' net income of \$1,378 million for 2002. There are many interrelationships between the revenues, policy benefits and the change in actuarial liabilities or reserves and, therefore, the impact of any single line item on the Company's earnings is difficult to ascertain. The Source of Earnings statement on the following page provides additional insight into the primary drivers of earnings.

Please refer to page 60 for the complete Consolidated Statements of Operations.

For the years ended December 31		2002	2001
(Canadian \$ in millions)			
Revenue			
1	Premium income	\$ 10,779	\$ 10,247
	Investment income	4,235	4,479
	Other revenue	1,518	1,505
	Total revenue	\$ 16,532	\$ 16,231
Policy benefits and expenses			
To policyholders and beneficiaries			
2	Death, disability, maturity and surrender benefits, and annuity payments	\$ 8,775	\$ 8,664
	Policyholder dividends and experience rating refunds	932	900
3	Net transfers to segregated funds	656	1,470
4	Change in actuarial liabilities	307	(208)
5	General expenses	2,490	2,478
	Commissions	1,207	1,133
	Other	491	431
	Total policy benefits and expenses	\$ 14,858	\$ 14,868
	Income before income taxes	\$ 1,674	\$ 1,363
	Income taxes	(304)	(196)
	Net income	\$ 1,370	\$ 1,167
	Net income (loss) attributed to participating policyholders	\$ (8)	\$ 8
6	Net income attributed to shareholders	\$ 1,378	\$ 1,159

KEY FACTORS INFLUENCING SHAREHOLDERS' NET INCOME IN 2002

1. **HIGHER PREMIUMS** Strong insurance sales across most insurance businesses contributed to a five per cent increase in premium income in 2002. Segregated fund deposits received in the wealth management businesses are not included in the income statement. These increased by 21 per cent in 2002.
2. **POLICY BENEFITS AND PAYMENTS** On average, Manulife pays \$35 million each working day to policyholders on death, disability, policy maturity or surrender, or as annuity payments.
3. **SHIFT TO FIXED-RATE PRODUCTS** There were fewer transfers to segregated funds in 2002 than 2001 given consumer concerns regarding stock market performance.
4. **INCREASED ACTUARIAL LIABILITIES** The growth in our obligations to policyholders is matched by the growth in actuarial liabilities. In 2001, policy surrenders in our Japan operations following the acquisition of the in force business of Daihyaku Mutual Life resulted in a net decrease in actuarial liabilities.
5. **TIGHT EXPENSE CONTROLS** General expenses were consistent with the prior year despite strong sales growth. Commissions increased year over year reflecting the higher level of sales.
6. **CONSISTENT STRONG EARNINGS GROWTH** Shareholders' net income grew 19 per cent in 2002, continuing the trend of strong growth over the past nine years, during which earnings have grown at an average annual compound growth rate of 25 per cent.



The **Source of Earnings** statement helps us to understand the drivers of our net income. In the Source of Earnings analysis, earnings are attributed to one of six categories:

- Profit earned on existing in force business, based on estimated or expected outcomes;
- Impact of new business written during the year;
- Gains or losses from actual experience compared to estimated outcomes in the reporting period;
- Increases or decreases in actuarial reserves set aside to meet future policyholder obligations due to changes in the underlying actuarial methods or assumptions used in establishing these reserves;
- Income earned on the assets in our surplus funds (funds not specifically supporting actuarial liabilities); and
- Income taxes.

In aggregate, these elements generated \$1,378 million in shareholders' net income in 2002.

The Source of Earnings statement illustrates the relatively high level of predictability of an insurance company's earnings. The expected profit from in force business is a good indication of the income that can be expected to emerge over time from a company's existing business. In addition, the income generated on the assets in our surplus funds provides a significant flow of earnings. The Source of Earnings also allows the reader to make informed judgments about the quality of a company's reported earnings by providing insight into the conservativeness of its reserving practices.

Please refer to page 99 for a full discussion of the Source of Earnings.

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

	2002	2001	
Expected profit from in force business	\$ 1,068	\$ 918	Growth in our insurance businesses and higher fee income in our wealth management businesses increased profit on in force business by 16 per cent.
Impact of new business	(119)	(195)	Manulife establishes conservative actuarial reserves on new business written during the year. Although the business is expected to be profitable over its lifetime, as shown in the new business line in the Embedded Value analysis, an accounting loss is reported in the first year. Therefore, profits are being deferred to future periods rather than being recorded in the current year.
Experience gains	215	118	Manulife uses prudent assumptions in its estimates of future events such as policyholder claims, expenses, investment returns and policy retention levels when setting its actuarial reserves. Historically, the Company has generated positive earnings because actual experience relating to these events has been favourable compared to the expected results assumed in the actuarial reserves.
Changes in actuarial methods and assumptions	(9)	(131)	In both 2002 and 2001, Manulife increased its reserves to reflect anticipated weakness in equity markets. This strengthening of reserves had the impact of reducing shareholders' net income.
Earnings on surplus funds	527	645	Earnings on surplus assets are a substantial contributor to net income. They decreased in 2002 with the less favourable equity markets.
Income before income taxes	\$ 1,682	\$ 1,355	
Income taxes	(304)	(196)	Represents tax charges based on varying tax rates in the territories in which we do business.
Net income attributed to shareholders	\$ 1,378	\$ 1,159	



Embedded Value is an analytical tool that calculates the present value of the estimated future profits available to be distributed to shareholders from all existing business plus the value of shareholders' equity. Some investors use embedded value, together with an assessment of the value of a company's future business, to evaluate the theoretical value of the company. The table below shows how our embedded value grew to more than \$15 billion as at December 31, 2002.

Please refer to pages 100-101 for a full discussion of Embedded Value.

For the years ended December 31

(Canadian \$ in millions
except per share amounts)

	2002	2001	
Embedded value as at January 1	\$ 14,000	\$ 11,300	
Interest on year-start embedded value	1,190	1,090	Normal growth in embedded value that occurred in 2002 and 2001.
New business	664	580	New business sold during 2002 contributed \$664 million to embedded value, a 15 per cent increase over 2001. The improvement was driven primarily by strong growth in Asia and North American wealth management businesses.
Acquisitions	118	850	Acquisitions in Canada and Asia in both 2002 and 2001 contributed positively to embedded value. In 2001, Manulife acquired the in force business of Daihyaku Mutual Life in Japan.
Equity market impact	(1,206)	(970)	The decline in equity markets in both 2002 and 2001 reduced embedded value. Equities are marked to market in this calculation.
Other experience variances and assumption changes	453	620	In 2002, favourable mortality experience and lower capital requirements on certain products increased embedded value. In 2001, a reduction in tax rates was also a positive factor.
Discount rate changes	774	360	A lower discount rate was used in 2002 to calculate the present value of future profits to reflect the decline in interest rates during the year. This had the effect of increasing embedded value.
Currency adjustment	24	400	There was little change in the value of the Canadian dollar relative to the U.S. dollar in 2002. In 2001, the Canadian dollar depreciated by four cents relative to the U.S. dollar making the income from our U.S. businesses more valuable.
Shareholder dividends	(285)	(230)	Amounts paid to shareholders in the form of quarterly dividends.
Share repurchases	(718)	–	In 2002, Manulife purchased for cancellation more than \$700 million of its common shares.
Embedded value as at December 31	\$ 15,014	\$ 14,000	
Embedded value per share as at December 31	\$ 32.46	\$ 29.03	Embedded value increased 12 per cent in 2002 on a per share basis, a strong rate of growth given poor equity markets during the year. If equity markets had achieved modest growth in 2002, embedded value per share would have increased 21 per cent.



The **Consolidated Balance Sheets** show the Company's assets at the end of the year and the value of our obligations to policyholders for future claims and benefits. Total equity is the difference between assets and liabilities.

Please refer to page 61 for the complete Consolidated Balance Sheets.

As at December 31 (Canadian \$ in millions)		2002	2001
ASSETS			
Invested assets			
7	Bonds	\$ 46,677	\$ 46,070
8	Mortgages	9,294	7,902
9	Stocks	6,898	6,964
10	Real estate	3,570	3,484
	Policy loans	4,939	4,644
	Cash and short-term investments	5,143	4,995
	Other investments	1,041	693
	Total invested assets	\$ 77,562	\$ 74,752
	Other assets	3,633	3,861
	Total assets	\$ 81,195	\$ 78,613
	Segregated funds net assets	\$ 58,831	\$ 59,206
LIABILITIES AND EQUITY			
11	Actuarial liabilities	\$ 56,397	\$ 54,690
	Other liabilities	12,761	12,346
		\$ 69,158	\$ 67,036
	Non-equity capital and non-controlling interest	3,289	3,284
12	Total equity	8,748	8,293
	Total liabilities and equity	\$ 81,195	\$ 78,613
	Segregated funds net liabilities	\$ 58,831	\$ 59,206

7. **HIGH QUALITY BOND PORTFOLIO** More than 96 per cent of bonds are investment grade.
8. **EXCELLENT MORTGAGE PORTFOLIO** The mortgage portfolio is comprised predominately of commercial property. Less than 0.15 per cent of mortgage payments are in arrears, considerably below industry averages of 0.43 per cent and 0.31 per cent in Canada and the U.S., respectively.
9. **DIVERSIFIED EQUITY PORTFOLIO** As at the end of 2002, we had total realized and unrealized net gains of more than \$500 million in our equity portfolio. Realized and unrealized net gains on equities will flow into earnings over time.
10. **SUPERIOR REAL ESTATE PORTFOLIO** The market value of our real estate portfolio exceeded its carrying value by about \$300 million at the end of 2002. Our buildings are more than 95 per cent leased.
11. **SIGNIFICANT RESERVES** We calculate actuarial liabilities or reserves based on very conservative assumptions. These reserves include \$579 million for segregated fund guarantees, and \$1,699 million for possible future credit losses. The reserves include provisions for adverse deviation ("PfADs") of more than \$7 billion.
12. **STRONG CAPITAL POSITION** The \$8.7 billion of equity has grown at a compound average annual growth rate of 10 per cent over the past five years. Our year-end 2002 capital ratio, Minimum Continuing Capital and Surplus Requirements, of 235 per cent is well above our target range of 180 per cent to 200 per cent.