

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, 2004, Manulife's embedded value was \$27.9 billion, an increase of \$12.5 billion over December 31, 2003.

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 2004, Manulife's market value, measured by its market capitalization, ranged from \$43.1 billion to \$47.2 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

For the years ended December 31

(Canadian \$ in millions unless otherwise stated)

	2004	2003	2002
Embedded value as at January 1	\$ 15,416	\$ 15,014	\$ 14,000
Acquisitions	10,948	13	118
Interest on embedded value	1,826	1,106	1,190
New business	1,107	903	664
Equity markets	279	711	(1,206)
Other experience variances and changes in actuarial assumptions	380	267	453
Embedded value before discount rate, currency and capital movements	\$ 29,956	\$ 18,014	\$ 15,219
Discount rate changes	238	(150)	774
Currency	(1,674)	(2,096)	24
Shareholder dividends	(704)	(368)	(285)
Other capital movements ⁽¹⁾	87	16	(718)
Embedded value as at December 31	\$ 27,903	\$ 15,416	\$ 15,014
Embedded value per share	\$ 34.55	\$ 33.32	\$ 32.46
Annual growth rate in embedded value (before impact of discount rate, currency and capital changes)	94%	20%	9%

(1) Includes share repurchases and option exercises

The principal economic assumptions used in the embedded value calculations in 2004 were as follows:

	Canada	U.S.	Hong Kong	Japan
MCCSR ratio	150%	150%	150%	150%
Discount rate	8.25%	8.25%	9.25%	6.50%
Risk premium	4.0%	4.0%	5.0%	5.0%
Equity return	8.25%	8.25%	9.25%	6.50%
Inflation	3.0%	3.0%	2.5%	0.5%
Income tax rate	35%	35%	17.5%	36%
Foreign exchange rate	N/A	1.20	0.155	0.0117

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. The weighted average discount rate is 8.4 per cent.

Embedded value has been calculated using the financial position of the Company as at June 30, 2004 projected to December 31, 2004, 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.

The acquisition of the John Hancock businesses increased embedded value by \$10.9 billion. This represents the value of shareholder equity acquired less goodwill and intangible assets, plus the value of in force business less goodwill and intangible assets. It excludes any value from future new business or future expense synergies.