

# Embedded Value

Embedded value is a measure of the shareholder value embedded in the current balance sheet of the Company, excluding any value associated with future new business. The change in embedded value between reporting periods is used by management as a measure of the value created by the year's operations. Embedded value is a non-GAAP measure and does not have a standard definition.

Manulife Financial's embedded value is defined as adjusted Canadian GAAP shareholders' equity plus the value of in-force business. The adjusted Canadian GAAP shareholders' equity is the fiscal year end Canadian GAAP shareholders' equity adjusted for goodwill and intangible assets, fair value of surplus assets, third party debt and pension liabilities. The value of in-force business is the present value of expected future Canadian GAAP earnings on in-force business less the present value cost of holding capital required to support the in-force business. Required capital uses the Canadian MCCSR required capital framework.

As at December 31, 2005, Manulife Financial's embedded value was \$29.0 billion, an increase of \$1.1 billion over December 31, 2004.

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 and the in-force business, as well as the value of future business (i.e., the franchise value) and other considerations. During the fourth quarter, the Company's market value, measured by its market capitalization, ranged from \$46.9 billion to \$55.4 billion. Normally, the embedded value of a company is 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)

	2005	2004	2003
Embedded value as at January 1	\$ 27,903	\$ 15,416	\$ 15,014
Acquisitions	–	10,948	13
Interest on embedded value	2,227	1,826	1,106
New business	1,606	1,107	903
Experience variances and changes in actuarial assumptions	592	659	978
Embedded value before discount rate, currency and capital movements	\$ 32,328	\$ 29,956	\$ 18,014
Discount rate changes	(200)	238	(150)
Currency	(1,167)	(1,674)	(2,096)
Common shareholder dividends	(926)	(690)	(361)
Other capital movements <sup>1</sup>	(1,020)	73	9
<b>Embedded value as at December 31</b>	<b>\$ 29,015</b>	<b>\$ 27,903</b>	<b>\$ 15,416</b>
<b>Embedded value per share</b>	<b>\$ 36.63</b>	<b>\$ 34.55</b>	<b>\$ 33.32</b>
<b>Annual growth rate in embedded value</b> (before impact of discount rate, currency and capital changes)	<b>16%</b>	<b>94%</b>	<b>20%</b>

<sup>1</sup> Includes share repurchases and option exercises.

The embedded value can be reconciled to the consolidated financial statements as follows:

### As at December 31

(Canadian \$ in millions)

	2005	2004
Shareholders' equity on balance sheet (excludes preferred shares)	\$ 23,286	\$ 22,951
Fair value adjustments	776	729
Goodwill and (post-tax) intangible assets	(8,633)	(8,506)
Value of shareholders' net equity	\$ 15,429	\$ 15,174
Pre-tax value of expected profit embedded in CGAAP policy liabilities (actuarial provision for adverse deviations)	\$ 26,533	\$ 24,288
Adjustments to expected value of profit <sup>2</sup>	(9,720)	(8,326)
Cost of locked-in capital	(3,227)	(3,233)
Value of in-force business	\$ 13,586	\$ 12,729
<b>Embedded value</b>	<b>\$ 29,015</b>	<b>\$ 27,903</b>

<sup>2</sup> The adjustments include the present value of additional margins not captured in the actuarial PfAD (2005 – \$5,105 million), taxes (2005 – \$(9,613) million), and converting discount rates from valuation rates to cost of capital adjusted discount rates (2005 – \$(5,213) million).

The principal economic assumptions used in the embedded value calculations in 2005 were as follows:

	Canada	U.S.	Hong Kong	Japan
MCCSR ratio	150%	150%	150%	150%
Discount rate	8.00%	8.50%	9.50%	6.50%
Risk premium	4.0%	4.0%	5.0%	5.0%
Equity return	8.00%	8.50%	9.50%	6.50%
Inflation	2.0%	2.0%	2.0%	0.0%
Income tax rate	35%	35%	17.5%	36%
Foreign exchange rate	N/A	1.1659	0.1504	0.0099

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 8.5 per cent.

Surplus assets are projected forward at a market return of seven per cent for U.S. and Canadian dollar denominated assets, and three per cent for Yen denominated assets.

Consistent with normal practice, the foreign exchange rates and discount rates are updated each year to reflect prevailing market rates. Other principal assumptions are unchanged with the exception of the surplus yield in Japan. The key assumption changes are summarized below:

<b>Discount Rates</b>	<b>2005</b>	2004	<b>Exchange Rates</b>	<b>2005</b>	2004
Canada	<b>8.00%</b>	8.25%	U.S. Dollar	<b>1.1659</b>	1.2036
U.S.	<b>8.50%</b>	8.25%	Hong Kong Dollar	<b>0.1504</b>	0.1548
Hong Kong	<b>9.50%</b>	9.25%	Japanese Yen	<b>0.0099</b>	0.0117
<b>Surplus Yield</b>	<b>2005</b>	2004			
Japan	<b>3.0%</b>	2.5%			

Embedded value has been calculated using the financial position of the Company as at June 30, 2005 projected to December 31, 2005, 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.

## Cautionary Statement Concerning Forward-Looking Statements

This document includes forward-looking statements within the meaning of the "safe harbour" provisions of Canadian provincial securities laws and the U.S. *Private Securities Litigation Reform Act of 1995*. These forward-looking statements relate to, among other things, the Company's objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and generally can be identified by the use of words such as "may", "will", "could", "would", "suspect", "outlook", "expect", "intend", "estimate", "anticipate", "believe", "plan", "forecast" and "continue" (or the negative thereof) and words and expressions of similar import, and include statements concerning possible or assumed future results of the Company. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve inherent risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from expectations include, but are not limited to: business competition; maintenance of financial ratings; general economic conditions and market factors including stock market and real estate market performance and fluctuations in interest rates and currency values; the variation between actual claims experience under insurance policies and initial claims estimates; changes in government regulations or in tax laws; unfavourable resolution of litigation involving the Company; the Company's ability to complete strategic acquisitions and to integrate acquisitions; reliance on third parties that may be unable to fulfill obligations or perform services; political conditions and developments; the timely development and introduction of new products and services; unexpected changes in consumer spending and saving habits; natural disasters such as hurricanes or tsunamis; public health emergencies, such as an influenza pandemic; international conflicts and other developments including those relating to terrorist activities; and the Company's success in anticipating and managing the risks associated with those events. Additional information about factors that may cause actual results to differ materially from expectations, and about material factors or assumptions applied in making forward-looking statements, may be found under "Risk Management" and "Critical Accounting and Actuarial Policies" in Management's Discussion and Analysis for the year ended December 31, 2005 and elsewhere in the Company's filings with Canadian and U.S. securities regulators. The Company does not undertake to update any forward-looking statements.