

Source of Earnings

Manulife Financial uses the Source of Earnings (“SOE”) to identify the primary sources of gains or losses in each reporting period. It is one of the key tools in understanding and managing the Company’s business. The SOE is prepared in accordance with regulatory guidelines prepared by the Canadian regulator, OSFI (Office of the Superintendent of Financial Institutions), and in accordance with draft guidelines prepared by the Canadian Institute of Actuaries.

The SOE attributes earnings to one of eight categories: expected profit from in-force business; the impact of new business; experience gains or losses comparing actual to expected outcomes; the impact of management actions and changes in assumptions; the impact of segregated fund guarantees; earnings on surplus funds; other; and the cost of taxes. In aggregate, these elements explain the \$3,294 million in shareholders’ net income in 2005.

Expected profit from in-force business represents the formula-driven release of Provisions for Adverse Deviation (“PfADs”) on the non-fee income businesses and the expected annual pre-tax income on fee businesses. PfADs represent additional amounts held in excess of the expected cost of discharging policy obligations to provide a margin of conservatism. These amounts are released over time as the Company is released from the risk associated with the policy obligations.

Impact of new business represents the financial impact of new business written in the period, including acquisition expenses. Writing new business creates economic value, which is offset by the conservative PfADs and other limits on capitalization of this economic value in the actuarial liabilities. Consequently, the Company reports an overall loss in the statement of operations from new business in the first year.

Experience gains or losses arise from items such as claims, policy persistency, investment returns, fee income and expenses, where the actual experience in the current period differs from the expected results assumed in the policy liabilities. This component also includes the impact of currency changes to the extent they are separately quantified. Experience gains do not include the impact of management actions or changes in assumptions during the reporting period, or the impact of segregated fund guarantees, which are reported separately. The Company believes its expected assumptions are prudent. This is consistent with a history of favourable overall experience variances.

Management actions and changes in assumptions reflect the income impact of changes to valuation methods and assumptions for the policy liabilities and other management-initiated actions in the period that are outside the normal course of business.

All changes in methods or assumptions impacting the policy liabilities are reported in the Corporate and Other segment with a total consolidated impact of positive \$50 million in 2005 and positive \$38 million in 2004 – Note 7 of the consolidated financial statements gives additional details of the breakdown of the changes in actuarial methods and assumptions. The change in methods and assumptions impact includes the impact of updating the discount rates applied in the valuation for the current year movement in market interest rates and equity markets for all businesses not actively managed on a matching basis (for wealth management businesses which are actively managed on a matching basis, the discount rates applied in the valuation are updated quarterly for investment market movements, with any gain/loss reported as an experience gain/loss in the business segment).

Material management action items reported in the Corporate segment include the integration expenses associated with the John Hancock acquisition (reported in the Corporate and Other segment with a total consolidated pre-tax impact of \$145 million in 2005 and \$139 million in 2004) as well as a \$60 million accrual in 2005 related to Portus.

Management action gains reported in business segments are primarily driven by the income adjustments related to the revisions to the John Hancock purchase equation in 2005.

Segregated fund guarantees represent the income impact of segregated fund guarantees in the period, including the change in actuarial liabilities related to these guarantees. The income impact of changes in the Conditional Tail Expectation (“CTE”) level of segregated fund guarantee reserves is shown separately from the impact before changes in the CTE level. CTE is a measure of unfavourable economic scenarios that generate large losses.

Earnings on surplus funds reflect the actual investment returns on the assets supporting the Company’s surplus (shareholders’ equity). These assets comprise a diversified portfolio and returns will vary in harmony with the underlying asset categories.

Other represents pre-tax earnings items not included in any other line of the SOE, including minority interests. 2005 includes an \$89 million gain reported in Corporate and Other due to receipt of a residual asset payment from the receiver related to the wind-up of Daihyaku Life.

Income taxes represent the tax charges to earnings based on the varying tax rates in the jurisdictions in which Manulife Financial conducts business.

Manulife Financial’s shareholders’ net income increased to \$3,294 million in 2005 from \$2,550 million the previous year.

Source of Earnings

For the year ended December 31, 2005 (Canadian \$ in millions)	U.S. Protection	U.S. Wealth Management	G&SFP	Canadian Division	Asia and Japan Division	Reinsurance Division	Corporate and Other	Total
Expected profit from in-force business	\$ 550	\$ 658	\$ 179	\$ 547	\$ 502	\$ 197	\$ 61	\$ 2,694
Impact of new business	(107)	(147)	(3)	(49)	22	(19)	–	(303)
Experience gains	217	115	46	136	157	(371)	315	615
Management actions and changes in assumptions	32	29	15	6	10	9	(186)	(85)
Segregated fund guarantees	–	18	–	126	14	25	–	183
Earnings on surplus funds	230	148	168	290	106	70	121	1,133
Other	5	(12)	(3)	1	(10)	–	107	88
Income (loss) before income taxes	\$ 927	\$ 809	\$ 402	\$ 1,057	\$ 801	\$ (89)	\$ 418	\$ 4,325
Income taxes	(313)	(224)	(119)	(248)	(69)	(19)	(39)	(1,031)
Net income (loss) attributed to shareholders	\$ 614	\$ 585	\$ 283	\$ 809	\$ 732	\$ (108)	\$ 379	\$ 3,294
Impact of Segregated Fund Guarantees								
Constant CTE	\$ –	\$ (14)	\$ –	\$ 128	\$ 14	\$ 22	\$ –	\$ 150
Change in CTE level	–	32	–	(2)	–	3	–	33
Total impact	\$ –	\$ 18	\$ –	\$ 126	\$ 14	\$ 25	\$ –	\$ 183

For the year ended December 31, 2004 (Canadian \$ in millions)	U.S. Protection	U.S. Wealth Management	G&SFP	Canadian Division	Asia and Japan Division	Reinsurance Division	Corporate and Other	Total
Expected profit from in-force business	\$ 465	\$ 443	\$ 129	\$ 405	\$ 379	\$ 209	\$ 59	\$ 2,089
Impact of new business	(82)	(145)	(10)	(78)	23	(32)	–	(324)
Experience gains	122	105	51	137	77	18	205	715
Management actions and changes in assumptions	(9)	6	–	(21)	(14)	–	(119)	(157)
Segregated fund guarantees	–	22	–	129	3	46	–	200
Earnings on surplus funds	200	125	129	227	93	70	37	881
Other	4	(2)	7	9	2	1	(1)	20
Income before income taxes	\$ 700	\$ 554	\$ 306	\$ 808	\$ 563	\$ 312	\$ 181	\$ 3,424
Income taxes	(233)	(157)	(94)	(194)	(74)	(82)	(40)	(874)
Net income attributed to shareholders	\$ 467	\$ 397	\$ 212	\$ 614	\$ 489	\$ 230	\$ 141	\$ 2,550
Impact of Segregated Fund Guarantees								
Constant CTE	\$ –	\$ 47	\$ –	\$ 89	\$ 3	\$ 35	\$ –	\$ 174
Change in CTE level	–	(25)	–	40	–	11	–	26
Total impact	\$ –	\$ 22	\$ –	\$ 129	\$ 3	\$ 46	\$ –	\$ 200

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.