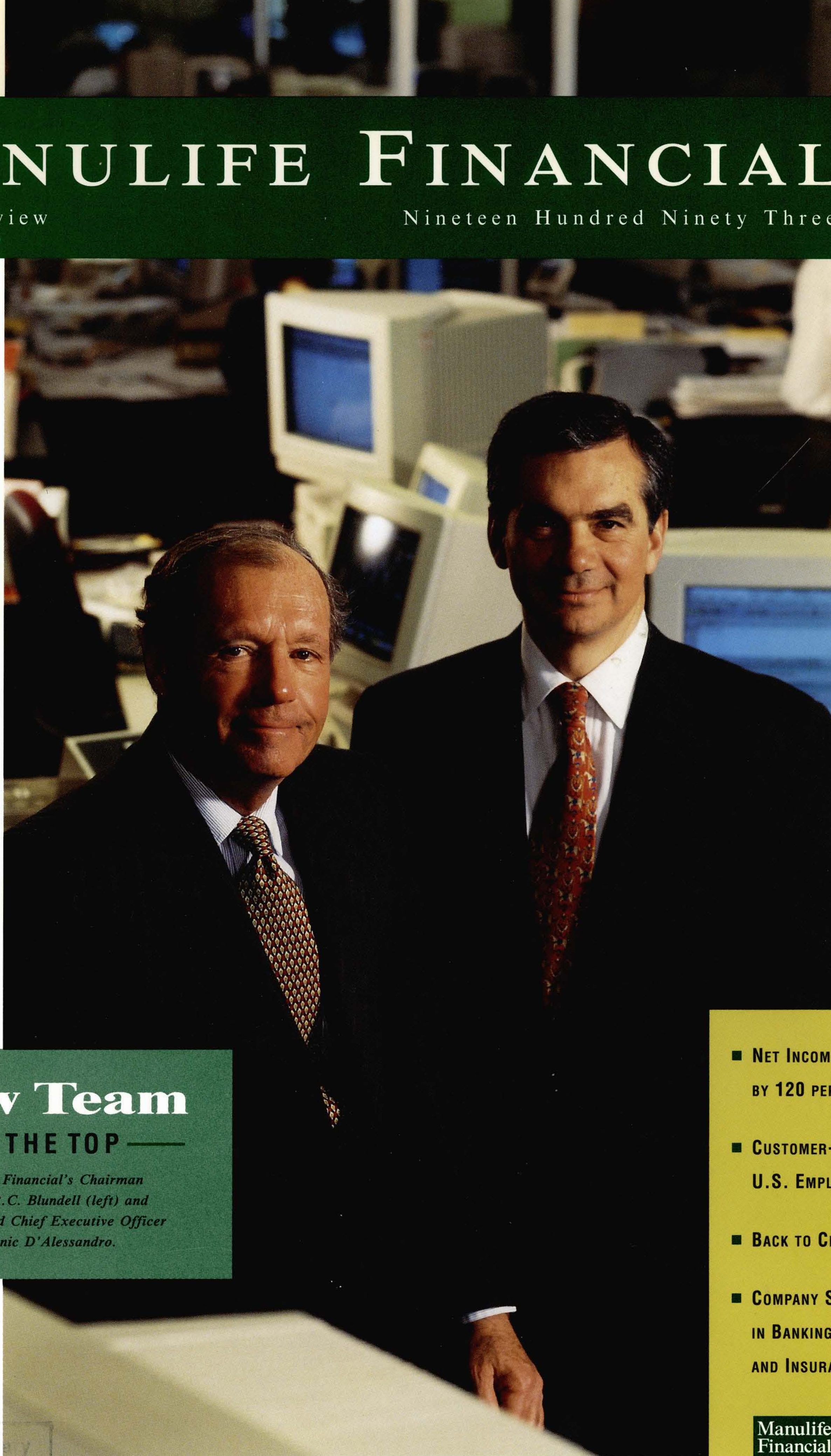
# Manulife Financial

Annual Review — Nineteen Hundred Ninety Three



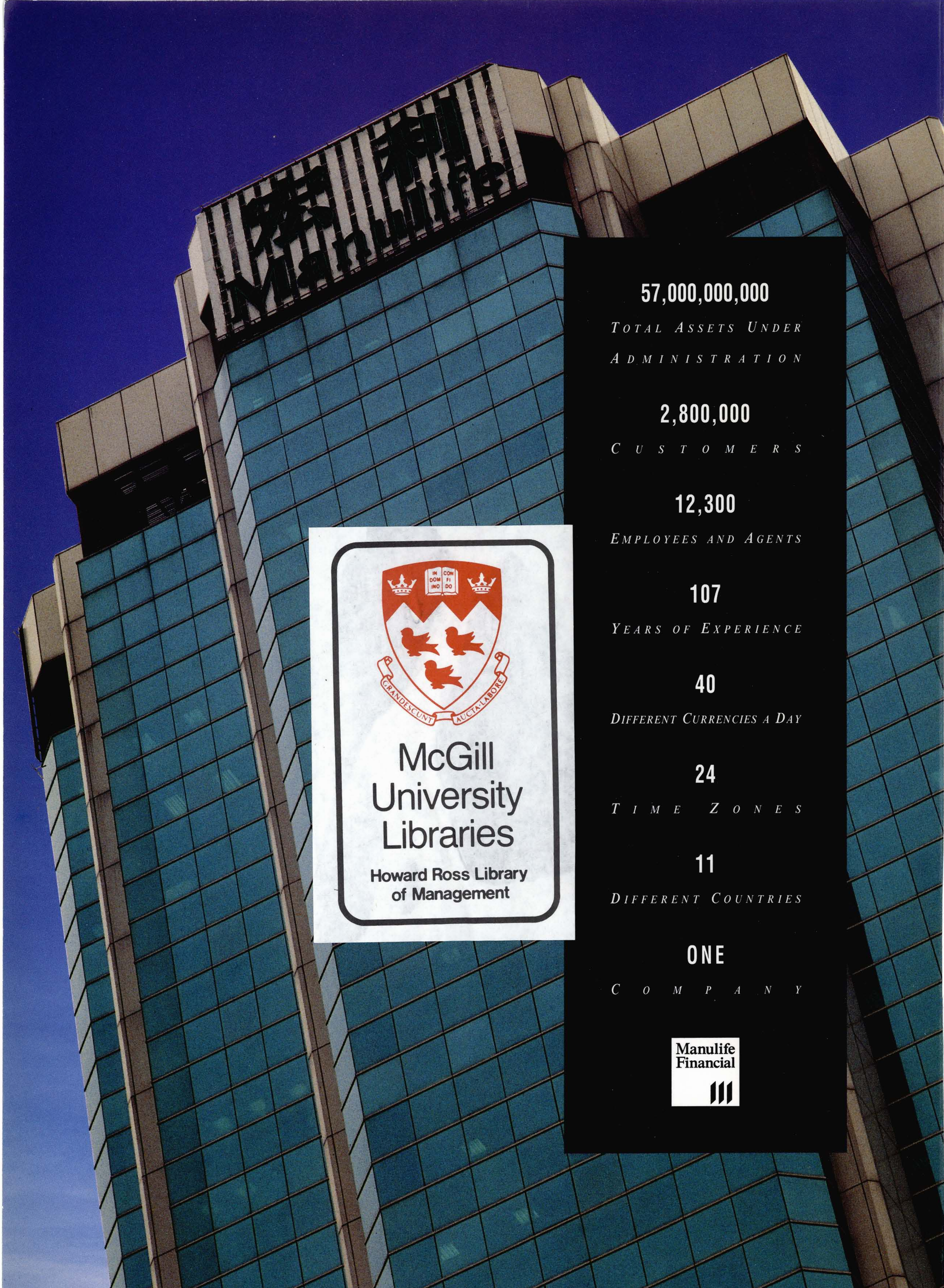
## New Team

### AT THE TOP

*Manulife Financial's Chairman William R.C. Blundell (left) and President and Chief Executive Officer Dominic D'Alessandro.*

- Net Income Jumps by 120 per cent
- Customer-Driven U.S. Employees
- Back to China
- Company Synergy in Banking and Insurance

Manulife Financial


Manulife
57,000,000,000
Total Assets Under Administration
2,800,000
Customers
12,300
Employees and Agents
107
Years of Experience
40
Different Currencies a Day
24
Time Zones
11
Different Countries
ONE
Company
Manulife Financial

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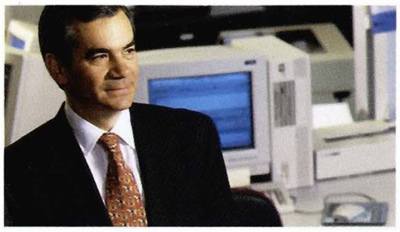

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### PRESIDENT'S MESSAGE

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### MANULIFE BANK AND MANULIFE INSURANCE–TOGETHER

*Formation of new bank gives company a unique competitive advantage.*



*All figures shown are in Canadian Dollars unless otherwise indicated.*

# Moving Manulife

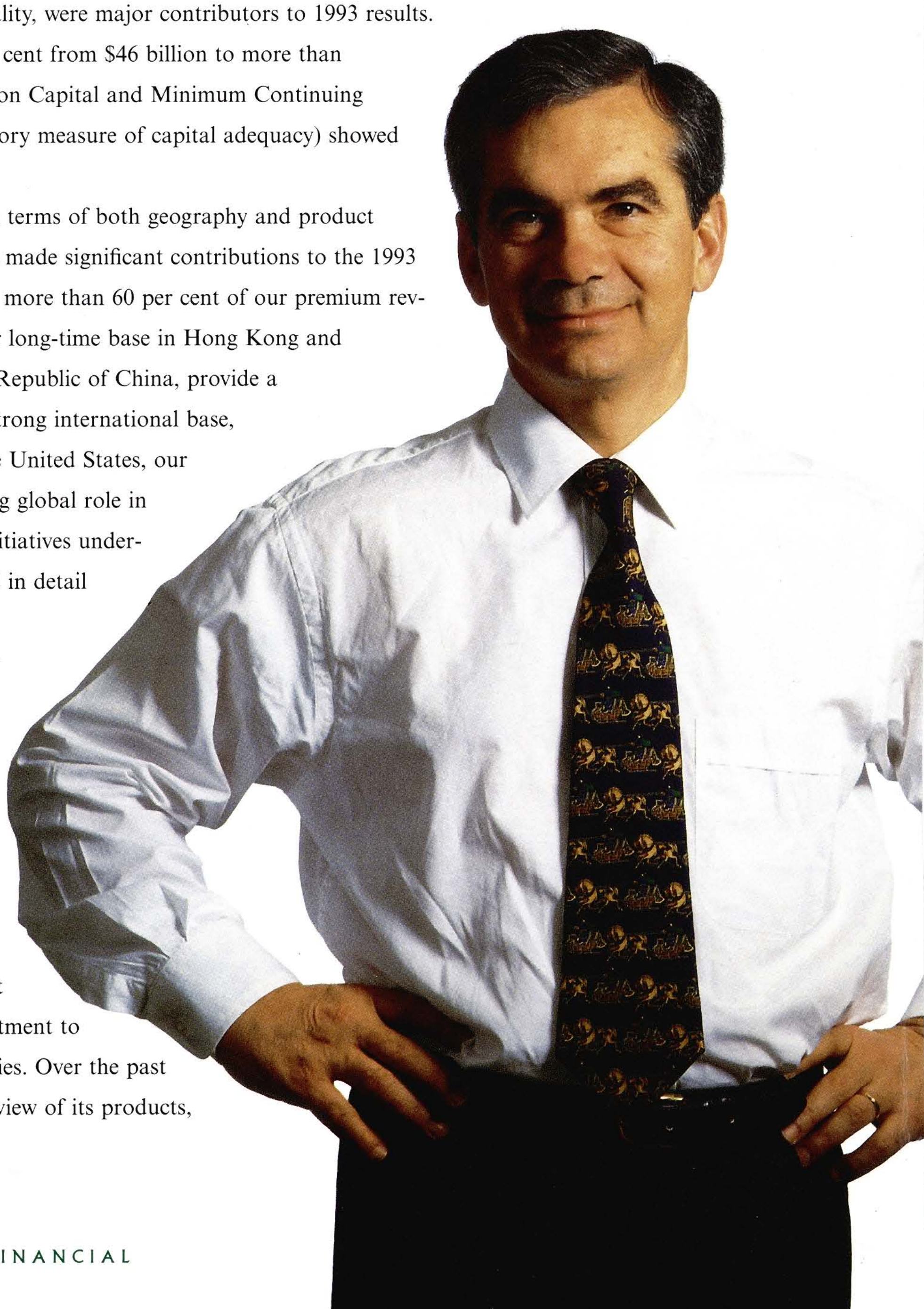
## As I assume the position of President and Chief Executive Officer of Manulife Financial,

I look forward with anticipation to our prospects for the future and to the opportunity of working with such an outstanding team of proven professionals around the world.

At the close of 1993, Manulife stands as one of the world's strongest and most successful financial institutions. It is my mandate, and indeed that of all our officers and employees, to maintain and enhance that financial position. I have confidence in our ability to achieve this goal.

Nineteen ninety-three was a successful year for Manulife, with net income, assets and revenue all growing substantially over 1992.

Net income of $187 million represented an increase of $102 million over 1992, with major operating units reporting strong earnings. Good investment results due to strong equity markets both in North America and overseas, and favourable mortality, were major contributors to 1993 results.



Total assets under administration grew 25 per cent from $46 billion to more than $57 billion during the year. The company's Return on Capital and Minimum Continuing Capital and Surplus Requirement ratio (the regulatory measure of capital adequacy) showed improvement over 1992.

Manulife's strategy of broad diversification, in terms of both geography and product offerings, continued to serve us well. All operations made significant contributions to the 1993 results, especially internationally where we generate more than 60 per cent of our premium revenues. Our operations in Asia Pacific, including our long-time base in Hong Kong and our three new representative offices in the People's Republic of China, provide a springboard for future international growth. This strong international base, together with our substantial market position in the United States, our long history domestically in Canada and our leading global role in Reinsurance, is a proven strategy of success. The initiatives undertaken in 1993 and the results achieved are discussed in detail in the pages that follow.

Nineteen ninety-three was an eventful year for Manulife. Tom Di Giacomo departed the company in August after twenty-five years of service, including six as Chief Executive Officer. Manulife's rapid growth and international expansion during that period are testaments to his tenure.

Manulife also initiated several restructuring programs throughout our operations in 1993 which will allow us to better satisfy our customers' present and future needs. We have also renewed our commitment to be one of the world's leading life insurance companies. Over the past 18 months, Manulife has conducted an extensive review of its products,

# FORWARD

businesses and markets. This strategic review will be completed in 1994.

The financial services industry is experiencing what other worldwide industries are experiencing—change. We have examined the many challenges that face us: global competition from across the financial services sector; volatility of world markets; product-to-market time, innovation and adaptability; and local market expertise. We are determined that Manulife will be one of the leading companies in adapting to meet these challenges.

Key elements of our plan include a continuation of the substantial investment in the training and development of our employees and agents worldwide. As well, we will continue to aggressively use information technology to improve our productivity and customer service. We will also take steps to continue the development of our significant investment management expertise. Manulife remains firmly committed to maintaining an international profile and expansion of our operations outside Canada is expected.

In all of our undertakings, Manulife will remain committed to financial strength, product innovation, customer service and integrity. These qualities are the cornerstones upon which this company was founded and they are values which will never be compromised.

We are moving Manulife forward to another phase in our successful 107-year history, building upon our considerable strengths and capitalizing on the opportunities that await us. Manulife's ultimate objective is to be the premier life insurance company in the world. We have the foundation, the human capital and the financial resources that will allow us to realize this goal.

I would like to take this opportunity to thank several key people for their contributions to Manulife Financial. Our former Chairman, Syd Jackson, is retiring after 46 years of service. Manulife owes Syd a great debt of gratitude for his wise counsel and dedication through these many years. To many people both inside and outside this company, Syd *was* Manulife and we shall miss him.

Also retiring is Ken Whalen after ten years as a valued member of the Board of Directors. We have appreciated his keen insight and sincerely thank him for his contributions.

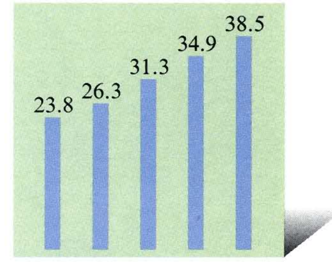
I would like to congratulate Bill Blundell on his appointment as Chairman of the Board of Directors. Bill's steady hand over these past few months as interim President and Chief Executive Officer has been greatly appreciated by all of us at Manulife and I look forward to working with him and the rest of the Board.

I am pleased to welcome to our Board Mr. Lino Celeste, former President and Chief Executive Officer, New Brunswick Telephone Company.

In closing, I would like to recognize the contributions of Manulife's 6,300 employees and thousands of agents and brokers. Your dedication, effort and expertise is to be admired. I would also like to thank our customers around the world for their continued support. I am proud to have joined Manulife and look forward to working alongside each of you as we further build this great company. ■

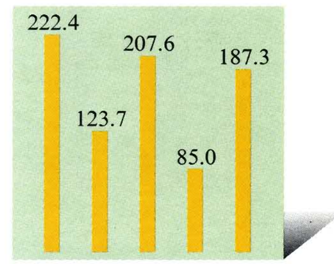
D. D'Alessandro

Dominic D'Alessandro
*President and Chief Executive Officer*



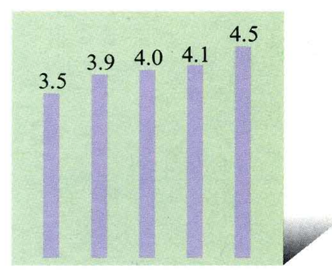

**Total Assets**

($ Billions)
Excluding segregated funds



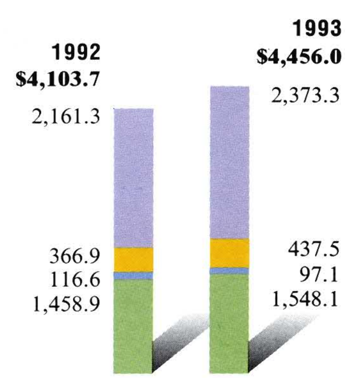

**Net Income**

($ Millions)




**Premium Income**

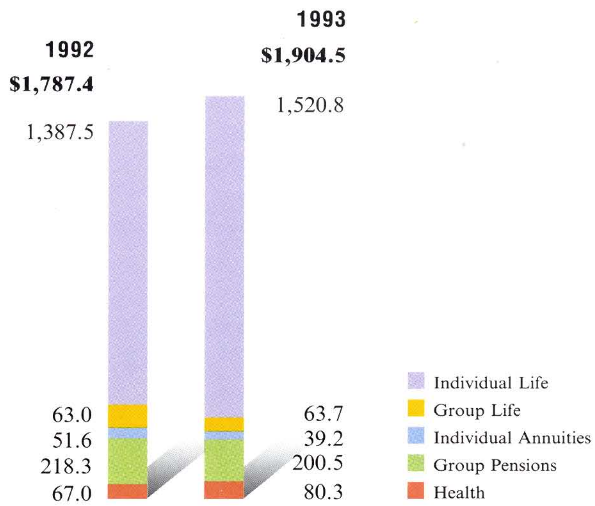
($ Billions)
Excluding segregated funds




**Premium Income by Geographic Market**

($ Millions)
Excluding segregated funds
Including Reinsurance

- United States
- Asia Pacific
- United Kingdom
- Canada




**Premium Income**

($ Millions)
Excluding segregated funds

# UNITED STATES OPERATIONS

THE PERFORMANCE OF MANULIFE FINANCIAL'S UNITED STATES OPERATIONS CONTINUED ITS UPWARD TREND IN 1993. STRONG divisional earnings, up substantially from 1992, were the result of continuing strong mortality, competitively priced products and a solid investment strategy.

Individual life insurance and group life and health insurance premiums continued to grow. Together, they increased by 10 per cent to $1.7 billion in 1993. Premium volume on individual life insurance increased by 13 per cent as a result of the division's policy persistency and strong focus on customer service. Assets in the Series Funds which support Variable Universal Life and Variable Annuity policies increased from $130 million in 1992 to $262.5 million in 1993.

Group insurance and pension sales remained stable, but individual insurance sales were disappointing. Weak individual insurance sales were largely the result of the aggressive action taken on the dividend crediting rate to bring it in line with investment performance on the assets backing participating products. To help prospective policyholders understand dividend crediting practices, the company introduced the Index Rate concept for all participating policy illustrations. The Index Rate is an illustration scale based on historical investment returns rather than on current or projected future returns. The Index Rate concept has been well received by industry experts and has reinforced Manulife's reputation for an uncompromising commitment to full disclosure at the point of sale.

Despite this decline in individual insurance sales, sales of variable insurance products were outstanding. Variable insurance premium volume increased 250 per cent over 1992 as policyholders sought out strong insurance products that would also provide them with greater control over investments and risk.

In 1994, Manulife will continue to place an increasing emphasis on serving and satisfying the needs of customers. One way is by aggressively attacking the growing market for variable products. These products uniquely address client concerns about unpredictable interest rates and the desire for more control over their investments.

As well, Manulife's United States Operations is committed to improving overall productivity and is addressing this challenge by adopting more entrepreneurial, flexible ways of doing business. In 1993, the Operation took the first steps toward greater employee involvement leading to a more customer-focused organization. Among these initiatives were: customer focus groups involving people who share the demographics of the target market; Future Forum, a symposium which allowed a broad cross-section of employees to discuss opportunities presented by economic and lifestyle trends; and a Process Re-engineering Project. This works hand-in-hand with strategic planning methodology to ensure that adequate procedures, processes and systems are in place to implement long-term strategies while providing the best possible service to customers and distributors. ■

# INTERNATIONAL OPERATIONS

MANULIFE'S INTERNATIONAL OPERATIONS RECORDED A SUCCESSFUL 1993. THE OPERATIONS ENCOMPASS CHINA, HONG KONG, TAIWAN, INDONESIA, PHILIPPINES, KOREA, SINGAPORE, THE UNITED KINGDOM and the world wide operations of Reinsurance. Both earnings and sales were extremely strong as International Operations continues to be a high priority for Manulife Financial.

Total premium income of $1.02 billion for 1993 represented an increase in Asia Pacific of 19 per cent to $431.8 million with Reinsurance premiums continuing to post solid gains, rising 24 per cent to $497.9 million. The United Kingdom showed a 17 per cent decrease to $93 million.

Broad geographical diversification has been a successful strategy for Manulife for more than 100 years and success in international markets is a key factor in the company's growth and prosperity. Manulife's intent is to invest the necessary time, capital and people to maximize its favourable positioning and ensure its future success.

In keeping with this intent, Manulife reviewed its international business strategies and organizational needs in 1993, resulting in a strategic reorganization.

The Asia Pacific Division was restructured into two distinct areas—Greater China (including Manulife's growing presence with three representative offices in the People's Republic of China, its vibrant long-time base in Hong Kong, as well as Taiwan) and Pacific Rim (including Indonesia, Philippines, Korea, Singapore and new regional ventures).

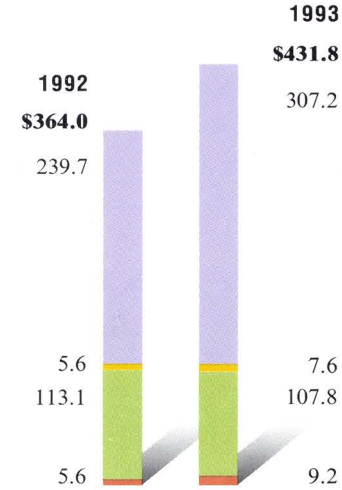
Manulife enjoys a century of experience in Asia Pacific and has made a considerable investment in the area. Its employees and agents have developed strong local market expertise which has supplied Manulife with an enviable competitive advantage. Strong general managers and dedicated management teams will continue to ensure that each region's potential is achieved.

Also in 1993, Manulife expanded its already significant Reinsurance operations, establishing a European office in Wiesbaden, Germany. Reinsurance's three-year-old Asian office, located in Singapore, strengthened its operation in 1993 and continued to extend its presence in the region.

The United Kingdom successfully consolidated its field structure while it streamlined the Chief office, producing significant improvements in consultant productivity and administrative unit costs.

Manulife completed the sale in 1993 of the Bahamian business to Life of Jamaica. All of Manulife's Caribbean business has now been sold, with the exception of Barbados.

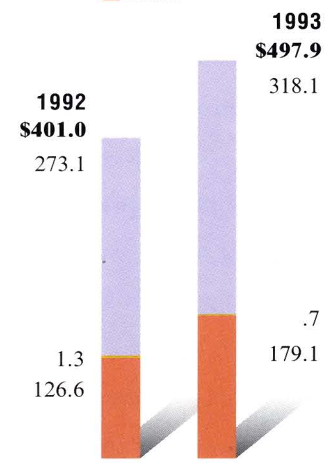
Manulife's International Operations, with 4,200 employees and agents around the world, will continue to play a leading role in Manulife's future business strategy.




**Asia Pacific Premium Income**

($ Millions)
Excluding segregated funds

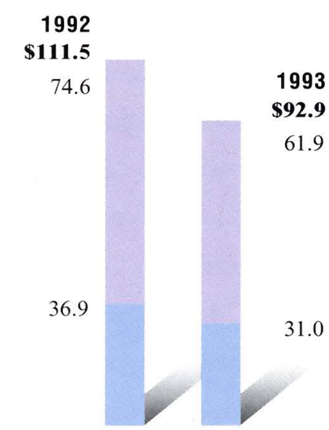
- Individual Life
- Group Life
- Group Pensions
- Health




**Reinsurance Premium Income**

($ Millions)

- Individual Life
- Group Life
- Health




**United Kingdom Premium Income**

($ Millions)
Excluding segregated funds

- Individual Life
- Individual Annuities

# CANADIAN OPERATIONS

CANADIAN OPERATIONS EXPERIENCED IMPROVED RESULTS ON SEVERAL FRONTS DURING 1993, DESPITE A weak Canadian economy and continuing competitive pressures.

Manulife's insurance earnings in Canada improved significantly in 1993. Major contributors to the improvement included better spreads on the Savings and Retirement Services (SRS) line, significant growth in segregated fund business, and favourable mortality and morbidity results in all lines of business.

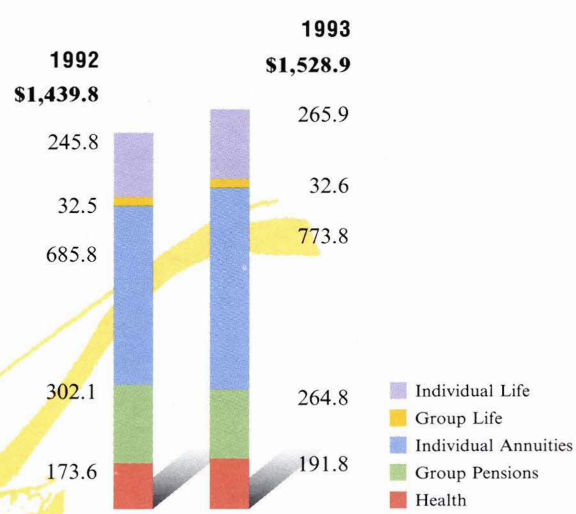
Total premiums and segregated fund deposits increased 22.7 per cent from 1992 because of very strong segregated fund results as Canadians continue to focus on savings for retirement. Individual Life premiums were up 8.1 per cent from 1992 in a highly competitive marketplace. During 1993, prices were increased for the Term-to-100 product and a review was undertaken to ensure that reserves on this product are appropriate for emerging lapse and investment experiences. Group Life and Health premiums increased by nine per cent from 1992 in a difficult and competitive economy.

FirstLine Trust had an excellent year with 1993 earnings of $7.2 million up from a loss of $7.4 million the previous year. (Earnings in 1992 were negatively impacted by a change in accounting methodology for Mortgage Backed Securities). During 1993 FirstLine Trust successfully introduced a new Collateralized Mortgage Obligation product and strengthened its mortgage production capability by purchasing the Equity Centre.

In its first year, the Manulife Bank of Canada invested in technology and product development for the future, resulting in a loss of $4.8 million. Provision for loan losses declined more than 50 per cent from 1992 to $8.7 million. The priority for the new bank is to create products for the company's insurance policyholders. Major initiatives during 1993 included the launch of the Insured Retirement Product, the development of a Secured Benefit Account for the proceeds of life insurance claims, and piloting the launch of Guaranteed Investment Certificates through the agency distribution channel. The development of a family of mutual funds through the co-operation of SRS and the Bank was a major priority during 1993 and seven new funds were launched early in 1994.

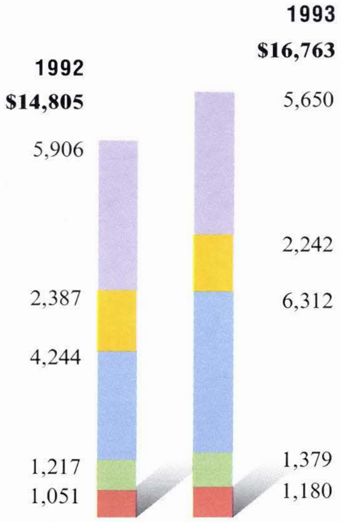
During 1994, Canadian Operations will place major emphasis on the development of the Individual Insurance line through investment in a new life administration system, launch of a new life product, improved marketing and training support for its agency force, and improved synergy with the Bank.

The focus on Quality Service Everytime through employee training, introduction of a Quality Service Index based on feedback from customers and producers, and other measures continues. The major challenge of the 1990s is to deliver improved service at lower unit costs and this continues to be the overriding theme and goal for Canadian Operations. ■




**Premium Income**

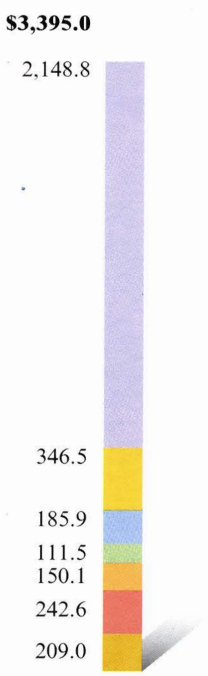
($ Millions)
Excluding segregated funds




**Bonds by Grade**

($ Millions)

- AAA
- AA
- A
- BBB
- BB & Lower




**Real Estate Assets**

($ Millions)

- Office Commercial
- Retail Commercial
- Residential
- Industrial
- Purchase Lease & Ground Rents
- Land Inventory
- Foreclosed Properties

# INVESTMENT OPERATIONS

MANULIFE'S INVESTMENT OPERATIONS RECORDED A YEAR OF STRONG PERFORMANCES IN 1993. AMIDST A CHALLENGING ENVIRONMENT THAT SAW LOW INTEREST RATES AND DECLINING REAL ESTATE VALUES INSPIRE BULLISH BOND AND EQUITY markets, company assets grew 10 per cent to $38.5 billion.

As in previous years, Manulife's prudent management philosophy and commitment to high-quality assets served the company well. The Fixed Income portfolio, at 44 per cent of total assets, remains very high quality with more than 85 per cent rated 'A' or better. The Canadian and U.S. bond funds that back the fixed term, fixed rate guaranteed liabilities generated impressive returns of 11.43 per cent and 9.19 per cent respectively.

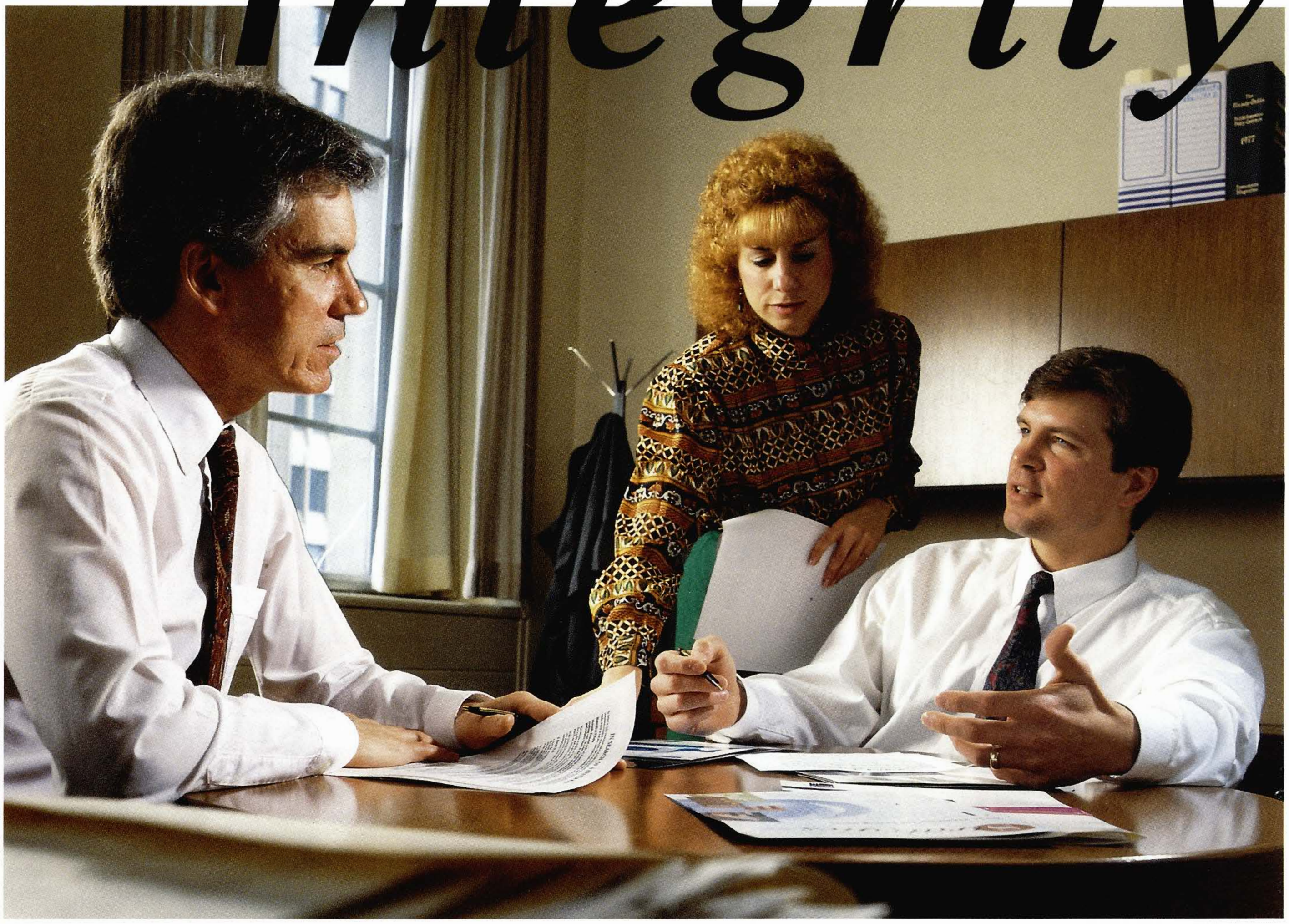
On the major equity markets, Manulife recorded outstanding growth while outperforming its respective indices. The Canadian portfolio closed at year-end with a 37.3 per cent total return; the U.S. portfolio returned 14.5 per cent; and the International Equities portfolio (comprising investments in European, U.S. and Asia Pacific entities) produced a return of 38.7 per cent.

Like most other major financial institutions, Manulife's investments in mortgages and real estate continued to feel the effects of the soft North American market. The company took $255 million of principal writedowns and reduced its mortgage portfolio to 24 per cent of invested assets, down from 27 per cent in 1992.

Despite appraised property values declining in 1993, Manulife's real estate portfolio remains very secure. A proactive leasing program enabled the company to maintain an occupancy rate on managed properties in excess of 90 per cent (well above industry average) and generate property income consistent with previous years.

Manulife's Investment Operations is embarking on a series of initiatives designed to increase its future competitive advantage and ensure its investment management expertise. The operation is also committed to rapid advancements in its information technology capabilities. The nature of the investment business and the realities of the competitive investment community, both today and tomorrow, make this a strategic priority. As well, human resource management initiatives are being designed to better achieve bottom-line results through co-operation and teamwork. ■

# ILLUSTRATING *Integrity*



CONTINUING MANULIFE'S EFFORTS TO HELP ITS CUSTOMERS UNDERSTAND LIFE INSURANCE AND MAKE INFORMED BUYING DECISIONS, PAT KELLEHER (RIGHT), MIKE ENGLERT AND SUE DURAND DISCUSS MANULIFE'S "INDEX RATE" POLICY ILLUSTRATIONS.

POLICY ILLUSTRATIONS ARE OFTEN USED WITHIN THE LIFE INSURANCE INDUSTRY TO SHOW POTENTIAL CUSTOMERS HOW COMPANIES AND PRODUCTS COMPARE. IT IS IMPORTANT FOR POLICYHOLDERS TO UNDERSTAND THAT A POLICY'S ACTUAL VALUES will differ from the values shown in the policy illustration, especially if the illustration is based solely on the current dividend scale.

Manulife Financial has taken a leadership role in clarifying illustrations and focusing attention on more fundamental issues including: the financial strength of the company; its past performance; its treatment of current policyholders; its experience in the marketplace; and the quality of its local representatives.

In 1993, Manulife's U.S. Operations introduced an illustration tool called the Index Rate which gives customers a representation of the average rate of return on an investment portfo-

TAKING PART IN U.S. INDIVIDUAL'S "FUTURE FORUM" ARE (FRONT TO BACK) DENISE BRONAUGH OF NASHVILLE, DON PARKINSON AND DON GULOIEN OF TORONTO.

## CUSTOMER SERVICE DRIVES EMPLOYEES

Hundreds of employees across Manulife's U.S. Individual Business, in partnership with producers and distributors, are actively participating in the processes of strategic planning and re-engineering the business. These were functions once solely within the domain of senior management.

While employee involvement is widely touted by business gurus as the way to develop and inspire company staff, customers may be the greatest beneficiaries of an empowered approach.

"By involving employees at all levels and across all disciplines, we're using the brain power of the whole organization, not just the ideas of a few people at the top," says Richard Fung, U.S. Individual Operations Vice President. "And when that much employee input is directed at satisfying the customer, everyone wins."

By tapping into the creativity, talents and knowledge of all employees, Manulife is developing its most important sustainable competitive advantage: people. The company and its customers alike reap the benefits.

Involving people at the outset in shaping business strategies and processes also makes implementing changes that much easier. Everyone is actively seeking to understand customer needs and develop much more effective ways to meet them—whether creating innovative products or responding to a client's questions on the telephone.

With employees spending more time working on strategic issues, does customer service suffer? "We're seeing exactly the opposite," says Fung. "Involved employees are more efficient and more accurate in providing customer service. They're more productive, and that means greater value for the customer.

"Engaging employees more fully in our business has created a self-feeding energy that is moving in an upward spiral." ■

lio during a 50-year period, from 1942 to 1991. Because the Index Rate is lower than current rates, and is based on an asset mix which represents the company's present portfolio, its projections "present to the insurance buyer a more reasonable expectation, based on objective data which is accessible to all," says Don Guloien, Vice President, U.S. Individual Business.

Howard Saks, writing in *Estate Planning* magazine, congratulated Manulife for "providing prospective insurance purchasers with a more realistic and conservative look at what they may expect over the long term."

In addition to the Index Rate, Manulife is taking other steps to educate buyers about policy illustrations and the economic realities which may impact their policies. Such initiatives include client mailings, producer seminars and focus groups with customers.

"We must remember that we're not just in the financial services business, we're in the business of building long-term relationships with our policyholders," says Guloien. "The company's role is to help clients assess their needs and find the right solutions to fulfill those needs, and this must be based on reasonable expectations." ■

# Strategic Alignments for Pension Business

Two new business relationships are lending added value to Manulife and its growing stature in the small to medium-size employer pension market in the United States.

Manulife has developed a product which includes excellent funds from two of the strongest players in the investment and retirement business—T. Rowe Price and Fidelity. These alignments are further evidence of the company constantly searching for additional value it can bring to the marketplace.

"We pay attention to customer needs, and deliver high quality and exceptional service," says John Stoma, Pension Marketing Vice President, U.S. Group Pension Marketing. "These relationships deliver a spectrum of investments that include a number of investment styles and asset classes to meet customer needs. With this offering, we give clients the opportunity to assemble a portfolio of investments that is richly diversified, with potential for greater returns, with less risk."

To remain a leader in what may be the most competitive segment of the financial services marketplace, Manulife offers an extensive array of internal and external investments; a toll-free voice response system for investment transfers and updated account information; and one-on-one personalized service. ■

# Variable Annuity Funds Rated Tops

It's not often that even two of America's business editors agree on anything, so to have all four of America's most prestigious business magazines reach a consensus is quite an accomplishment.

That is exactly what Manulife Financial has succeeded in doing with its Emerging Growth Equity Fund and Real Estate Securities Fund. These two funds have been recognized by *Barron's, BusinessWeek, Fortune*® and *Kiplinger's* as the top-rated variable annuity funds in the United States.

The publications have all named these funds as outperforming the competition and market indices—by a wide margin. In particular, *Fortune*® magazine highlighted Manulife's Emerging Growth Equity Fund as the top performing fund supporting a variable annuity over a five-year period.


"We're extremely proud of the recognition," says Robin Bolton, Assistant Vice President, Variable and Annuity Products Marketing, U.S. Individual Business. "It's a testament to the team of Veronica Onyskiw, Diane Haflidson, Stephen Kahn and Angela Eaton—an outstanding group of fund managers who have done an excellent job on these two funds."

The publicity from these high-profile business magazines has resulted in a deluge of calls to Manulife's toll-free number that services the funds. The (800) 387-2728 number is available throughout the United States; a prospectus and brochure on the products are sent to each inquirer.

These two funds are part of the Manulife Series Fund Inc., available to the public through the purchase of a variable life or variable annuity product issued by The Manufacturers Life Insurance Company of America.

Early in 1993, Manulife's U.S. Group Pension Division added a clone of the Emerging Growth Equity Fund to its separate account investment options that are sold to qualified pension plans. This option has proven to hold significant appeal to participants searching for a more aggressive equity option with a seasoned management team. ■

# GOING *for* GOLD

WHEN BRITAIN'S MOST FAMOUS PAIR OF OLYMPIC ROWERS, STEVE REDGRAVE AND MATTHEW PINSENT, CROSS THE FINISH LINE AT THE 1996 OLYMPIC GAMES IN ATLANTA, MANULIFE FINANCIAL WILL BE WITH THEM. THE COMPANY'S United Kingdom Operations has announced exclusive sponsorship of the pair. Having already won Gold in the Coxless Pairs event at the 1992 Barcelona Olympics, Redgrave and Pinsent aim to repeat their performance in Atlanta. If they succeed, Steve Redgrave will become the first Briton ever to win four consecutive Olympic Gold medals.

"The sponsorship supports and enhances Manulife Financial's corporate philosophy," says Fred Simons, Senior Vice President and General Manager, United Kingdom. "Our policy is based on the principles of integrity, skill, dedication and hard work and these two athletes represent all these qualities." And, at a time when cost is often the deciding factor, it is also a highly efficient way to raise awareness of the Manulife name.

The company's logo will be seen on the oars, boat and competitive clothing of the two athletes at championship events leading up to 1996, including England's Henley Royal Regatta and the World Rowing Championships. ■


GREAT BRITAIN'S BEST ROWERS, STEVE REDGRAVE (LEFT), AND MATTHEW PINSENT, WILL BE WEARING MANULIFE COLOURS AS THEY PREPARE TO DEFEND THEIR OLYMPIC GOLD MEDAL AT THE 1996 GAMES IN ATLANTA.

# Global Image

MANULIFE'S GROWING REINSURANCE OPERATIONS CROWNED A SUCCESSFUL 1993 FISCAL YEAR WITH THE MOST RECENT STEP IN ITS STRATEGY OF INTERNATIONAL expansion: the opening of a regional office in Europe. Situated in Wiesbaden, Germany and targeting the entire continent for growth, the new office is one of the first opened in continental Europe by a North American insurer.

Leading the new European operation is Dr. Rainer Pütz, a respected reinsurance professional with more than 25 years of senior management experience in the industry. His goal will be to expand business in the evolving European marketplace by building on the company's key strengths: innovative product design and excellent risk assessment.

"Manulife has become one of the most respected reinsurance carriers in the world based on a combination of industry expertise, financial strength and international experience," says Zane Stait-Gardner, Senior Vice President and General Manager, Reinsurance Operations. "We have been able to build a limited business in Europe in the past. This move will give us a much stronger regional identity and open the door for future growth."

After building a solid reputation throughout Canada and the United States during the 1980s, Manulife opened its first regional reinsurance office in Singapore in 1991, positioning itself at the forefront of the growing Asia Pacific market. Stait-Gardner says both Europe and Asia Pacific represent excellent growth opportunities for the future and predicts the two regions will account for 40 per cent of Reinsurance Operations' annual new business premiums within the next five years.

The Asian presence has also increased the potential for Manulife to conduct reinsurance business in China. In fact, last year, Manulife Reinsurance worked with the company's Asia Pacific Division to place business from a Chinese firm. With the Chinese insurance market now opening up, Stait-Gardner says Manulife is cultivating relationships with other insurance companies in the region.

"Manulife's growing reinsurance operations expand the company's international presence," explains Stait-Gardner. "In addition to being a profitable business operation, Reinsurance provides Manulife with an alternate perspective on trends and developments throughout the insurance world." ■

# FOR REINSURANCE

CHAIRMAN BILL BLUNDELL DISCUSSES GLOBAL EXPANSION IN REINSURANCE WITH DR. RAINER PÜTZ, (FAR LEFT) HEAD OF MANULIFE'S EUROPEAN OFFICE IN WIESBADEN, GERMANY.

## AUDITS STRENGTHEN *client* RELATIONSHIPS

"Audit." For many people, just hearing that word sends an army of government tax collectors to haunt them in their dreams.

But in Manulife Financial's Reinsurance Operations, staff see it altogether differently. So much so, in fact, that they have transformed the traditional audit into a client service tool to help Manulife and its customers manage joint business more effectively.

"In our business, audits have become a very important element of our day-to-day interaction with customers," explains Shaun Downey, Manager of Client Services and Operational Audit.

"We agree," says Doug Curran, Senior Special Risks Underwriter. "Our audit visits have been invaluable in helping both our clients and ourselves gain insight into how we each do business. Invariably, the relationship is strengthened as a result."

As a reinsurer, Manulife protects other companies from excessive claims, thereby limiting the original insurer's maximum liability. The nature of the business means the reinsurance group must work very closely with its customers on specific blocks of business.

"That's where the client audit becomes critical," says Downey, who chairs Manulife's Life Audit Committee. "A portion of our audit is traditional—examining specific files and agreements to ensure accuracy. However, a bigger part is looking at a customer's procedures and programs so that we can gain a better understanding of how they do business."

Manulife's Reinsurance Operations performs between four and six client audits every year in each of the industry's major disciplines: underwriting, claims, administration and pricing. Based on experience gained over the past five years, Manulife has now published its own guidelines—The Ideal Audit—to help other reinsurance companies establish audit procedures. ■

# BACK *to* CHINA

FIFTY-SIX YEARS AFTER LEAVING, MANULIFE FINANCIAL RETURNED TO THE PEOPLE'S REPUBLIC OF CHINA IN 1993 WITH THE OPENING OF A REPRESENTATIVE OFFICE IN BEIJING. SITUATED IN THE HISTORIC BEIJING HOTEL BORDERING TIANANMEN SQUARE, the office is one of three intended for China. The second is in Shenzhen, close to the Hong Kong border, and another will soon be opened in Shanghai. Opening a representative office is the first step towards being licensed to do business as a foreign life insurer in China.

"China has the potential of becoming the largest life insurance market in the world," says Marc Sterling, Manulife's Regional Counsel and the person responsible for the company's re-entry into the market. "With over one billion people and an annual economic growth rate in excess of 10 per cent, the opportunities are limitless."

Manulife was the first foreign life insurance company to conduct business in China when it began operations there in 1893. However, after more than 40 years in business, it was forced to withdraw in 1937 due to the onset of war. It is returning now as China continues to open its economy to market forces and its borders to foreign investors.

"China is a top priority for the company," says Diane Schwartz, Senior Vice President and General Manager, International Operations. "Our strong Hong Kong base makes a perfect springboard to the mainland, where the emerging middle and entrepreneurial class constitute an ideal target market." For the past few years Manulife has been training Chinese insurance students in Hong Kong and will start an exchange program in Toronto in 1994.

At present, only one foreign life insurer is licensed to do business in China. Manulife hopes to be the second and its goal is to be operating by 1995. ■

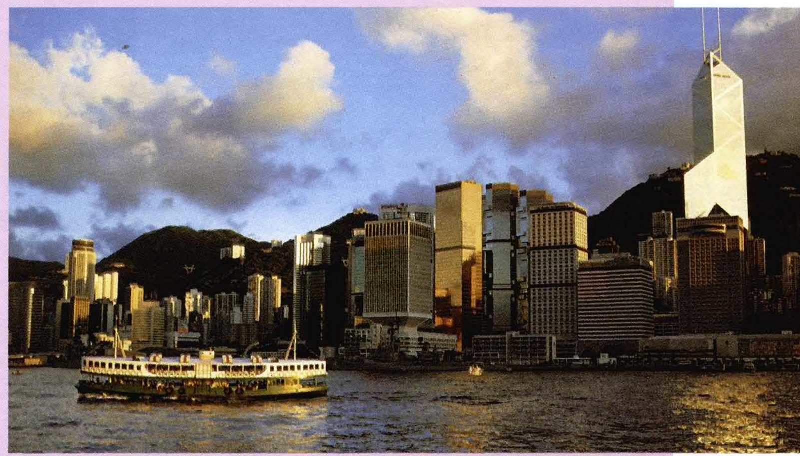
# HONG KONG FUELS SUCCESS

Take an experienced field force of 1,200 agents and sales managers, nearly a century of market experience and one of the fastest growing economies in the world, and you have a recipe for the success that Manulife continues to enjoy in Hong Kong.

"Business is booming in the region," says Victor Apps, Vice President and General Manager of Greater China. "The economic strength of Hong Kong is directly related to the stunning economic growth in the People's Republic of China, the fastest-growing economy in the world."

The past year was extremely successful for Manulife in Hong Kong. The continuing growth and financial well-being of the middle-class population in the British Colony, combined with an increase in agent productivity, produced record sales of $31.8 million—an increase of 19 per cent over 1992.

Manulife Hong Kong introduced three major product developments on the individual side in 1993: a Traditional Endowment product; the Inflation Protection Option Program, which enables insurance coverage to increase annually at the client's option; and the Individual Hospital Plan, which now represents 10 per cent of sales.



Hong Kong, one of the world's most vibrant economic centres, has been home to Manulife's Asia Pacific headquarters for nearly a century.

"The key to our success," says Apps, "is an effective distribution system. The task is made easier by the strength and experience of our field management, backed by a focused, effective head office team."

Of course, Hong Kong watchers are clock watchers as midnight of June 30, 1997 inches closer. However, in true Hong Kong style, change is viewed with optimism, especially given the growth and strength of the mainland economy. And with nearly 100 years of operations in Hong Kong, Manulife Financial is positioned perfectly to take advantage of the opportunities that await the entire region. ■

Manulife's Diane Schwartz presided at the historic opening of Manulife's Beijing office by hosting a banquet at the Great Hall of the People.

WITH THE BABY-BOOM GENERATION MATURING AND THE TRADITIONAL BORDERS OF CANADA'S FINANCIAL ARENA CONTINUING TO CHANGE, MANULIFE FINANCIAL REAFFIRMED ITS LEADERSHIP REPUTATION IN 1993 BY OPENING THE

# MANULIFE BANK *finds* SYNERGY *with* INSURANCE

ROMAN FEDCHYSHYN OF MANULIFE BANK (RIGHT) DISCUSSES PRODUCTS AND SERVICES WITH MANULIFE FINANCIAL'S TORONTO CENTRAL/BAY MANAGER ROYAL WILLIAMS.

Manulife Bank of Canada—the first Schedule II bank formed by a life insurance company under the country's new financial reform legislation.

Created by the merger of three regional trust companies, Manulife Bank opened its doors on January 1, 1993 with 14 branches in the province of Ontario. With a limited network of street-corner locations, Manulife had no intention of challenging the "big six" institutions that dominate Canada's banking industry. Instead, the company focused on developing an integrated strategy which would enable the company's national field force of insurance agents to offer new banking services to its clients.

"Being the best at just life insurance is no longer good enough," explains John Richardson, Senior Vice President and General Manager, Canadian Operations. "Today's consumer has very complex financial planning needs that require expert advice and a broader range of product solutions. By adding a bigger mix of savings products to our agents' planning portfolios, we have established a unique competitive edge and positioned Manulife Financial as the consumer's choice of the future."

In its first year as a bank, Manulife introduced two programs designed specifically to capitalize on bank-insurance synergies. The first—the Insured Retirement Program—is an innovative financial planning concept enabling policyholders to accumulate substantial cash-values in a life insurance policy before borrowing against the contract to supplement pension and retirement income. The second program, piloted in Ontario last year, is a Manulife Bank account designed specifically for beneficiaries of the company's life insurance

# GROUP LIFE AND HEALTH FOCUSES ON SERVICE

Manulife Financial was a neophyte when it entered the Canadian group insurance business in 1983. But since that time, its innovative approach to solving client needs has helped the company become one of the country's top providers of group health services in the medium-size business market.

Unlike traditional life insurance products that require only limited claims processing, ongoing client contact occurs daily in the transaction-oriented group health business. Since arriving on the scene ten years ago, Manulife has focused on that reality to give the company a competitive edge in an admittedly crowded marketplace.

"We process more than one million claims every year," explains Randy Taylor, Director of Group Life and Health Marketing. "When we help clients streamline their benefits administration, we add value for them and strengthen our relationships."

VANESSA LEWERENTZ (LEFT), SONY MUSIC CANADA, WORKED CLOSELY WITH MANULIFE'S SENIOR SERVICE REPRESENTATIVE, SUSAN GRIFFITH, TORONTO LIFE AND HEALTH GROUP OFFICE, TO HELP PILOT MANULIFE'S NEW STATE-OF-THE-ART COMPUTER SYSTEM FOR GROUP CLIENTS.

One of Manulife's most recent streamlining innovations is an enhanced version of its Plan Administration Support Software (P.A.S.S.). The state-of-the-art computer program was revamped in 1993 following extensive customer input. After piloting the new software with clients in 1993, the system is ready for launch in 1994. It will give clients, at the touch of a button, access to detailed information once available only to Manulife's Group Services staff in Waterloo, Ontario.

"Manulife's new P.A.S.S. system has been a big plus in making our benefit administration more effective," explains Vanessa Lewerentz, Manager, Compensation and Benefits of Sony Music Canada—a client who participated in the pilot review of P.A.S.S. last year.

Manulife has also put information at its customers' fingertips through a customer service toll-free line named PAL (Plan Administration Link). With a single telephone call, clients are connected to an experienced service representative who can provide immediate answers to most day-to-day questions.

With PAL answering 100,000 calls last year from clients across the country, the Group Life and Health team is more convinced than ever that service and solutions are the best ways to attract, satisfy and retain customers ■

In Jakarta, Indonesia, Veronica Taruli explains product innovations to her sales force.

Shirley Doi of Cash Management, Investment Operations, ensures accurate and timely processing of payments to policyholders, agents and suppliers.

In Waterloo, Canadian Operations employees, (L-R) Susan Gebhardt, Wendy Voisin, Oliver Lee and Marcus Drury endorse Manulife's Quality Service Commitment.

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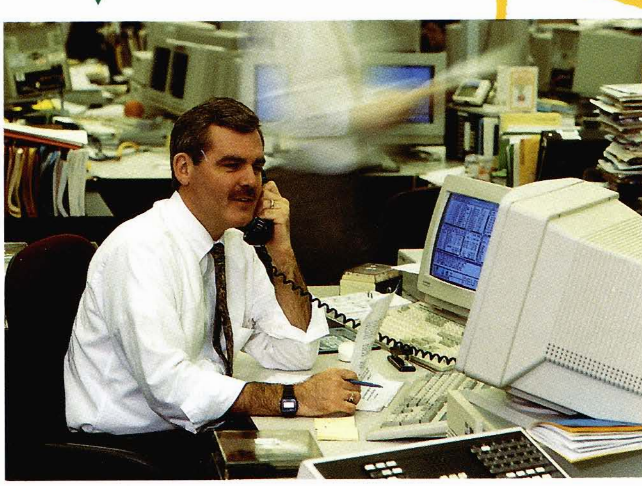
Barry Munholland, Investment Securities, Financial Risk Management, discusses recent developments in the currency markets with a New York financial institution.



In Hong Kong, agent Helen Wong signs a policy contract with her client, Mr. Simon Ho.

U.S. Individual employees share ideas and opinions at an Open House showcasing their strategic planning activities. (L-R) David Bernaus, Karen Flaman, Ingrid Innes, Mark Lewry, Synda Tse.

Daniel Tu, Manulife Reinsurance Singapore, visits his colleagues in Toronto for an orientation session. (L-R) Daniel Tu, Lilly Cheung, John Wilson, Christine Sarmento.

As part of a new Information Technology strategy, Investment Operations' Sandie Parker, is trained on the redeveloped Mortgage system.

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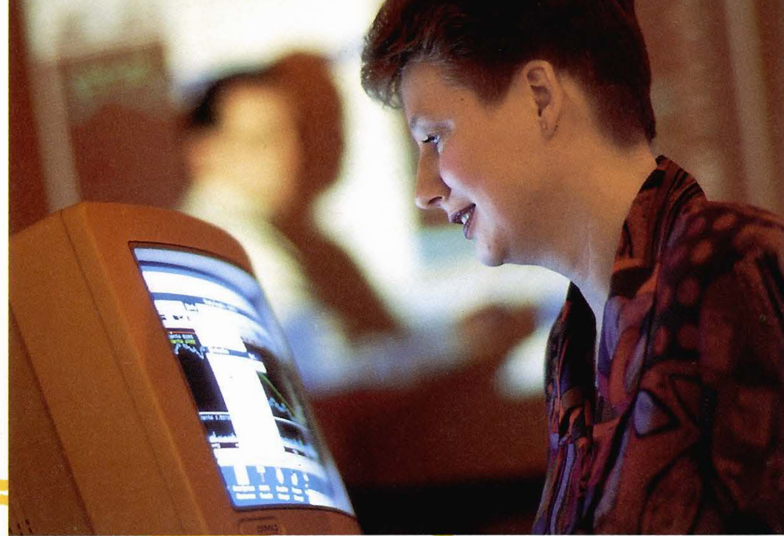
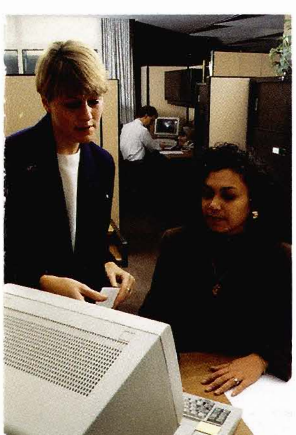


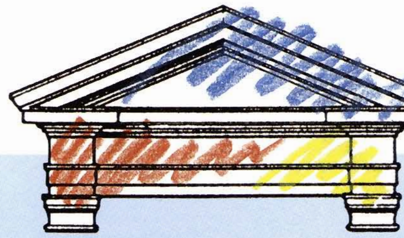


Trina Baird (left) and Gail Michael (right) in the U.S. Pension Customer Service Centre.

General Manager Royal Williams (top) consults with three senior producers in the Toronto Central/Bay Resource Centre. (L-R) Peter Tasker, Ben Freedman and David Walker.

In Houston, financial consultant Mark W. Hackmeirer (right) meets with his client, renowned heart transplant surgeon J. Michael Duncan, M.D.

In Boston, Anthony P. Carnevale, (right) Sentinel Benefits Group, meets with Stephen L. Doliber, Assistant VP, Human Resources (left) at Braintree Hospital Rehabilitation Network, a Manulife Financial client.



# Homeowners Save Mortgage Money

## AT FIRSTLINE

*When Bob and Edie Collins needed to renew the mortgage on their London, Ontario home, they turned to their local Equity Centre for advice. Sponsored by Manulife's subsidiary, FirstLine Trust, and staffed by knowledgeable advisors, the Equity Centre secures quotations from a variety of independent financial institutions before helping consumers select the mortgage that best fits their needs.*

*"In our case, the choice turned out to be an easy one," says Bob Collins. "Of the four lenders that submitted quotations, FirstLine Trust offered us both the lowest interest rate and the most flexibility."*

*Ivan Wahl, Chairman of FirstLine Trust, is not surprised by the Collins' good fortune. In the six years since Wahl began tracking FirstLine's mortgage rate, it has averaged 29 basis points lower than the rates offered by other major mortgage lenders. In fact, the savings have stretched as high as 75 basis points.*

*And the word about FirstLine is spreading. Already, consumers from across the country are accepting FirstLine's offer of more affordable home ownership. Since 1987, more than 40,000 Canadians have become FirstLine customers and the company's mortgage portfolio has ballooned to approximately $5 billion—an average annual increase of more than 65 per cent.*

*The mystery behind FirstLine's lower interest rate is, surprisingly, a very simple case to solve. As the country's leading issuer of mortgage-backed securities (MBS), FirstLine sells blocks of its mortgages to institutional investors for a guaranteed return rate that is higher than government bonds but equally secure. Because its mortgage funding is less expensive and more secure than traditional sources, FirstLine can afford to pass the savings along to the consumer.*

*"We've developed a market niche in Canada that consumers are responding to," explains Wahl. "We're already number one in the MBS market and we are quickly becoming the consumer's choice for residential mortgages."*

*FirstLine Trust relies on a national network of 600 mortgage brokers, including 62 Equity Centre branches, to generate its residential mortgage business.* ■

policies. With the Secured Benefits Account, they receive a preferred interest rate, easy access to funds and financial planning assistance following the death of a loved one.

"We're just beginning to tap into the benefits that can be achieved by developing products and concepts that utilize our bank and insurance expertise," says Roman Fedchyshyn, Senior Vice President Credit, Manulife Bank. "We will definitely generate a lot of excitement in 1994 as more products—including our Manulife Cabot mutual funds—come on the market." ■

"BEING THE BEST AT JUST LIFE INSURANCE IS NO LONGER GOOD ENOUGH."

John Richardson
*Senior Vice President and General Manager Canadian Operations*

MANULIFE

CABOT FUNDS

In London, Robert Chapman, U.K. Securities (right), meets with Joe Mounsey, International Investments.

In Stevenage, England, members of the U.K. Information Centre team, Jane Hardy (left) and Alan Carter, hold their weekly planning session.

# a DAY in the LIFE

## OF MANULIFE FINANCIAL

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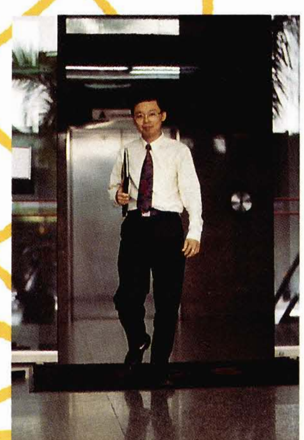
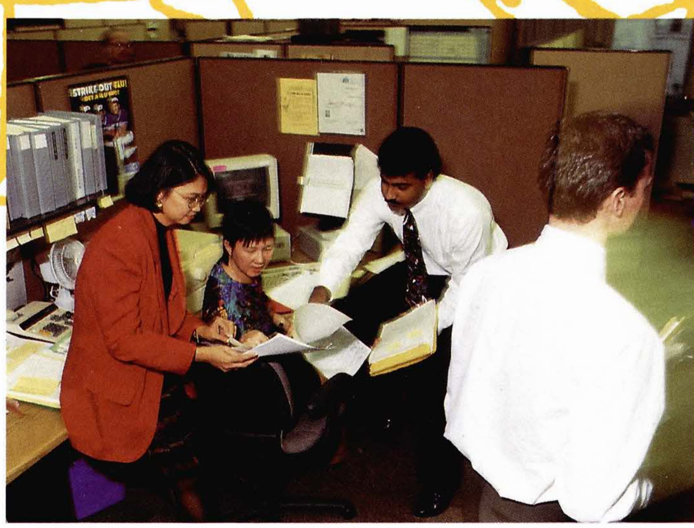


In Singapore, Eric Yong, Manulife Reinsurance, leaves the office of another new client.



Supporting Manulife Reinsurance's global business ventures are many behind-the-scenes support teams. (L-R) Filipina Padua, Jane Tui, Trevor Mungal.

# INVESTMENTS SHINE *on* WORLD STOCK MARKETS

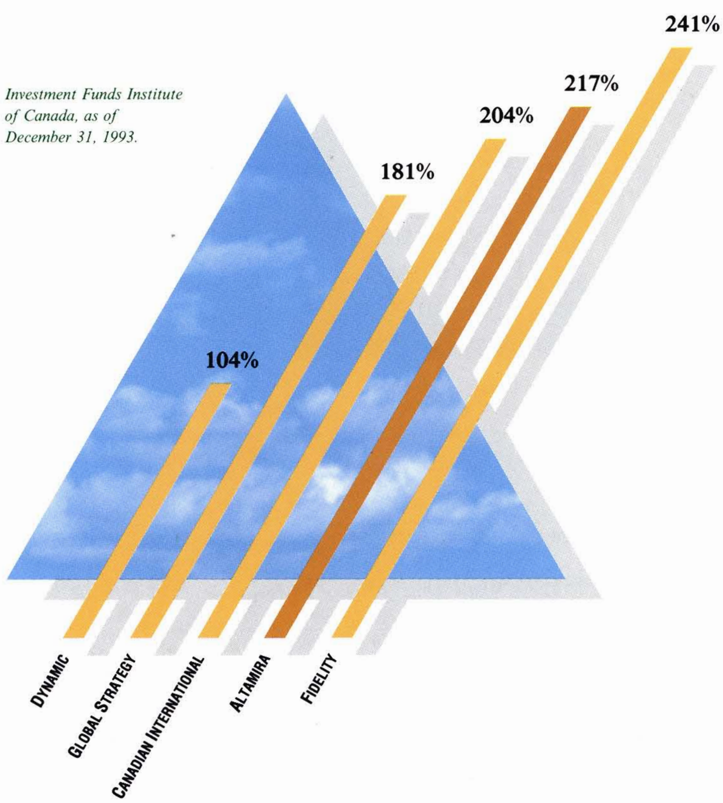
OF THE MANY SIGNIFICANT DEVELOPMENTS THAT OCCURRED LAST YEAR, MANULIFE'S TEAM OF EQUITY MANAGERS WILL REMEMBER 1993 FOR THE IMPRESSIVE RETURNS GENERATED ON INTERNATIONAL STOCK MARKETS.

Approximately seven per cent of Manulife's $38.5 billion in total assets is invested in equities traded on global stock exchanges, primarily in New York, London, Toronto and Hong Kong. The remainder is diversified across bonds (44 per cent), mortgages (24), real estate (9), policy loans and other assets (10) and short-term liquid assets (6).

Relatively low interest rates and the expectation of improving economic output were contributing factors to the steady climb in major stock markets in 1993. More impressive, however, was that Manulife's Canadian, United States and International equity portfolios all finished the year ahead of target by outperforming the comparative indices for each of their market sectors, thereby adding significant value to net investment income.

Under the supervision of Deborah Frame, Canadian Equities Vice President, the company's Canadian portfolio climbed 37.27 per cent—4.72 per cent over the Toronto Stock

*Investment Funds Institute of Canada, as of December 31, 1993.*

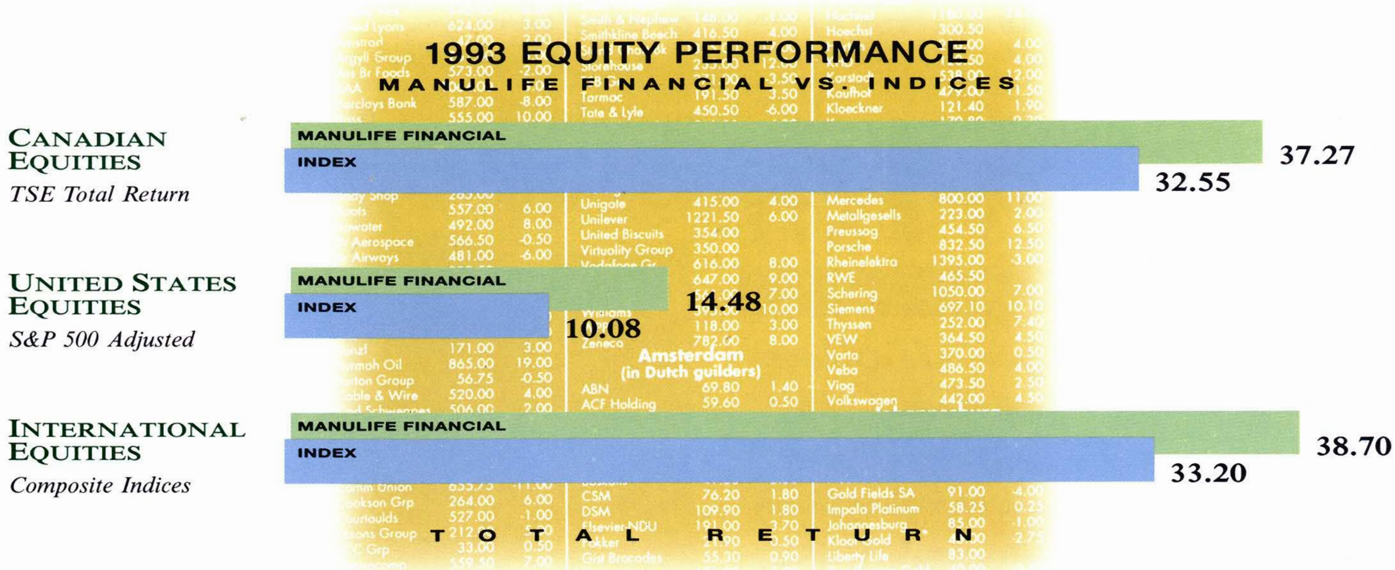



## ALTAMIRA ALLIANCE BENEFITS CUSTOMERS

PER CENT GROWTH IN ASSETS SHOWS ALTAMIRA AS THE SECOND FASTEST GROWING FUND GROUP IN 1993.

It would be difficult to imagine a more successful beginning to a strategic alliance than Manulife has enjoyed with Altamira Management Limited.

Altamira is one of the hottest players in the Canadian mutual fund industry and its growth has been astounding. Assets have grown from less than $2 billion to more than $11 billion since September, 1991. Its number of accounts has increased from 38,000 to more than a quarter-million in the same period




Exchange Total Return Index. Veronica Onyskiw, U.S. Equities Vice President, guided the American portfolio to a 14.48 per cent increase, beating the Adjusted Standard & Poor's 500 Index by 4.4 per cent. On international exchanges, Richard Crook, Deputy Managing Director, oversaw activities that helped portfolios increase by 38.7 per cent—5.5 per cent over comparative indices.

George Neal, Executive Vice President, Investment Operations, attributes Manulife's above-average performance on global markets to experienced portfolio managers and thorough research into potential investments.

"Manulife follows a prudent approach to investing," says Neal. "Everybody likes high returns, but our top priority is protecting our policyholders. I think our track record serves as an example of how you can be successful, while also being conservative and careful."

With investment returns being an important component of net earnings, Manulife's ability to outperform its targets in various markets speaks well for the company's continuing financial strength. ■

and its operation now employs more than 200 people.

Altamira has ridden the wave of consumer interest in mutual funds to the benefit of both its own clients and those of Manulife. Since the two joined forces 2 1/2 years ago, clients have enjoyed the advantages of having both their life insurance and mutual funds in the same family of companies.

"Manulife's investment in Altamira gave us an advantage," says Ron Meade, Chairman and Chief Executive Officer of Altamira. "It has brought credibility, stability and a broader distribution capability to Altamira's sales force."

Altamira and Manulife have used their respective expertise to assist clients in meeting financial challenges and opportunities. The alliance allows the companies to offer clients a much broader range of products and services, an increasingly important advantage in the competitive financial services industry.

This partnership is intensifying in 1994 with Altamira managing Manulife's Cabot Family of Funds, launched by Manulife Bank of Canada. These funds include: Canadian Growth Fund, Canadian Equity Fund, Diverse Bond Fund, Money Market Fund, Emerging Growth Fund, Blue Chip Fund and Global Equity Fund. Altamira also manages various funds through Manulife's Benefit Plan Services Department.

"Our sales force views Altamira as Canada's premier money manager," says Shaun MacNeil, Product Director, Manulife's Canadian Operations. "Having Altamira as fund manager gives us instant credibility and provides Cabot Funds with a clear competitive advantage."

Altamira's Canadian offices are located in Toronto, Montreal, Calgary and Halifax. ■

# OCCUPANCY RATE
## FOR REAL ESTATE

The three most important words in real estate have changed during the challenging 1990s.

"Service, service, service," says John Paton, Manulife Real Estate Vice President of Operations and Development. "With little or no new development taking place, the industry focus has changed from 'location, location, location' for new buildings to excellence in property management for existing tenants."

This is nothing new to Manulife. For 40-plus years this service philosophy has been front and centre in forming one of the industry's leading reputations. "We discovered long ago that retaining good tenants is considerably less expensive than looking for new tenants," says Paton.

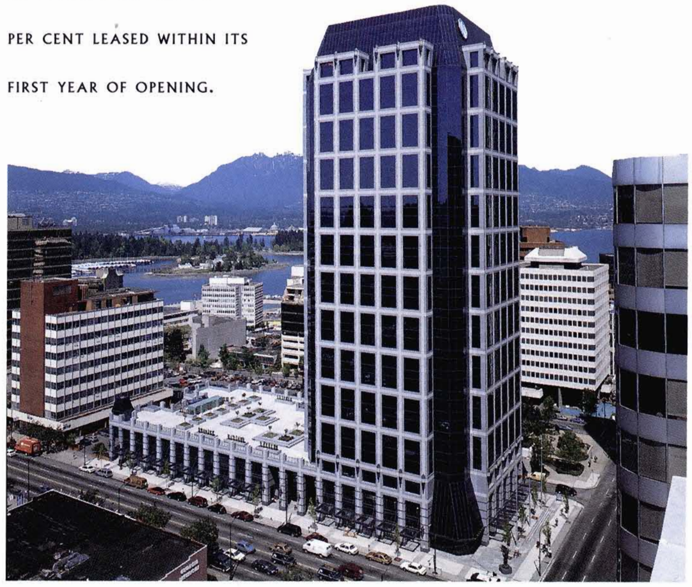
It has been a successful strategy for Manulife. The company's managed office and retail portfolio maintains an occupancy rate in excess of 90 per cent, well above industry average.

This careful attention to the fundamentals of the real estate business has allowed Manulife to attract and retain an impressive roster of Fortune 500 tenant companies.

"More than 1.3 million square feet of commercial space was committed in Manulife's office and retail buildings during 1993," says Don Schweitzer, Leasing and Marketing Vice President. In Vancouver, the 350,000 square foot BC Gas Centre was 90 per cent leased within the first year of its opening. A 510,000 square foot office/retail development in downtown Washington, D.C., opening in the Spring of 1995, is 80 per cent preleased to one of Washington's largest law firms and in Los Angeles, leasing of 128,000 square feet brought occupancy in the new 865 South Figueroa building to nearly 80 per cent.

Manulife is well positioned to take advantage of a recovery in real estate markets with a high quality, well maintained portfolio occupied by strong tenants. ■

MANULIFE'S BC GAS CENTRE IN VANCOUVER WAS 90 PER CENT LEASED WITHIN ITS FIRST YEAR OF OPENING.



## MANAGING SENSITIVE INVESTMENTS

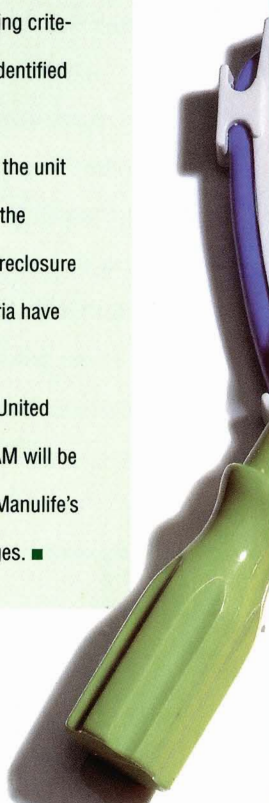
Manulife Financial's Investment Operations responded to the continued slump in the North American real estate market last year by establishing a new business unit designed specifically to manage problems with non-performing mortgage assets.

The new Special Asset Management (SAM) unit is located at Manulife's head office in Toronto. It centralizes the recognition and recovery of non-performing mortgage loans, with initial focus on the United States. In addition to helping identify difficulties in their earliest stages, the new organization allows Manulife to respond quickly and accurately to inquiries from industry auditors, regulators and rating agencies.

"Manulife has always had a proactive approach toward managing investments," explains John Shed, Investment Vice President and head of the SAM unit. "We're using a solutions-based management approach to respond to an issue that is affecting every financial institution in North America."

Following a set of established early-warning criteria, SAM swings into action if: loans fall thirty days into arrears; forced renewals and underwriting criteria are not met; or potential difficulties are identified by either borrowers or the U.S. Mortgage Department. After a thorough investigation, the unit is responsible for the ultimate resolution of the issue—either through a loan restructure, foreclosure or eventual renewal after underwriting criteria have been met.

With the mortgage default trend in the United States now improving, Shed is confident SAM will be a key player in keeping the performance of Manulife's mortgage portfolio ahead of industry averages. ■



# *Investing in the* FUTURE

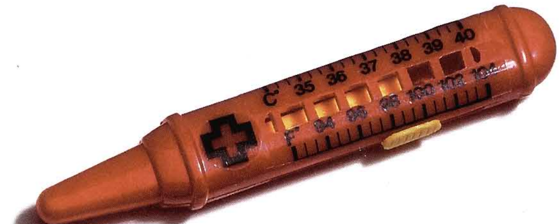
MANULIFE FINANCIAL RECENTLY HAD THE OPPORTUNITY TO PLAY A KEY ROLE IN ENHANCING THE QUALITY OF LIFE FOR CHILDREN IN HONG KONG. IN 1992, EMPLOYEES HELD A BAZAAR TO RAISE FUNDS FOR THE HONG KONG CHILD HEALTH Foundation. Their efforts contributed $80,000 towards the advancement of paediatrics and the promotion of better child health. This year the company added to that donation, presenting a cheque for a total of $160,000 to Lavender Patten, wife of the Governor of Hong Kong and the Foundation's patron. The resulting Manulife Child Health Fund will focus on projects to prevent childhood injuries and accidents.

This is just one example of the many ways in which the company seeks out partnerships that will improve the quality of life in the communities in which it operates. United Way campaigns, programs for children and research programs with hospitals and universities all contribute to a better tomorrow. Every year, over one million dollars is given by the company to charitable organizations. As well, hundreds of Manulife employees donate personal time and money to community efforts. In Canada, the company has committed to be an "Imagine" company, donating a minimum of one per cent of average, domestic pre-tax profits and encouraging employee volunteerism.

In these difficult economic times being felt around the world, Manulife Financial's philanthropic commitment has strengthened. Sharon Cobban, co-ordinator of the company's donations committee states: "We are, and will continue to be, a caring company. We will seek out partnerships that provide funds and people to support preventive health and education initiatives, and that will make a difference for tomorrow. And we will do so internationally, in all of the territories where we conduct business."

Being a "good corporate citizen" is part of the company's core values; it's an investment in the future for the company, for its employees and for the many communities in which the company operates. ■

LAVENDER PATTEN, WIFE OF HONG KONG GOVERNOR CHRIS PATTEN, PRESIDED AT CEREMONIES ANNOUNCING MANULIFE'S CHILD HEALTH FUND.



## MANULIFE FINANCIAL BOARD OF DIRECTORS

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*Chairman*
Manulife Financial
Toronto (1)(3)(5)

**Dominic D'Alessandro**
*President &*
*Chief Executive Officer*
Manulife Financial
Toronto (1)(2)

**James C. Baillie, Q.C.**
*Partner*
Tory, Tory, DesLauriers
& Binnington
Toronto (1)(4)

**John M. Cassaday**
*President &*
*Chief Executive Officer*
CTV Television Network
Toronto (1)(4)

**Lino J. Celeste**
*Corporate Director*
Saint John (1)

**Gail C.A. Cook-Bennett**
*Executive Vice President*
Bennecon Limited
Toronto (1)(2)(3)

**Robert Després, O.C.**
*President*
DRM Holdings Inc.
Quebec City (1)(2)(5)

**Richard F. Haskayne**
*Chairman*
Nova Corporation
of Alberta
Calgary (1)(5)

**E. Sydney Jackson**
*Former Chairman*
Manulife Financial
Toronto (1)(2)(3)

**Thomas E. Kierans**
*President &*
*Chief Executive Officer*
C.D. Howe Insititute
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**R. Eden Martin**
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Sidley & Austin
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*Governor & Chairman*
Hudson's Bay Company
Toronto (1)(2)

**Richard I. Nelson**
*Chairman*
Pacific Pilotage
Authority Canada
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*Chief Executive Officer*
Du Pont Canada Inc.
Toronto (1)(5)

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*President*
Automotive Division
The Woodbridge Group
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**Paul M. Tellier, O.C., Q.C.**
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BPB Industries plc
Slough, England (1)(2)

**Kenneth J. Whalen**
*Corporate Director*
Dorset, Vermont (1)(2)(5)

The numbers following the Director's city of residence indicate Board Committee memberships.

(1) *Member of the Investment Committee*
(2) *Member of the Executive Committee*
(3) *Member of the Audit Committee*
(4) *Member of the Conduct Review Committee*
(5) *Member of the Management Resources and Compensation Committee*

## MANULIFE FINANCIAL EXECUTIVE OFFICERS

(LEFT TO RIGHT)
DOMINIC D'ALESSANDRO
PAT JACOBSEN
JOSEPH J. PIETROSKI
KENNETH L. BEAUGRAND

(LEFT TO RIGHT)
GEOFF I. GUY
GEORGE E. NEAL
JOHN RICHARDSON
DIANE M. SCHWARTZ

### CORPORATE DIVISION

**Dominic D'Alessandro**
*President &*
*Chief Executive Officer*

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*Vice President,*
Operational Planning

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*Vice President,*
Information Technology

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*Vice President &*
*Chief Actuary*

**Pat Jacobsen**
*Senior Vice President,*
Human Resources &
Corporate Services

**George E. Neal**
*Executive Vice President,*
Investment Operations

**Joseph J. Pietroski**
*Senior Vice President,*
*General Counsel &*
*Secretary of the Board*

### CANADIAN OPERATIONS

**John Richardson**
*Senior Vice President &*
*General Manager*

**W. Bryce Walker**
*Vice President &*
*Chief Financial Officer*

### UNITED STATES OPERATIONS

**Kenneth L. Beaugrand**
*Senior Vice President &*
*General Manager*

**Bruce Gordon**
*Vice President,*
U.S. Group & Pensions

**Donald A. Guloien**
*Vice President,*
U.S. Individual Business

### INTERNATIONAL OPERATIONS

**Diane M. Schwartz**
*Senior Vice President &*
*General Manager,*
International Operations

**David J. Bell**
*Vice President,*
International Operations

### UNITED KINGDOM

**Frederick A. Simons**
*Senior Vice President &*
*General Manager,*
U.K. Operations

### ASIA PACIFIC

**L. Elvon Harris**
*Senior Vice President &*
*General Manager,*
Asia Pacific

**David Allen**
*Vice President &*
*General Manager,*
Pacific Rim

**Victor S. Apps**
*Vice President &*
*General Manager,*
Greater China

### REINSURANCE

**Zane Stait-Gardner**
*Senior Vice President &*
*General Manager*

**Ross Morton**
*Vice President,*
Reinsurance

### INVESTMENT OPERATIONS

**Joseph B. Mounsey**
*Senior Vice President,*
International Investment
Office & Western Trust &
Savings Ltd.

**Donald W. Parkinson**
*Senior Vice President,*
U.S. Investments

**Richard S. Harris**
*Senior Vice President,*
Real Estate

**David F. Allison**
*Vice President,*
Real Estate Investments

**Felix Chee**
*Vice President & Treasurer*

**H. Francis Cushnahan**
*Managing Director,*
Western Trust &
Savings Ltd.

**John E. Paton**
*Vice President,*
Real Estate Operations &
Development

*All figures shown are in Canadian Dollars unless otherwise indicated.*

Manulife Financial is an international mutual life insurance company with 200 offices in eleven countries. The company is organized into five operating divisions comprised of Canada, the United States, the United Kingdom, Asia Pacific and Reinsurance, each of which have profit responsibility and develop strategies based on the profile of their business and specific needs of their marketplace. All five rely on the Investment Division to manage their respective investment portfolios. Strategic direction is provided from corporate head office and certain functions, such as finance, information technology, human resources and legal affairs, develop policies which provide central direction to the overall company.

As a mutual life insurance company, Manulife Financial does not have shareholders; rather, the company is managed for the benefit of its policyholders. Participating policyholders share in profits which are either paid out as policyholder dividends or retained within the company to maintain the strength of its capital base. Dividends are distributed by class of policyholder within each geographic market. The rights of participating policyholders, including the rights to vote and attend meetings, are defined under the Canadian Insurance Companies Act.

The company and its subsidiaries offer a wide range of products including life and health insurance, immediate and deferred annuities, pension and retirement products, savings and investment instruments, personal loans, and commercial and residential mortgages. These products and services are offered in the geographic markets as indicated in the following table:

| | Canada | United States | Asia Pacific | United Kingdom |
|---|---|---|---|---|
| Individual Life Insurance | ■ | ■ | ■ | ■ |
| Individual Annuities | ■ | ■ | | ■ |
| Group Life and Health Insurance | ■ | ■ | ■ | |
| Group Pensions | ■ | ■ | ■ | ■ |
| Segregated Funds/Unit Trusts | ■ | ■ | ■ | ■ |
| Term Deposits and Savings | ■ | | | ■ |
| Mortgage Backed Securities | ■ | | | |
| Commercial Mortgage Loans | ■ | ■ | | ■ |
| Residential Mortgage Loans | ■ | | | ■ |
| Personal Loans | ■ | | | ■ |
| Reinsurance | ■ | ■ | ■ | ■ |

Most of Manulife's insurance and annuity products are distributed through networks of professional insurance agents supported by marketing and administrative personnel in the company's branches and divisional offices. The approximate number of agents in each geographic area is as follows:

| | |
|---|---|
| Canada | 1,000 |
| United States | 2,300 |
| Asia Pacific | 2,250 |
| United Kingdom | 450 |
| **TOTAL** | **6,000** |

Manulife distinguishes itself from most other major Canadian life insurance companies by a significant presence outside Canada, product diversification within Canada and strength in reinsurance.

## International Scope of Operations:

More than 60% of Manulife's revenues come from outside Canada. The company has a long history of extensive international operations and in recent years has moved to further strengthen its presence outside North America, most notably through growth in Asia Pacific where premium income has grown at a compound rate in excess of 25% since 1985. Manulife has a long established presence in the Asia Pacific region, having been in the Philippines for many years and in Hong Kong for almost a century. The company has re-entered Singapore in the last decade and has expanded into the rapidly developing economies of Indonesia, South Korea and Taiwan. Operations in Indonesia, Singapore and South Korea are conducted through subsidiaries under joint ownership with local enterprises. The company opened representative offices in Beijing in 1992 and Shenzen in 1993, in anticipation of being licensed to sell life insurance in the People's Republic of China during 1995.

Geographic diversification cushions the company against the impacts of economic downturns in specific markets, and also allows the company to draw on the earnings and expertise gained in mature markets to finance development of younger, high-growth markets such as Asia Pacific.

In keeping with this international orientation, the company has adopted a decentralized management structure. Operating responsibilities have been divided primarily along geographic lines into divisions which have relatively homogeneous cultural, market and distribution characteristics. For example, the Canadian insurance market is mature and demand is increasing for savings and retirement products. By contrast, in Asia Pacific the market is growing and demand centres on traditional whole-life insurance products.

## Product Diversification:

In Canada the company holds interests of 100% in Manulife Bank of Canada, 100% in Family Trust Company and 79.3% in FirstLine Trust Company. A wholly-owned banking subsidiary, Western Trust & Savings, is located in the United Kingdom.

Manulife Bank of Canada is a Schedule II bank which offers residential mortgages, personal and commercial loans, savings accounts and term deposits to a customer base primarily located in Ontario. FirstLine Trust is Canada's largest issuer of NHA Mortgage Backed Securities. Western Trust & Savings offers residential mortgages, secured and unsecured loans in the United Kingdom. The company increased its ownership of Family Trust Corporation from 35% to 100% in 1993. Family Trust is primarily a real estate broker but also offers trust term deposits and residential mortgages in the Toronto area.

Manulife holds a 35% effective interest in Altamira Management Ltd., one of Canada's leading investment counsellors and managers of some of the country's highest performing mutual funds. The company's Canadian segregated fund investments are managed by Altamira.

## Leader in Reinsurance:

Manulife draws on the advantages of its large size and strong capital base to hold a position as one of the world's leaders in reinsurance specializing in retrocession (A retrocessionaire assumes the reinsurance business of direct reinsurers). Reinsurance is marketed directly by the company to insurance companies and other reinsurers.

Manulife writes reinsurance contracts in North America, Asia Pacific and Europe and is active in each of the major reinsurance markets: life, special risks, financial, and property and casualty. In 1991, Manulife opened a reinsurance branch in Singapore to service the Asia Pacific region and in 1994 will open a European branch office in Germany.

Most life insurance and annuity policies extend the company's guarantees for many years into the future. Accordingly, the accounting principles followed by the life insurance industry are based on this long-term view with respect to both assets and liabilities.

## Insurance and Annuity Reserves:

Insurance and annuity reserves represent the net present value of estimated future policyholder benefits, dividends and policy maintenance expenses, less future premiums, on insurance and annuity contracts currently in force. The company's Actuary is responsible for determining the amount of insurance and annuity reserves that must be set aside each year to ensure that sufficient funds will be available in the future to meet these obligations.

The valuation methods employed by the Actuary in the determination of insurance and annuity reserves are based on standards established by the Canadian Institute of Actuaries. The Actuary follows these professional standards and uses knowledge of the company's assets, future obligations and company operations in the determination of insurance and annuity reserves.

Because of the long-term nature of life insurance and annuity policies, the Actuary must make many assumptions with respect to future events and economic conditions. These assumptions include expected future mortality trends, investment yields, policy lapse expectations, policy maintenance expenses, and renewal premium payments. Because actual experience will not emerge exactly as expected, some level of conservatism, or margin, referred to as "provision for adverse deviations", must be built into the calculation of reserves. These margins are such that expectation of meeting future obligations will be very high without relying on the additional safety of the company's capital and surplus base. Each year assumptions are tested extensively to ensure that they are appropriate for expected future conditions.

Increases in insurance and annuity reserves from period to period are reflected as charges against earnings on the statement of operations. Insurance and annuity reserves on the balance sheet are expected to be reasonably conservative to ensure future solvency of the company. On the other hand, the level of reserves should be as realistic as possible to produce a fair measure of the company's current operating results. These two divergent goals must be reconciled because, by law, one set of reserves must satisfy both purposes. Manulife emphasizes future solvency; therefore, the company's reserves have been determined using assumptions at the conservative end of the range permitted under standards defined by the Canadian Institute of Actuaries.

## Invested Assets:

Asset accounting principles used by a life insurance company must be consistent with the long-term nature of the life insurance and annuity policies. The rate selected to calculate the present value of future payments to policyholders in the calculation of insurance and annuity reserves must be consistent with the yield expected on invested assets after making adequate provisions for income expected to be lost due to defaults and to any mismatch between asset and liability cash flows. Capital gains and losses realized on bonds and mortgages due solely to the movement in market interest rates are deferred and amortized over future periods to maintain the discount rates used in the calculation of insurance and annuity reserves.

Accounting principles for Canadian life insurance companies reflect the view that funds are invested in equity securities and real estate to produce attractive average returns over the longer term. To reflect this view both realized and unrealized gains on equity securities and real estate investments are amortized to income at rates of 15% and 10% per year respectively.

## Policyholder Dividends:

Individual participating policies are designed to permit the payment of policy dividends. Policy dividends largely represent an adjustment of the cost of insurance coverage provided to policyholders and, therefore, are recorded as policyholder benefits in the company's financial statements. The dividend policy approved by the company's Board of Directors is summarized on page 61.

Approximately 26% of the company's insurance and annuity reserves are represented by participating policies.

## Reinsurance:

Many insurance companies reduce their exposure to claims by passing a proportion of their direct written coverage, or amounts of insurance coverage in excess of certain limits, to other companies that specialize in reinsurance. Reinsurers can also transfer a proportion of their risk to other companies in a process known as retrocession. Manulife Financial is a major retrocessionaire. The company assumes reinsurance risks worldwide in four lines: life insurance, special risks, financial reinsurance, and property and casualty insurance. Life reinsurance is the company's most significant area of activity. The risks associated with reinsurance and the factors affecting earnings are the same as for direct written policies except that claims experience potentially can be more volatile.

## Segregated Funds:

Segregated funds are assets managed on a pooled basis for the benefit of individual customers and corporate pension accounts. Because the risks and rewards of ownership accrue to the benefit of the fund holders, segregated funds are excluded from the company's balance sheet. The company earns management fees which vary by type of investment in the range of 0.5% to 2.0% of assets under administration. The market value of segregated funds under administration amounted to $4,012 million on December 31, 1993 ($2,734 million – 1992).

## Factors Affecting Earnings:

The following is a description of the key factors that can affect the level of earnings reported by the company:

### (a) Pricing Margins:

A profit margin, which represents a fair and competitive return for the insurance risks assumed by the company, is built into the pricing of each policy.

### (b) New Business Strain:

When a new policy is issued, normally the total of expenses, commissions and provisions for future benefits are higher than the premiums received in the first year because the provisions for adverse deviation built into insurance and annuity reserves by the actuary are larger than the profit margins in the new policy. These reserve margins are then released into income in future years as the policies mature. This results in reported earnings being depressed during periods of rapid growth and augmented as the growth rate slows.

### (c) Claims Experience:

The company uses both its own and industry experience to develop expectations of future claims that are used in setting reserves on life and health insurance policies and reinsurance contracts. Actual experience can fluctuate from one year to the next. In recent years, mortality expectations have changed because of the emergence of AIDS. Additional insurance reserves of $82 million have been set up by Manulife to recognize these expected higher insurance claims. The company also limits its exposure to loss by reinsuring risks over specified levels depending on the class of business.

The level of claims incurred by Manulife has been significantly less than expected in each of the last three years.

(D) CHANGES IN INTEREST RATES:
On insurance products, earnings can be affected in the short term because adjustments to new premium rates and dividend scales will lag the market when interest rates change rapidly. On annuity and pension products the company protects itself against losses due to changes in interest rates by pursuing a strategy of matching the term of its assets and liabilities within prescribed limits. However, earnings will be affected directly by changes in yields on invested assets backing the company's surplus, or fixed premium non-participating insurance products.

(E) INVESTMENT PERFORMANCE:
Even though realized gains and changes in the market values of equity securities and real estate investments are amortized to income over a period of years, large swings in market values that can occur in any given year will still have a significant effect on reported earnings. Earnings will also be affected directly by credit losses on mortgages and fixed-term investments to the extent that they vary from amounts provided in the calculation of insurance and annuity reserves. The company's experience on investment losses is discussed more extensively in the section entitled Review of Financial Condition and Investment Profile.

(F) POLICY LAPSES:
When policies are priced, assumptions are made with respect to the length of time that they will remain in force. Selling and other initial expenses are recovered from premiums paid over this period of time. If policies lapse earlier than expected, these initial expenses will not be recovered and additional future profit margins will be lost. Conversely, if policies remain in force longer than originally assumed, then additional earnings will be realized. Manulife's business is well diversified; the company's ten largest accounts represent less than 5% of total policyholder liabilities.

Some companies suffer losses when investments must be sold to fund repayment of annuity or pension products which lapse after market interest rates have increased significantly. Manulife designs its annuity and pension products to avoid such potential losses by charging penalties on contracts which surrender early to take advantage of such changes in interest rates.

(G) EXPENSE LEVELS:
Levels of future acquisition and maintenance expenses are assumed both in the setting of premium rates and the calculation of insurance and annuity reserves. Earnings will be reduced if actual expenses exceed levels assumed when premium rates were established. Historically, Manulife and other life insurance companies have had difficulty meeting expense levels assumed in the pricing of their products. Manulife has been reducing this discrepancy in recent years.

(H) DIVIDEND SCALES:
Premium rates on participating policies are set on the assumption that policyholders will receive future refunds of premiums in the form of policy dividends based on levels of income earned in the participating fund. Insurance reserves include amounts for payment of future policyholder dividends. Reported earnings will fluctuate depending on the extent to which dividends declared vary from estimates made in the calculation of insurance reserves.

(I) CURRENCY FLUCTUATIONS:
The company follows a policy of diversifying risks associated with the movement in world currency markets by investing a proportion of its surplus in assets denominated in foreign currencies. Various instruments are used to hedge a portion of the risk associated with adverse movements in the value of the Canadian dollar. Resulting foreign currency gains and losses are deferred and amortized at rates which approximate those for investment gains and losses.

(J) BUSINESS EXPANSION:
Earnings can be temporarily reduced as the company incurs the costs of entry into new markets or product lines.

(K) INCOME AND OTHER TAXES:
The level of income, premium, capital and other taxes levied by tax authorities are subject to fiscal policies and political considerations. In recent years, governments, particularly in Canada, the United States and the United Kingdom, have pursued policies aimed at increasing the level of tax revenue derived from the life insurance industry. These measures have tended towards methods of taxation based on capital employed and minimum imputed levels of taxable income irrespective of the actual level of earnings in the jurisdiction.

## CAPITAL REQUIREMENTS AND SOLVENCY PROTECTION:

In addition to margins contained in insurance and annuity reserves, minimum levels of capital and surplus must be maintained in insurance operations to ensure future solvency. These minimum levels generally are calculated based on a formula for Minimum Continuing Capital and Surplus Requirements (the MCCSR ratio) prescribed by the Office of the Superintendent of Financial Institutions of Canada. This formula requires amounts of surplus to be maintained that vary directly with the risk characteristics of each category of assets and liabilities held by the company. To a certain extent, the level of a company's MCCSR ratio is a trade-off between higher degrees of solvency protection and higher rates of return that can be achieved by assuming greater investment risk.

Manulife's policy is to maintain capital and surplus balances well in excess of the minimum required under government regulations, but not so high that the company's ability to achieve additional investment returns is adversely affected. As of December 31, 1993 the company's MCCSR ratio was significantly in excess of the minimum required.

Investment proposals for new or expanded lines of business are assessed based on the projected rate of return on invested capital. Each division is also measured by the rate of return earned on capital required to support its operations.

Another factor which affects the company's capital requirements is the extent to which its operations are diversified. If operations are concentrated in one line of business, or in one geographic location, a company can be subject to potentially more severe fluctuations in an economic downturn than a company that is well diversified. Manulife is well diversified because of its operations in many countries, its expansion into additional countries, its activities in many different lines of business, its variety of investment vehicles and its entry into other financial services such as trust and banking operations.

As a further measure to protect the solvency of the company, the Actuary is required by Canadian law to prepare an annual report to the Board of Directors showing the expected effects of a series of adverse economic scenarios on the company's earnings and surplus position over the succeeding five-year period. Any foreseeable dangers to the appropriate level of the company's surplus can thus be identified. Projections completed within Manulife during 1993 indicated that the company could meet minimum statutory capital requirements over the next five years under each of the adverse scenarios.

All the above measures are used to ensure that the company can maintain its ability to pay future guaranteed benefits to its insurance and annuity policyholders. This has been recognized by external professional rating agencies. Standard & Poor's, Duff and Phelps, Dominion Bond Rating Service, and A.M. Best give Manulife their highest ratings for claims-paying ability, thereby recognizing the company as among the strongest in the life insurance industry.

## FINANCIAL ASPECTS OF TRUST AND BANKING OPERATIONS

Manulife's Canadian trust and banking operations derives most of its income either from earning investment income in excess of interest paid on customer deposits (net interest income) or from the packaging and sale of mortgage backed securities and similar instruments. In the United Kingdom Manulife offers residential mortgages, and secured and unsecured loans through its subsidiary, Western Trust & Savings.

Canadian trust and banking operations are currently centered in the province of Ontario and consist of 14 branches located principally in smaller communities and the suburban Toronto market; however, Manulife's intention is not to build a branch network but rather to follow strategies that more closely align banking activities with the company's strengths in insurance.

### Net Interest Income:

With the exception of FirstLine Trust, the primary source of income for the company's banking and trust subsidiaries in Canada and for Western Trust & Savings in the United Kingdom has been interest spreads earned between deposits and invested assets. Earnings are highly dependent on abilities to attract deposits and acquire assets that will generate acceptable investment spreads for the level of risk involved. The major risks that must be managed consist of credit risk on customer loans and reinvestment risk from mismatched maturities of assets and liabilities.

Trust and banking subsidiaries follow guidelines which define the extent of credit risk that may be assumed, levels of lending authority and degrees of concentration with any one customer or loan classification.

Manulife's trust and banking operations employ sophisticated duration matching techniques to protect against the risk of reduced investment spreads when the level of interest rates changes. Duration matching concentrates on the weighted average term of all cash flows associated with specific assets and liabilities. Derivative instruments are used to eliminate the risk of mismatch in the duration of assets and liabilities.

### Mortgage Banking:

FirstLine Trust derives its income primarily from the packaging and sale of mortgages either as mortgage backed securities (MBS) or through the NHA Mortgage Trust, an independent trust formed for the purpose of issuing short and medium-term notes secured by mortgages insured by Central Mortgage and Housing Corporation (CMHC) under the National Housing Act (NHA). FirstLine Trust is Canada's largest issuer of mortgage backed securities. As of December 31, 1993 FirstLine administered $3.3 billion of mortgages in MBS pools and $1.2 billion through the NHA Mortgage Trust.

FirstLine Trust recognizes gains on sale of mortgages at the time of securitization as Mortgage Backed Securities or of sale to the NHA Mortgage Trust. It also derives fee income from the ongoing servicing of mortgages in the MBS pools and the NHA Mortgage Trust.

FirstLine Trust hedges all mismatch risk both on its balance sheet and during the MBS securitization process. Credit risk for those mortgages retained on its balance sheet is minimized primarily by insuring mortgages with CMHC and otherwise by retaining only high quality loans.

**ANALYSIS OF CONSOLIDATED EARNINGS:** Earnings in 1993 increased by $102.3 million to $187.3 million. Major factors which caused earnings to change from 1992 are summarized in the following table.

| **SOURCE OF EARNINGS** ($ millions) | EARNINGS INCREASE (DECREASE) |
|---|---|
| Operating factors | $ 67.0 |
| Investment factors | 62.8 |
| Foreign exchange translation | 16.5 |
| Premium and income taxes | (44.0) |
| Increase (decrease) in 1993 earnings | 102.3 |
| 1992 earnings (as restated) | 85.0 |
| **1993 EARNINGS** | **$ 187.3** |

### OPERATING FACTORS:

During 1993 insurance operating factors accounted for $38 million of the total increase in earnings over the previous year. Policy claims were lower than anticipated in product pricing, continuing a trend that has existed for the last several years. A decline in the net strain on earnings from new business added to the improvement.

Income from trust and banking operations, exclusive of investment losses and taxes, increased by $29 million over 1992, reflecting wider investment spreads and increased income from mortgage banking activities in FirstLine Trust.

### INVESTMENT FACTORS:

Excellent performance in world stock markets produced significant increases in the value of equity securities and an increase in the amortization of market gains included in income; however, this was partially offset by continued declines in the market values of real estate which reduced the amount of income derived from amortization of unrealized real estate values.

Provisions for investment losses increased to $255.3 million in 1993 from $200.2 million in 1992 because of continued weakness in North American real estate markets; however, the impact on current earnings was reduced by $149.0 million because of amounts provided for these losses in insurance and annuity reserves in previous years (See comments under Asset Quality in the Review of Financial Condition and Investment Profile).

Market interest rates that were lower than in previous years produced lower income from assets backing surplus and from certain lines of business, notably non-participating life insurance.

### FOREIGN EXCHANGE TRANSLATION:

More than half of Manulife's business is conducted outside of Canada. Earnings reported in Canadian dollars are affected by changes in currency exchange rates. The average value of the U.S. Dollar was higher in 1993 compared to the Canadian dollar. As a result, earnings in foreign territories, when translated to Canadian dollars, were higher. Changes in other currencies had minimal effect. The value of the U.S. dollar at December 31, 1993 also increased against the Canadian dollar from December 31, 1992. As a result, the accumulated deferred foreign exchange loss was converted to a deferred foreign exchange gain and earnings were improved by the related amortization.

### PREMIUM AND INCOME TAXES:

Higher earnings resulted in provisions for income taxes that were $45.7 million higher than in 1992. Premium taxes declined by $1.7 million.

## Divisional Results

### United States:

In 1993 the U.S. economy continued to emerge slowly from recession. Interest rates declined further, equity markets grew at a modest rate and real estate values continue to be weak.

Falling interest rates have prompted insurance companies to reduce dividend scales on participating and interest-sensitive products such as universal life. In spite of these reductions, Manulife believes that its ability to offer competitive rates leaves the company well positioned in the marketplace.

Low interest rates have stimulated greater interest in variable universal life products. Sales grew by 89% in 1993 and now represent 14% of the division's total life insurance new business volumes, a ratio that is just above the industry average. Variable annuity premiums increased by 720%; however, the company believes that even greater potential for growth exists in the variable annuity market than has been achieved by the company to date.

Total pension assets in the United States economy grew by an estimated 10% in 1993 and 401(K) plan assets, a subset of the total pension market, grew by roughly 15% during the year. Manulife's core pension assets, which are mostly 401(K) plans, increased by 19%. As a result of falling guaranteed rates, a shift in sales into segregated and mutual fund products has occurred. 55% of the Division's pension business was represented by deposits to segregated funds.

"Stop loss" insurance, which allows employees who fund their own medical benefit programs to limit their annual medical care costs and which accounts for 60% of the company's group insurance business in the United States, experienced increased competitive pressure in 1993 because of an increase in the number of carriers and flattening of market demand. As a result, the volume of new "stop loss" insurance business declined by 13%, halting a pattern of growth that had produced an increase in premium income of 140% over the previous three years. In the longer term, the "stop loss" market is threatened by reforms in President Clinton's health care proposal.

### Canada:

In Canada the retirement savings market has continued to grow rapidly. Declining interest rates have prompted a shift from guaranteed savings products to segregated and mutual fund products. As a result, Manulife's Canadian operations have experienced a 33% increase in net sales of segregated funds but less than a 1% increase in other retirement and savings products.

The company's guaranteed annuity business is benefiting from increased emphasis in the marketplace on financial strength, which has allowed profit margins on new sales of these products to increase.

The group life and health insurance business was adversely affected in 1993 by the imposition of new taxes on private health care plans by the governments of Quebec and Ontario, and by employers' efforts during a difficult economic period to restructure benefit plans and contain costs.

Growth in Manulife Bank was restrained in 1993 as a result of the weak economy and internal structural changes emanating from the company's conversion to a bank on January 1, 1993 and from initiatives to integrate the company's operations more closely with Manulife's insurance distribution network. The mortgage banking business at FirstLine Trust has continued to grow with the introduction of a new collateralized mortgage obligation product and the acquisition of the Equity Centre, which operates a computerized mortgage bidding system to strengthen its distribution network. Overall net losses in trust and banking operations declined primarily because of a significant reduction in the amount of loan loss provisions required.

### Asia Pacific:

The business environment in the Asia Pacific region has been highly positive in recent years. In Hong Kong, which generates approximately 78% of premium income earned by the company in the region, real economic growth is expected to be about 6% in 1993 and full employment continues to prevail. Under these conditions, the insurance market has experienced strong growth. Expense levels have been successfully managed notwithstanding an inflation rate of 9%, and both high labour costs and staff turnover generated by the full employment situation. During 1993 Hong Kong generated a year-over-year increase in premium income of 21% compared to an estimated industry average of 12%.

Premium income in the Philippines, Indonesia, Taiwan and Korea in total increased by 15.4%. Asia Pacific now accounts for 9.8% of total company premiums, up from 8.9% in 1992.

### United Kingdom:

In the United Kingdom, signs of economic recovery were evident after mid-year. Sales performance in the life and pension market has been mixed. Single premium unit-linked business has grown as a result of increased confidence in equity securities. Sales of insurance products through direct sales forces have been adversely affected by additional regulations governing the recruiting, training and supervision of sales consultants. The size of the company's sales force in the United Kingdom declined by 22% during 1993, partly as a result of management action to increase the average productivity of the sales force and partly due to difficulties in locating replacements in the tighter regulatory environment. Because of a significant overall increase in sales productivity, sales volumes declined only slightly.

Banking operations in the United Kingdom continue to be affected by a weak economy and low real estate values; however, declining levels of arrears on mortgage and loan portfolios, and wider investment margins in 1993 have resulted in improved earnings at Western Trust & Savings.

### Reinsurance:

Reinsurance continues to be a major contributor to the company's growth and profitability. Premium income increased from 9.8% to 11.2% of total company premium income. Reinsurance claims as a percentage of premium income declined by about 5% from the previous year.

Plans have been finalized to open a European branch office in Wiesbaden, Germany in early 1994.

**PREMIUM INCOME:** The following table shows the distribution of premium income by line of business and geographic territory over the last two years.

| PREMIUM INCOME ($ millions) | TOTAL | CANADA | UNITED STATES | ASIA PACIFIC | UNITED KINGDOM |
|---|---|---|---|---|---|
| **1993:** | | | | | |
| Individual Life Insurance | **$ 2,155.8** | **$ 265.9** | **$ 1,520.8** | **$ 307.2** | **$ 61.9** |
| Group Life and Health Insurance | **385.2** | **224.4** | **144.0** | **16.8** | |
| Reinsurance | **497.9** | **19.2** | **468.8** | **5.7** | **4.2** |
| Individual Annuities | **844.0** | **773.8** | **39.2** | | **31.0** |
| Group Pensions | **573.1** | **264.8** | **200.5** | **107.8** | |
| **TOTAL** | **$ 4,456.0** | **$ 1,548.1** | **$ 2,373.3** | **$ 437.5** | **$ 97.1** |
| 1992: | | | | | |
| Individual Life Insurance | $ 1,947.6 | $ 245.8 | $ 1,387.5 | $ 239.7 | $ 74.6 |
| Group Life and Health Insurance | 347.3 | 206.1 | 130.0 | 11.2 | |
| Reinsurance | 401.0 | 19.1 | 373.9 | 2.9 | 5.1 |
| Individual Annuities | 774.3 | 685.8 | 51.6 | | 36.9 |
| Group Pensions | 633.5 | 302.1 | 218.3 | 113.1 | |
| **TOTAL** | $ 4,103.7 | $ 1,458.9 | $ 2,161.3 | $ 366.9 | $ 116.6 |
| Per cent Change | 8.6% | 6.1% | 9.8% | 19.2% | (16.7%) |

**SEGREGATED FUNDS:** The company also accepts deposits to segregated funds. The geographic distribution of segregated fund deposits and withdrawals over the last two years was as follows:

| SEGREGATED FUNDS ($ millions) | TOTAL | CANADA | UNITED STATES | ASIA PACIFIC | UNITED KINGDOM |
|---|---|---|---|---|---|
| **1993:** | | | | | |
| Deposits from Policyholders | **$ 1,091.8** | **$ 487.7** | **$ 384.9** | **$ 57.1** | **$ 162.1** |
| Payments to Policyholders | **388.8** | **153.7** | **99.9** | **35.7** | **99.5** |
| **NET DEPOSITS** | **$ 703.0** | **$ 334.0** | **$ 285.0** | **$ 21.4** | **$ 62.6** |
| 1992: | | | | | |
| Deposits from Policyholders | $ 615.8 | $ 203.5 | $ 213.9 | $ 37.4 | $ 161.0 |
| Payments to Policyholders | 266.0 | 66.1 | 87.9 | 20.9 | 91.1 |
| **NET DEPOSITS** | $ 349.8 | $ 137.4 | $ 126.0 | $ 16.5 | $ 69.9 |
| Per cent Increase in Net Deposits | 101.0% | 143.1% | 126.2% | 29.7% | (10.4%) |

## ASSET GROWTH:

As indicated in the following table balance sheet assets grew by 10.3% in 1993, but total assets under administration by Manulife and associated companies increased by 24.5%. Exceptional investment performance stimulated activity at Altamira Management where mutual funds and other assets under administration (exclusive of segregated funds managed on behalf of Manulife) grew by 123%. The securitized mortgage portfolios managed by Manulife's subsidiary, FirstLine Trust, grew by 21% as the company maintained its position as industry leader in this rapidly expanding market. Including significant growth of 47% in segregated fund assets, the off-balance sheet segment of the company's business increased by 32% overall.

| **ASSETS UNDER ADMINISTRATION** ($ thousands) | 1993 | 1992 | % CHANGE |
|---|---|---|---|
| General and Guaranteed Funds: | | | |
| Life Insurance and Annuities | **$ 36,197,276** | $ 32,544,199 | 11.2% |
| Trust and Banking | **2,296,483** | 2,355,703 | (2.5)% |
| Total | **38,493,759** | 34,899,902 | 10.3% |
| Assets Under Administration By Manulife and Subsidiaries: | | | |
| Segregated Funds | **4,011,806** | 2,734,327 | 46.7% |
| Securitized Mortgages | **4,477,130** | 3,695,867 | 21.1% |
| Other | **563,271** | 440,615 | 27.8% |
| Total | **9,052,207** | 6,870,809 | 31.7% |
| Assets Under Administration By Altamira Management* | **10,115,230** | 4,538,831 | 122.9% |
| **TOTAL UNDER ADMINISTRATION** | **$ 57,661,196** | $ 46,309,542 | 24.5% |

**Manulife Financial holds a 35% effective interest in Altamira Management.*

## TAXATION:

Further changes in tax laws, primarily in Canada and the United States, continue to increase the incidence of taxes on life insurance companies. Provisions for taxes payable to all levels of government in all jurisdictions in which the company operates increased by $52.9 million in 1993 as indicated in the following table.

| ($ thousands) | 1993 | 1992 |
|---|---|---|
| Regular income taxes– | | |
| Payable currently | **$ 236,534** | $ 35,830 |
| Deferred | **(194,108)** | (37,651) |
| Capital based minimum income taxes | **20,403** | 18,928 |
| Total income taxes | **62,829** | 17,107 |
| Premium taxes | **50,104** | 51,786 |
| Property taxes | **66,742** | 60,194 |
| Employer payroll taxes | **15,320** | 15,790 |
| Commodity and consumption taxes | **12,458** | 13,404 |
| Canadian investment income taxes | **5,224** | 4,691 |
| Business taxes | **5,952** | 4,342 |
| Other taxes | **2,590** | 1,045 |
| **TOTAL TAXES** | **$ 221,219** | $ 168,359 |

**CHANGES IN ACCOUNTING POLICIES:**

During the year, the company changed its method of accounting for income taxes on life insurance operations from the taxes payable method to the accrual method of tax allocation. Concurrently, insurance and annuity reserves were increased to reflect the loss of future investment income due to payment of taxes on income prior to its recognition for accounting purposes. As of December 31, 1993 assets include a net deferred tax balance of $877.0 million and reserves have been increased by $240.1 million.

Deferred tax balances arise from the following timing differences between taxable and accounting income:

| **SOURCE OF DEFERRED TAX BALANCE** ($ millions) | DECEMBER 31 1993 | 1992 |
|---|---|---|
| Deferred net gains on sale of investments subject to tax when realized | **$ 543.9** | $ 278.3 |
| Insurance and annuity reserves in excess of amounts allowed as current tax deductions | **498.5** | 478.3 |
| Excess of the carrying value of real estate over the tax cost base | **(243.5)** | (221.5) |
| Policy acquisition costs deferred for tax purposes and deductible over future periods | **110.9** | 75.9 |
| Losses available to reduce future taxable income and prepaid minimum taxes | **40.8** | 131.2 |
| Excess of tax cost base of mortgages and securities over carrying values | **67.9** | 43.1 |
| Other items | **5.2** | 0.8 |
| Valuation allowance | **(146.7)** | (132.9) |
| **TOTAL** | **$ 877.0** | $ 653.2 |

In Canada, the company is subject to minimum taxes based on capital irrespective of the level of taxable income earned. Consequently, reasonable assurance does not exist that all deferred tax balances associated with Canadian operations will be recovered when related timing differences reverse. Deferred tax assets have been reduced by a valuation allowance for that portion where recovery is not reasonably assured.

The company also changed its accounting policy for medical, dental and life insurance benefits provided to qualifying employees upon retirement. Previously, such benefits were recorded as expenses only as paid. Under the revised policy the company now accrues for the estimated present value of these retirement benefits over the employees' periods of service to their dates of entitlement. As of December 31, 1993 the estimated present value of benefits accrued under these plans totalled $92 million.

The 1992 financial statements have been restated to give retroactive effect to these changes in accounting policies. As a result of adopting the accrual method of tax allocation and of recording a liability for post-retirement benefits, net income for 1992 was increased by $8.8 million from amounts previously reported.

## REVIEW OF FINANCIAL CONDITION AND INVESTMENT PROFILE

**INVESTMENT GUIDELINES:**

Under the Insurance Companies Act Canada, Manulife's Board of Directors is responsible for ensuring that the company makes sound and prudent investment decisions by establishing investment and lending policies and by defining standards and procedures that would be applied by a reasonable and prudent person to avoid undue risk and achieve an acceptable rate of return. These policies cover such aspects of portfolio management as asset/liability matching, credit exposure, trading guidelines and currency risk and they are updated on a regular basis.

Manulife's philosophy is to create a policy framework which limits the company's financial exposure, while at the same time, permits portfolio managers sufficient investment flexibility to maximize portfolio yields.

**INVESTMENT PROFILE:**

The risk of investment losses as a result of changes in economic conditions can be reduced by distributing investments among several asset types and geographic locations.

Manulife's investment portfolios are broadly diversified as indicated in the following tables:

| ($ millions) | 1993 | | 1992 | |
|---|---|---|---|---|
| Bonds by Grade – | | | | |
| AAA | **$ 5,650** | **15.4%** | $ 5,906 | 17.7% |
| AA | **2,242** | **6.1%** | 2,387 | 7.1% |
| A | **6,312** | **17.2%** | 4,244 | 12.7% |
| BBB | **1,379** | **3.8%** | 1,217 | 3.6% |
| BB and lower | **1,180** | **3.2%** | 1,051 | 3.1% |
| Total Bonds | **16,763** | **45.7%** | 14,805 | 44.2% |
| Equities | **2,684** | **7.3%** | 2,260 | 6.8% |
| Commercial Mortgages | **7,735** | **21.1%** | 7,965 | 23.8% |
| Residential Mortgages | **1,526** | **4.2%** | 1,600 | 4.8% |
| Real Estate | **3,395** | **9.3%** | 3,275 | 9.8% |
| Policy Loans | **1,651** | **4.5%** | 1,425 | 4.3% |
| Cash and Equivalents | **2,447** | **6.7%** | 1,554 | 4.7% |
| Other Assets | **475** | **1.2%** | 557 | 1.6% |
| **TOTAL CARRYING VALUE** | **$ 36,676** | **100.0%** | $ 33,441 | 100.0% |
| **TOTAL MARKET VALUE** | **$ 38,572** | | $ 34,955 | |

As a result of the recent recession and its impact on real estate values, Manulife has been following a policy of reducing its dependence on real estate and commercial mortgages as sources of investment income. In 1993 the percentage of commercial mortgages in the portfolio continued to decline as the company reduced its exposure to U.S. commercial mortgages with a corresponding increase in bonds.

The geographic diversification of the company's investments in mortgages and real estate as of December 31, 1993 was as follows:

| LOCATION ($ millions) | MORTGAGES | REAL ESTATE | TOTAL 1993 | PER CENT |
|---|---|---|---|---|
| Ontario | $ 3,412.3 | $ 894.3 | **$ 4,306.6** | 34.1% |
| Western Canada | 1,793.7 | 624.2 | **2,417.9** | 19.2% |
| Quebec | 398.5 | 31.7 | **430.2** | 3.4% |
| Other Canada | 26.6 | 139.6 | **166.2** | 1.3% |
| California | 963.1 | 472.1 | **1,435.2** | 11.3% |
| U.S. Mid-Atlantic | 538.7 | 770.3 | **1,309.0** | 10.3% |
| U.S. Midwest | 546.5 | 281.1 | **827.6** | 6.5% |
| U.S. Northeast | 422.4 | 19.2 | **441.6** | 3.5% |
| U.S. South | 272.8 | 58.8 | **331.6** | 2.6% |
| U.S. Northwest | 316.0 | 4.6 | **320.6** | 2.5% |
| Other U.S. | 84.5 | 3.7 | **88.2** | 0.7% |
| United Kingdom | 462.2 | 76.0 | **538.2** | 4.3% |
| Other Countries | 24.0 | 19.4 | **43.4** | 0.3% |
| **TOTAL** | $ 9,261.3 | $ 3,395.0 | **$ 12,656.3** | 100.0% |

The following table shows the diversification of the company's real estate holdings by type of property as of December 31:

| TYPE OF PROPERTY ($ millions) | CARRYING VALUE 1993 | CARRYING VALUE 1992 | PER CENT LEASED 1993 | PER CENT LEASED 1992 |
|---|---|---|---|---|
| Office commercial – | | | | |
| Income producing | **$ 1,758.4** | $ 1,364.5 | **90%** | 93% |
| Under development | **390.4** | 684.6 | **69%** | 58% |
| Retail Commercial | **346.5** | 335.4 | **93%** | 91% |
| Residential | **185.9** | 203.3 | **98%** | 98% |
| Industrial | **111.5** | 110.7 | **82%** | 81% |
| Purchase Lease and Ground Rents | **150.7** | 142.8 | **100%** | 100% |
| Land Inventory | **242.6** | 256.3 | **N.A.** | N.A. |
| Foreclosed Properties | **209.0** | 177.6 | **64%** | 72% |
| TOTAL CARRYING VALUE | **$ 3,395.0** | $ 3,275.2 | | |

In 1993 the market value of the company's portfolios of fixed income and equity securities increased because of favourable movements in interest rates and stock market values; however, the market value of the company's real estate portfolio decreased in 1993 as a result of a general erosion of real estate values in both Canada and the United States. Notwithstanding this decrease in market value, net rental income from the portfolio has been relatively stable.

Canadian life insurance companies follow a policy of deferring and amortizing gains and losses realized on the sale of portfolio investments. In addition, the market value of investment portfolios can differ from carrying values because of the moving to market method of accounting for investments in equity securities and real estate.

The amounts of deferred realized gains and unrealized market gains that will be recognized in future income apply to the following classes of investments:

| UNRECOGNIZED MARKET GAINS ($ millions) | 1993 | 1992 |
|---|---|---|
| Deferred Net Gains (Losses) – | | |
| Fixed-Term Investments | **$ 1,142.8** | $ 502.2 |
| Equity Securities | **683.6** | 548.0 |
| Real Estate | **224.2** | 229.8 |
| Foreign Currency | **56.7** | (9.7) |
| TOTAL | **$ 2,107.3** | $ 1,270.3 |
| Unrealized Market Gains (Losses) – | | |
| Fixed-Term Investments | **$ 1,889.3** | $ 1,241.6 |
| Equity Securities | **420.5** | 162.1 |
| Real Estate | **(413.9)** | 110.1 |
| TOTAL | **$ 1,895.9** | $ 1,513.8 |

Unrealized gains (losses) on real estate in 1992 are based on the company's previous policy of appraising approximately one-third of the real estate portfolio each year. In 1993 real estate values are based on a revised policy of appraising major properties with carrying values in excess of 1/4 of 1% of total assets annually and smaller properties every three years. On smaller properties, where values may have changed materially since the dates of last appraisal, current market values are based on management estimates, taking into consideration current levels of rental rates and operating income.

Amortization of gains on fixed-term investments generally are required to preserve yields assumed in the calculation of insurance and annuity reserves and, therefore, will not have a significant effect on future reported earnings.

## ASSET QUALITY:

The most significant investment risk to which the company is exposed is the risk of loss due to declines in the credit quality of securities or defaults in the payment of principal or interest on mortgages and loans. Bond and mortgage portfolios are reviewed formally each quarter to identify investments where values may be permanently impaired. Allowances for losses on invested assets are established whenever:

(a) recovery of the principal balance on a loan and any accrued interest is in doubt and the value of the underlying security has declined below the carrying value of the loan.

b) a decline in value of a fixed-term security is considered to be other than temporary. Fluctuations in value due to changes in the general level of interest rates are considered to be temporary.

c) a decline in value of an entire real estate or equity portfolio is considered to be other than temporary.

d) a decline in value of a non-portfolio investment (usually one subject to significant influence or a venture capital investment) is considered to be other than temporary.

e) the carrying value of a foreclosed property exceeds net realizable value.

In addition to provisions for specific losses, the company provides for future losses from asset defaults in the calculation of insurance and annuity reserves and general allowances for losses in trust and banking operations. Manulife follows actuarial principles that include insurance and annuity reserves provisions for losses from asset defaults at normal historical levels, and an additional amount for expected losses from asset defaults in excess of normal levels over the next five years. Each year, amounts previously included in insurance and annuity reserves with respect to that year are released into income, and additional provisions are added to reserves for changes in expected losses from defaults in subsequent years. As a result, income will be impacted negatively when the company expects the incidence of future defaults to increase, and positively when the level of defaults is expected to decline.

In 1993 the company incurred investment losses of $255.3 million compared to $200.2 million in 1992.

| | Investment Losses | | 90-Day Arrears % | |
|---|---|---|---|---|
| ($ millions) | **1993** | 1992 | **1993** | 1992 |
| Commercial Mortgages | | | | |
| Canada | **$ 47.0** | $ 17.0 | **2.72%** | 1.64% |
| United States | **184.0** | 127.1 | **4.16%** | 5.38% |
| Total | **231.0** | 144.1 | **3.30%** | 3.15% |
| Other Mortgages and Loans | | | | |
| Canada | **9.2** | 18.5 | **3.64%** | 2.89% |
| United Kingdom | **10.9** | 19.2 | **20.50%** | 23.10% |
| Total | **20.1** | 37.7 | **9.66%** | 8.81% |
| Securities (in default) | **4.2** | 18.4 | | |
| **TOTAL** | **$ 255.3** | $ 200.2 | **4.52%** | 4.37% |

In 1992 the amount of default provisions released into income from insurance and annuity reserves was approximately equal to amounts added for subsequent periods; however, because of stabilizing real estate markets and improving economic conditions, the amount scheduled for release into income in 1993 exceeded amounts added to actuarial liabilities for subsequent years by $149.0 million.

The levels of non-performing assets increased from $614.6 million in 1992 to $647.5 million December 31, 1993. These levels have been below the average for their respective industries in both the United States and Canada over most of the last two years. Arrears over 90 days in the United Kingdom reflect the extremely weak real estate market being experienced by all mortgage lenders in that country.

| **NON-PERFORMING ASSETS** ($ millions) | UNITED STATES | CANADA | UNITED KINGDOM | TOTAL 1993 | TOTAL 1992 |
|---|---|---|---|---|---|
| Non-accrual loans | | | | | |
| Commercial mortgages | $ 136.9 | $ 125.3 | $ 4.4 | **$ 266.6** | $ 277.2 |
| Residential mortgages | | 42.7 | 85.5 | **128.2** | 108.3 |
| Other loans | | | 43.8 | **43.8** | 51.6 |
| Foreclosed properties | 183.9 | 25.0 | | **208.9** | 177.6 |
| **TOTAL** | $ 320.8 | $ 193.0 | $ 133.7 | **$ 647.5** | $ 614.7 |
| Allowance for losses | $ 164.8 | $ 57.6 | $ 26.5 | **$ 248.9** | $ 206.0 |
| Allowance for defaults, in insurance and annuity reserves | | | | **$ 931.1** | $ 925.7 |

**ASSET/LIABILITY MATCHING:** The company can be exposed to loss of future investment income if cash flows from assets and liabilities do not coincide and funds must be raised or invested at rates which differ from those required to support product pricing assumptions. Management of cash flows is extremely important for term deposits, annuities and pension products, which in total accounted for 65% of the company's insurance and annuity reserves and customer deposits at December 31, 1993. Manulife's policy is to match the duration of assets and liabilities within prescribed limits. Consequently, Manulife limits its exposure to losses arising from future fluctuations in interest rates.

Incremental profits can be generated by mismatching cash flows if changes in interest rate levels can be anticipated correctly. Consequently, the company's investment managers are permitted to deviate from the duration match but the level of mismatched fixed-term instruments cannot exceed nine months without approval by the company's Finance Committee, which includes the President, Chief Financial Officer and Chief Investment Officer. The duration and impact of parallel shifts in the yield curve are monitored weekly for interest-sensitive products. At the end of 1993 the duration mismatch between assets and liabilities was 0.18 years on the U.S. interest-sensitive portfolio and 0.09 years on the Canadian interest-sensitive portfolio.

In 1992 the company maintained an asset duration greater than the duration of the liabilities for both the Canadian and U.S. interest-sensitive segments to benefit from the expected fall in short and long-term interest rates. In 1993 the company reduced the duration gap to a more matched position reflecting a cautious approach on the future direction of interest rates.

Manulife almost exclusively backs interest guaranteed product lines by bonds, debentures and commercial mortgages. Traditional insurance products are backed by a broader asset range while the company's surplus is invested in equities, real estate and foreign securities.

## Foreign Currency:

Manulife's strategy of matching assets with related liabilities by currency exposes the company to minimal foreign currency risk on assets backing insurance and annuity reserves. However, a proportion of assets backing the company's surplus is invested in foreign denominated instruments to diversify the risk associated with movements in world currency markets and to reflect the geographic diversity of the underlying liabilities. In addition, certain liabilities in Hong Kong are backed by investments denominated in currencies other than the Hong Kong dollar. This policy of currency diversification does generate translation gains and losses on that proportion of surplus not invested in Canadian denominated assets. Translation gains and losses are deferred and amortized to income using the same basis as for investment gains and losses.

In the management of the company's foreign currency position, a variety of hedging techniques are used including spot and forward contracts, currency options and futures, as well as currency swaps. As of December 31, 1993 assets exceeded liabilities denominated in foreign currencies by $2,372.0 million, of which $1,780.6 million related to the United States dollar. As of December 31, 1993 the company has hedged approximately 58% of the total currency mismatch.

## Off-Balance Sheet Activity

Manulife enters into financial contracts, not included on the company's balance sheet, to limit its exposure to currency and interest rate risk. Exposure to loss is limited to the extent that default by the counter parties to these contracts results in the loss of any gains that may have accrued. To limit this risk, the company restricts the notional principal amount that may be placed with any one counter party and requires that the credit rating of the counter party be at least single A.

The following table indicates the notional principal amount outstanding at December 31 for each type of off-balance sheet instrument:

| ($ millions) | 1993 | 1992 |
|---|---|---|
| Foreign exchange contracts | **$ 464.1** | $ 471.1 |
| Currency options and futures | **2,616.5** | 1,213.0 |
| Interest rate swaps | **781.2** | 490.4 |
| Forward rate agreements | **263.6** | 86.6 |
| **Total** | **$ 4,125.4** | $ 2,261.1 |

Letters of credit are arranged by the company with commercial banks and supplied to reinsurance customers mainly to support liabilities assumed under reinsurance contracts. The credit risk associated with letters of credit is restricted to the cost of replacing the contracts in the event of default by the issuing bank.

From time to time the company earns fee income by lending securities to enable investment brokerage firms to cover failed deliveries or short sales. The company's policy is to lend securities only if the broker supplies as collateral United States or Canadian government securities with a market value equal to at least 105% of the market value of securities lent in Canada and 102%, in the United States.

## Policy Retention Limits

Manulife follows a policy of limiting exposure to claims from any one policy or event by reinsuring in force coverage over certain specified limits. On life insurance policies, retention limits vary by geographic location, but the maximum claim to which the company is exposed on any one life is $10 million. In addition the company carries coverage that insures against a catastrophic event that could entail aggregate claims in excess of $30 million but less than $100 million.

**TRUST AND BANKING:** The following table summarizes the distribution of invested assets and liabilities in trust and banking operations as of December 31:

| ($ millions) | Canada | United Kingdom | Total 1993 | Total 1992 |
|---|---|---|---|---|
| Assets: | | | | |
| Mortgages Loans | $ 1,076.4 | $ 461.7 | **$ 1,538.1** | $ 1,634.7 |
| Other Loans | 110.1 | 164.6 | **274.7** | 414.5 |
| Cash and Equivalents | 259.7 | 39.7 | **299.4** | 183.7 |
| Other Assets | 168.9 | 15.3 | **184.2** | 122.8 |
| Total Assets | 1,615.1 | 681.3 | **2,296.4** | 2,355.7 |
| Liabilities: | | | | |
| Bank Loans | | 529.6 | **529.6** | 430.6 |
| Demand Deposits | 236.9 | 66.3 | **303.2** | 269.7 |
| Term Deposits | 1,199.1 | | **1,199.1** | 1,332.2 |
| Other Liabilities | 41.6 | 14.2 | **55.8** | 114.9 |
| Subordinated Notes | 30.0 | 51.8 | **81.8** | 80.9 |
| Total Liabilities | 1,507.6 | 661.9 | **2,169.5** | 2,228.3 |
| **NET EQUITY** | $ 107.5 | $ 19.4 | **$ 126.9** | $ 127.4 |

Deposits maturing within twelve months in the Canadian trust and banking operations exceeded maturing assets by $26.8 million as of December 31, 1993. Exposure to changes in interest rate levels has been fully hedged under the companies' duration matching policy. Operations in the United Kingdom are exposed to minimal mismatch risk because most loans and deposits are written on a floating rate basis.

Total net interest income, on a tax-equivalent basis, as a percentage of average assets increased to 2.97% in 1993 from 2.22% in 1992.

## PROSPECTS FOR 1994

Management anticipates that the positive momentum in earnings established in 1993 will continue into 1994. Although the company's operating income is not expected to be as favourably impacted by strong world-wide equity markets and excellent mortality as in 1993, other aspects of operations are expected to improve.

All operating divisions will continue to place emphasis on productivity improvement. Strong premium persistency is expected to be maintained reflecting the value in the company's products and the ongoing commitment to customer service.

Reflecting the demographics and economic conditions in each region, significant growth should occur in the Asia Pacific region and in sales of Canadian annuity and savings products, but more modest growth is foreseen in North American insurance lines. Sales of mutual fund products marketed by the company is expected to be especially strong. Reinsurance operations will show increased emphasis on business from Europe and Asia Pacific.

North American real estate markets will continue to be depressed although the number of mortgage defaults in the company's North American portfolios is expected to begin to decline after the record high levels of the past two years. Signs of improvement in the office rental market have begun to emerge pointing to a slow recovery in the value of commercial real estate values within the next twelve months.

The company will continue to emphasize financial strength and will maintain its capital base significantly in excess of regulatory limits.

# RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of The Manufacturers Life Insurance Company and all of the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternate accounting methods exist, or when estimates and judgement are required, management has selected those amounts which present the company's financial position and results of operations in a manner most appropriate to the circumstances. Management has prepared the financial information presented elsewhere in this report on a basis consistent with that in the financial statements.

Appropriate systems of internal control, policies and procedures have been maintained consistent with reasonable cost to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by the company's internal audit department.

The actuary appointed by the Board of Directors (the Appointed Actuary) is responsible for ensuring that assumptions and methods used in the determination of actuarial reserves are appropriate in the circumstances and such reserves will be adequate to meet the company's future obligations under insurance and annuity contracts. The appointed actuary makes use of the work of the external auditors in verifying the data used in the valuation.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. These responsibilities are carried out primarily through an Audit Committee of outside directors appointed by the Board.

The Audit Committee meets periodically with management, the internal auditors, the external auditors and the Appointed Actuary to discuss internal control over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the financial statements and annual report and recommends them to the Board of Directors for approval. The Committee also recommends to the Board and policyholders the appointment of external auditors and approval of their fees.

The financial statements have been audited by the company's external auditors, Ernst & Young, in accordance with generally accepted auditing standards. Ernst & Young have full and free access to the Audit Committee.

D D'Alessandro

Dominic D'Alessandro
*President and Chief Executive Officer*

Geoff Guy

Geoff I. Guy, F.C.I.A.
*Vice President and Chief Actuary*

*Toronto, Canada*
February 17, 1994

as at December 31

| **ASSETS** ($000's omitted) | 1993 | 1992 |
|---|---|---|
| **Invested Assets** (Note 4): | | (restated) |
| Bonds | **$ 16,762,968** | $ 14,804,724 |
| Stocks | **2,683,931** | 2,259,953 |
| Mortgages | **9,261,338** | 9,564,846 |
| Real Estate | **3,395,047** | 3,275,198 |
| Policy Loans | **1,651,110** | 1,424,949 |
| Cash and Short-Term Investments | **2,446,897** | 1,553,873 |
| Other Investments | **474,254** | 557,708 |
| **TOTAL** | **36,675,545** | 33,441,251 |
| **Other Assets:** | | |
| Accrued Investment Income | **473,186** | 414,223 |
| Outstanding Premiums | **200,010** | 174,164 |
| Deferred Income Taxes (Note 8) | **877,045** | 653,220 |
| Miscellaneous | **267,973** | 217,044 |
| Total | **1,818,214** | 1,458,651 |
| **TOTAL ASSETS** | **$ 38,493,759** | $ 34,899,902 |

| **LIABILITIES AND SURPLUS** ($000's omitted) | | |
|---|---|---|
| **Liabilities:** | | |
| Insurance and Annuity Reserves | **$ 29,027,902** | $ 26,665,943 |
| Policy Benefits in Course of Settlement and Provision for Unreported Claims | **702,079** | 609,932 |
| Policyholder Amounts on Deposit | **480,175** | 450,579 |
| Company Retirement Plans (Note 9) | **257,754** | 233,128 |
| Deferred Net Gains (Note 6) | **2,107,323** | 1,270,328 |
| Borrowed Funds (Note 10) | **1,001,231** | 815,034 |
| Trust and Banking Deposits | **1,502,365** | 1,601,892 |
| Other Liabilities | **643,444** | 668,918 |
| Total Liabilities | **35,722,273** | 32,315,754 |
| **Surplus** (Note 7) | **2,771,486** | 2,584,148 |
| **TOTAL LIABILITIES AND SURPLUS** | **$ 38,493,759** | $ 34,899,902 |

D D'Alessandro

Dominic D'Alessandro
*President and Chief Executive Officer*

W R C Blundell

William R.C. Blundell
*Chairman of the Board of Directors*

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

# CONSOLIDATED STATEMENTS OF OPERATIONS

for the year ended December 31

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| **Revenue:** | | (restated) |
| Premium Income– | | |
| Individual Life Insurance | **$ 2,155,795** | $ 1,947,576 |
| Group Life and Health Insurance | **385,205** | 347,275 |
| Reinsurance | **497,893** | 401,052 |
| Individual Annuities | **844,028** | 774,298 |
| Group Pension | **573,125** | 633,468 |
| Total Premium Income | **4,456,046** | 4,103,669 |
| Investment Income (Note 3) | **2,852,796** | 2,743,903 |
| Other Revenue | **77,171** | 116,080 |
| Total Revenue | **7,386,013** | 6,963,652 |
| **Disposition of Revenue:** | | |
| To Policyholders and Beneficiaries– | | |
| Death and Disability Benefits | **1,010,332** | 855,828 |
| Maturity and Surrender Benefits | **1,726,168** | 1,510,927 |
| Annuity Payments | **952,817** | 886,574 |
| Increase in Reserves for Future Benefits | **1,788,262** | 2,003,834 |
| General Expenses and Commissions | **1,060,135** | 993,141 |
| Interest Expense | **280,899** | 296,670 |
| Income Taxes (Note 8) | **62,829** | 17,107 |
| Premium Taxes | **50,104** | 51,786 |
| Preferred Share Dividends | | 16,316 |
| Total Disposition of Revenue | **6,931,546** | 6,632,183 |
| **Income Before Policyholder Dividends** | **454,467** | 331,469 |
| Policyholder Dividends | **267,129** | 246,445 |
| **NET INCOME** | **$ 187,338** | $ 85,024 |

# CONSOLIDATED STATEMENTS OF SURPLUS

for the year ended December 31

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| | | (restated) |
| Surplus, Beginning of Year as Restated (Note 2) | **$ 2,584,148** | $ 2,499,124 |
| Net Income for the Year | **187,338** | 85,024 |
| **SURPLUS, END OF YEAR** (Note 7) | **$ 2,771,486** | $ 2,584,148 |

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

for the year ended December 31

**SOURCES OF CASH**

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| **Operating activities:** | | (restated) |
| Net Income | $ 187,338 | $ 85,024 |
| Add charges (credits) to operations not involving cash: | | |
| Increase in insurance and annuity reserves | 1,788,262 | 2,003,834 |
| Increase in other insurance liabilities | 106,831 | 5,595 |
| Decrease (increase) in accrued investment income | (45,796) | (43,375) |
| Net amortization of bond discounts | (42,534) | (128,006) |
| Amortization of net capital gains | (281,532) | (198,775) |
| Provision for deferred income taxes | (194,108) | (37,651) |
| Miscellaneous | (18,490) | (22,104) |
| Increase (decrease) in other assets and liabilities | 82,017 | 216,059 |
| Cash provided by operating activities | 1,581,988 | 1,880,601 |
| **Investing activities:** | | |
| Bonds sold (purchased), net | (739,434) | (1,133,182) |
| Stocks sold (purchased), net | (30,837) | 163,516 |
| Mortgage advances made | (533,366) | (884,154) |
| Mortgage principal repaid | 673,173 | 366,111 |
| Real estate acquired | (113,776) | (182,395) |
| Real estate sold | 73,213 | 15,788 |
| Policy loans (advanced) repaid, net | (163,196) | (131,789) |
| Trust and banking deposits, net | (123,672) | 273,568 |
| Decrease (increase) in other investments | 86,156 | (33,556) |
| Cash provided by (used in) investing activities | (871,739) | (1,546,093) |
| **Financing Activities:** | | |
| Funds borrowed | 182,775 | |
| Borrowed funds repaid | | (279,421) |
| Preferred shares redeemed | | (225,000) |
| Cash provided by (used in) financing activities | 182,775 | (504,421) |
| **Cash and Short-Term Investments:** | | |
| Increase (decrease) during the year | 893,024 | (169,913) |
| Balance, beginning of the year | 1,553,873 | 1,723,786 |
| **BALANCE, END OF THE YEAR** | $ 2,446,897 | $ 1,553,873 |

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

## SEGREGATED FUNDS CONSOLIDATED STATEMENTS OF NET ASSETS

as at December 31

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| Bonds | **$ 612,958** | $ 583,811 |
| Stocks | **2,717,982** | 1,685,161 |
| Mortgages | **0** | 2,896 |
| Real Estate | **124,740** | 123,846 |
| Cash and Short-Term Deposits | **559,108** | 340,620 |
| Accrued Investment Income | **8,916** | 9,376 |
| Liabilities (net) | **(11,898)** | (11,383) |
| **TOTAL NET ASSETS** | **$ 4,011,806** | $ 2,734,327 |
| Held by Policyholders | **$ 3,995,170** | $ 2,673,824 |
| Held by the company | **16,636** | 60,503 |
| **TOTAL** | **$ 4,011,806** | $ 2,734,327 |

## SEGREGATED FUNDS CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

for the year ended December 31

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| Net Assets, Beginning of Year | **$ 2,734,327** | $ 2,269,717 |
| Capital Transactions: | | |
| Deposits from Policyholders | **1,091,760** | 615,774 |
| Payments to Policyholders | **(388,823)** | (266,018) |
| Net Transfers to General Funds | **(17,344)** | (13,489) |
| Investment Income: | | |
| Interest and Dividends | **114,617** | 98,255 |
| Realized and Unrealized Gains (Losses) | **468,035** | 127,697 |
| Operating Expenses: | | |
| Management and Administrative Fees | **(44,153)** | (32,749) |
| Taxes | **(12,124)** | (9,386) |
| Other Expenses | **(682)** | (2,033) |
| Currency Revaluation | **66,193** | (53,441) |
| **NET ASSETS, END OF YEAR** | **$ 4,011,806** | $ 2,734,327 |

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

## APPOINTED ACTUARY'S REPORT TO THE DIRECTORS AND POLICYHOLDERS

I have valued the policy liabilities in the Consolidated Balance Sheet of The Manufacturers Life Insurance Company as at December 31, 1993 and their increase in its Consolidated Statement of Operations for the year then ended in accordance with accepted actuarial practice.

In my opinion, the valuation is appropriate and the financial statements fairly present the results of the valuation.

Geoff Guy

Geoff I. Guy, F.C.I.A.
*Vice President and Chief Actuary*

*Toronto, Canada*
February 17, 1994

## AUDITORS' REPORT TO THE DIRECTORS AND POLICYHOLDERS

We have audited the Consolidated Balance Sheet of The Manufacturers Life Insurance Company and the Consolidated Statement of Net Assets of its Segregated Funds as at December 31, 1993 and the Consolidated Statements of Operations, Surplus and Cash Flows and the Consolidated Statement of Changes in Net Assets of its Segregated Funds for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company and its Segregated Funds as at December 31, 1993 and the results of the company's operations and the changes in its financial position and the changes in the net assets of its Segregated Funds for the year then ended in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

Ernst & Young

Ernst & Young
*Chartered Accountants*

*Toronto, Canada*
February 17, 1994

## 1. Significant Accounting Policies

The Manufacturers Life Insurance Company is registered under the Canadian Insurance Companies Act, which requires that financial statements be prepared in accordance with generally accepted accounting principles, including the requirements of the Superintendent of Financial Institutions Canada. None of the accounting requirements of the Superintendent of Financial Institutions Canada are exceptions to generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements are summarized below. These policies have been consistently applied except as described in Note 2.

### a) Basis of Consolidation

The company consolidates the accounts of all subsidiary companies and all significant inter-company balances and transactions are eliminated on consolidation. The excess of the cost of subsidiaries over the market values of the underlying net assets on the date of acquisition is recorded as goodwill and amortized to income over its estimated useful life. Unamortized goodwill of $26,358,000 included in miscellaneous assets on the company's balance sheet relates to the acquisition of trust company subsidiaries and is being written off on a straight line basis over a ten-year period.

### b) Bonds

Bonds are carried at amortized cost less specific loss allowances. Gains and losses realized on the sale of bonds in the course of normal trading activity are deferred and brought into income over the lesser of twenty years or the term to maturity of the security sold.

### c) Mortgages

Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Gains and losses realized on the sale of mortgages in the course of normal business activity are deferred and brought into income over the lesser of twenty years or the term to maturity of the mortgage sold.

### d) Stocks

For portfolio investments, stocks are carried at moving average market value whereby the carrying value is adjusted towards market value at 15% per annum. Gains (losses) realized on the sale of stocks are deferred and included on the balance sheet as deferred net gains. Each year 15% of unamortized deferred gains (losses) is brought into income.

For investments over which the company exerts significant influence, a pro rata share of each year's income is added to or deducted from the carrying value of the investment and included in current income. Gains or losses on these investments are included in income when realized.

### e) Real Estate

Real estate includes properties held for investment, company-occupied premises and ground rents. Investment income on real estate includes an amount of imputed rent on company-occupied premises.

Real estate is carried at cost plus accumulated amortization toward market value. Imputed interest is capitalized on properties under development at a rate which approximates the interest rate inherent in the valuation of actuarial reserves. Interest is capitalized from the commencement date of construction until the date of substantial completion, up to a limit of 12% of the total property cost. Gains (losses) realized on the sale of real estate are deferred and included on the balance sheet as deferred net gains. Each year 10% of the aggregate of realized and unrealized gains is brought into income.

F) POLICY LOANS

Loans are made to policyholders in accordance with the terms of their policies. Policy loans are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.

G) LOSSES ON INVESTED ASSETS

Allowances for losses are established against mortgages, bonds and other fixed term securities. The allowance is increased by provisions for losses which are charged to income and reduced by write-offs. Once established, an allowance is only reversed if the conditions that caused the impairment no longer exist.

An allowance for loss on a specific bond or fixed term security is established whenever a decline in value of the specific security is considered to be other than temporary.

An allowance for loss on a specific mortgage is established when the recovery of the mortgage principal and any accrued interest is in doubt. Mortgages are classified as non-accrual and accrued interest is reversed whenever payments are 90 days or more in arrears.

At the time of foreclosure, mortgages are written down to net realizable value. An other than temporary decline in the net realizable value of a foreclosed property which occurs subsequent to foreclosure is recognized in income immediately.

The carrying values of stock and real estate portfolios are written down to market value if a decline in value of the entire portfolio is considered to be other than temporary.

In addition to specific allowances, the company provides for potential future defaults by reducing investment yields assumed in the calculation of insurance and annuity reserves and by establishing a general allowance for losses in its trust and banking subsidiaries.

H) SEGREGATED FUNDS

The company manages a number of segregated funds on behalf of policyholders from which it earns management fees. Income earned on these funds and any related capital gains (losses) accrue to the benefit of the segregated fund policyholders. Investments held in segregated funds are carried at market values.

I) OTHER INVESTMENTS

Included in other investments are loans made by subsidiaries, other loans which are secured by annuity contracts and amounts owing by reinsurers.

J) MISCELLANEOUS ASSETS

Included in miscellaneous assets are computer equipment, furniture and other equipment, which are carried at cost less accumulated depreciation computed on a straight line basis over their estimated useful lives, which vary from three to ten years.

K) INSURANCE AND ANNUITY RESERVES

Insurance and annuity reserves represent the amount which, together with future premiums and investment income, will be sufficient to pay future benefits, dividends and expenses on insurance and annuity contracts. These reserves have been estimated using the policy premium method and accepted actuarial practice. The process of calculating insurance and annuity reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of surrender. Consequently, insurance and annuity reserves include reasonable and limited provisions for adverse deviations from those estimates. As the probability of deviation from estimates declines, these provisions will be included in future income to the extent not required to cover adverse experience.

### L) Foreign Currencies

The company considers its operations in Canada, the United States, the United Kingdom and Asia Pacific to be conducted on an integrated basis. The company translates all monetary assets and liabilities and all non-monetary items carried at market related values at year-end exchange rates.

Income statement items are translated at the rates of exchange prevailing at the time of the transactions. Both realized and unrealized foreign exchange gains and losses, including gains and losses from currency hedging activities, are included in deferred net gains and brought into income at a rate which approximates that used for market gains and losses on related investments.

### M) Income Taxes

The company and its subsidiaries in life insurance operations provide for income taxes using the accrual method of tax allocation. Under this method, provisions are made for income taxes on accounting income or expenses that will be included in or deducted from taxable income in future periods. Provisions are calculated at income tax rates expected to be in effect when such amounts will be included in taxable income. Deferred tax assets are reduced by a valuation allowance to the extent that recovery is not reasonably assured.

Subsidiaries in trust and banking operations provide for income taxes using the deferral method of tax allocation. Under this method, provisions are also made for income taxes payable or recoverable on accounting income or expenses that will be included in or deductible from taxable income in future periods. However, provisions are calculated at income tax rates in effect during the period with no adjustment for changes in rates from prior periods.

### N) Post-Retirement Benefits

The company maintains a number of pension plans for its eligible employees and agents. The pension plans are primarily contributory, defined benefit plans that provide pension benefits based on length of service and final average earnings.

Accrued benefits are based on projected salaries and best estimates of investment yields on plan assets, mortality of members, employee terminations and ages at retirement. Pension costs that relate to current service are charged to earnings in the current period. Experience gains and losses are amortized to income over the estimated average remaining service lives of plan members.

In addition, the company provides supplementary health, dental and life insurance benefits to qualifying employees upon retirement. The estimated present value of these benefits are charged to earnings over the employees' periods of service to their dates of full entitlement.

### O) Off-Balance Sheet Financial Contracts

The company enters into financial contracts to protect itself against exposures to loss caused by fluctuations in foreign currency or interest rates. The interest differential on swap agreements is recorded on an accrual basis. Gains and losses on foreign currency and futures contracts are deferred and amortized to income on the same bases as gains and losses on the underlying positions being hedged.

## 2. Changes in Accounting Policies

The company has changed its method of accounting for income taxes on life insurance operations from the taxes payable method to the accrual method of tax allocation. In addition, to the extent that the company relies on cash flows inherent in deferred tax assets to meet future policyholder obligations, actuarial liabilities have been increased to reflect prepayments of tax and the related loss of future investment income. This change resulted in the establishment of a deferred tax asset of $564,775,000 and an increase in actuarial liabilities of $156,060,000 as of December 31, 1991.

The company has also changed its method of accounting for medical, dental and life insurance benefits provided to qualifying employees upon retirement. Previously, such benefits were recorded as expenses as paid. Under the revised policy the company accrues for the estimated present value of these retirement benefits over the employees' periods of service to their dates of full entitlement. This change resulted in the establishment of a liability for post-retirement benefits other than pensions of $73,262,000 as of December 31, 1991.

The 1992 financial statements have been restated to give retroactive effect to these changes in accounting policies. The overall effects of these changes were to increase surplus by $336,662,000 as of December 31, 1991, to increase the deferred foreign exchange loss by $1,209,000 and to increase net income for 1992 by $8,824,000.

## 3. Investment Income

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| Investment income consists of the following amounts: | | |
| Bond interest | **$ 1,299,059** | $ 1,253,351 |
| Mortgage interest | **939,244** | 965,704 |
| Other interest | **323,990** | 281,283 |
| Dividends | **61,539** | 62,164 |
| Net rental income | **192,436** | 189,117 |
| Principal losses on mortgages | **(251,039)** | (181,799) |
| Write-down of securities | **(4,230)** | (18,355) |
| Amortization of net realized gains on bonds | **114,758** | 38,767 |
| Amortization of net realized gains and adjustment towards market value: | | |
| Stocks | **188,530** | 116,709 |
| Real Estate | **(21,619)** | 38,372 |
| Amortization of net currency gain (loss) (Note 1) | **10,128** | (1,410) |
| **Total** | **$ 2,852,796** | $ 2,743,903 |

## 4. Market Values of Investments

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| Carrying values: | | |
| Government bonds | **$ 7,549,386** | $ 6,799,594 |
| Corporate bonds | **9,213,582** | 8,005,130 |
| Stocks | **2,683,931** | 2,259,953 |
| Mortgages | **9,261,338** | 9,564,846 |
| Real Estate and office premises | **3,395,047** | 3,275,198 |
| **Total** | **$ 32,103,284** | $ 29,904,721 |

| | | |
|---|---|---|
| Market values: | | |
| Government bonds | **$ 8,018,738** | $ 7,085,077 |
| Corporate bonds | **9,916,226** | 8,446,885 |
| Stocks | **3,104,450** | 2,422,042 |
| Mortgages | **9,978,670** | 10,079,220 |
| Real Estate and office premises | **2,981,087** | 3,385,252 |
| **Total** | **$ 33,999,171** | $ 31,418,476 |

| | | |
|---|---|---|
| Interest capitalized during construction on real estate under development | **$ 9,427** | $ 10,291 |

## 5. Allowance for Losses on Non-Performing Assets

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| Invested assets include the following non-performing assets: | | |
| Non-accrual loans | **$ 438,614** | $ 437,100 |
| Foreclosed properties | **208,901** | 177,600 |
| **Total Non-Performing Assets** | **$ 647,515** | $ 614,700 |
| Income on non-performing assets included in the Consolidated Statements of Operations | **$ 43,149** | $ 32,963 |
| Invested assets have been reduced by the following allowances for losses on non-performing assets: | | |
| Balance at beginning of year | **$205,985** | $ 101,786 |
| Provision for losses | **255,269** | 200,154 |
| Write-offs, net of recoveries | **(212,345)** | (95,955) |
| **Balance At End Of Year** | **$ 248,909** | $ 205,985 |
| Additional amounts included in insurance and annuity reserves to provide for future losses of income and capital on invested assets over the remaining terms of related policies | **$ 931,100** | $ 925,700 |

## 6. Deferred Net Gains

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| Deferred net gains (losses) relate to the following items: | | |
| Bonds and Mortgages | **$ 1,142,762** | $ 502,203 |
| Stocks | **683,643** | 548,021 |
| Real Estate | **224,223** | 229,775 |
| Currency | **56,695** | (9,671) |
| BALANCE AT END OF YEAR | **$ 2,107,323** | $ 1,270,328 |

## 7. Surplus

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| Distribution of the company's surplus is restricted by the following appropriations: | | |
| Appropriations required by the Office of the Superintendent of Financial Institutions Canada | **$ 723,818** | $ 797,047 |
| Appropriation for general contingencies | **375,000** | 200,000 |
| TOTAL | **$ 1,098,818** | $ 997,047 |

## 8. Income Taxes

($000's omitted)

### A) Income Tax Expense

Income taxes included on the Consolidated Statements of Operations consist of the following:

| | 1993 | 1992 |
|---|---|---|
| Taxes payable currently – | | |
| Income and alternate minimum taxes | **$ 234,496** | $ 33,389 |
| Capital based minimum income taxes | **20,403** | 18,928 |
| Taxes withheld on foreign investment income | **2,038** | 2,441 |
| Deferred income taxes | **(194,108)** | (37,651) |
| TOTAL INCOME TAXES | **$ 62,829** | $ 17,107 |

### B) Reconciliation to Statutory Rates

The consolidated provisions for income taxes vary from the expected provisions at Canadian statutory rates of 43% for the following reasons:

| | 1993 | 1992 |
|---|---|---|
| Provision for income taxes at statutory rates | **$ 107,571** | $ 43,916 |
| Increase (decrease) due to: | | |
| Tax exempt investment income | **(12,834)** | (30,408) |
| Non-deductible expenses | **22,807** | 18,620 |
| Lower tax rates in foreign jurisdictions | **(73,428)** | (21,155) |
| Minimum taxes in excess of statutory rates | **21,337** | 18,928 |
| Adjustment to deferred income taxes due to increase in tax rates | **(17,304)** | |
| Other | **14,680** | (12,794) |
| TOTAL INCOME TAXES | **$ 62,829** | $ 17,107 |

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| c) Composition of Deferred Tax Balance | | |
| Deferred income taxes relate to the following timing differences between accounting and taxable income: | | |
| Deferred net gains on sale of investments subject to tax when realized | **$ 543,868** | $ 278,340 |
| Insurance and annuity reserves in excess of amounts allowed as deductions for tax purposes | **498,518** | 478,340 |
| Excess of carrying value of real estate over cost base for tax purposes | **(243,493)** | (221,537) |
| Policy acquisition costs deferred for tax purposes and deductible over future periods | **110,924** | 75,908 |
| Excess of tax cost base of mortgages and securities over carrying values | **67,938** | 43,109 |
| Losses available to reduce future taxable income and prepaid minimum taxes | **40,816** | 131,202 |
| Other items | **5,179** | 759 |
| Valuation allowance | **(146,705)** | (132,901) |
| **Net Deferred Tax Asset** | **$ 877,045** | $ 653,220 |

## 9. Post-Retirement Benefits

Except in the United Kingdom, pension plan assets are held by the company in its general fund. Pension plan assets in the United Kingdom are held by an independent trustee. The values of pension plan assets and the projected benefit obligations at December 31 were as follows:

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| Assets represented by liabilities on the financial statements – | | |
| Insurance and annuity reserves | **$ 146,071** | $ 139,964 |
| Company retirement plans | **257,754** | 233,128 |
| Assets held by an independent trustee in the United Kingdom | **66,329** | 63,126 |
| Total value of pension plan assets | **470,154** | 436,218 |
| Projected benefit obligations | **406,918** | 370,464 |
| Value of assets in excess of projected benefit obligations | **$ 63,236** | $ 65,754 |
| Estimated present values of other post-retirement benefits included in other liabilities | **$ 91,496** | $ 83,097 |

## 10. Borrowed Funds

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| Bonds payable | **$ 196,861** | $ 306,396 |
| Bank loans | **529,632** | 430,587 |
| Real estate encumbrances | **5,242** | 31,562 |
| Commercial paper | **269,496** | 46,489 |
| **Total** | **$ 1,001,231** | $ 815,034 |

a) In March 1987, a wholly-owned U.S. subsidiary, Manufacturers Life Mortgage Securities Corporation, issued Commercial Mortgage-Backed Bonds, Series 1987-1, in an aggregate principal amount of U.S.$240,500,000. Principal repayments of U.S.$92,000,000 were made during 1993. The remaining U.S.$148,500,000 ($196,861,000) of bonds outstanding at December 31, 1993 pay interest at 8.25% and are due March 1, 1997. The bonds are collateralized by

U.S. investments with a carrying value of U.S.$159,284,000.

b) At December 31, 1993, lines of credit of £115,000,000 were available and fully utilized to fund mortgage investments of subsidiaries in the United Kingdom. Interest is calculated at a floating rate based upon LIBOR. £60,000,000 of these borrowings are collateralized by a floating charge over certain mortgages. £75,000,000 is repayable in 1994. Other borrowings amounting to £155,017,000 bear interest at floating rates; £101,517,000 is repayable during 1994.

c) Commercial paper, bearing interest at market rates, has been issued in both Canadian and United States currencies for terms of less than one year.

## 11. Off Balance Sheet Financial Instruments

The company and its subsidiaries enter into financial contracts to protect against exposure to currency and interest rate risk. Exposure to loss is limited to the extent that default by counterparties to these contracts results in the loss of any gains that may have accrued. The notional principal amounts outstanding as of December 31 were as follows:

| ($000's omitted) | 1993 | 1992 |
|---|---|---|
| Currency options and futures | **$ 2,616,455** | $ 1,213,040 |
| Interest rate swaps | **781,182** | 490,426 |
| Foreign exchange contracts | **464,068** | 471,100 |
| Forward rate agreements | **263,655** | 86,580 |
| TOTAL | **$ 4,125,360** | $ 2,261,146 |

## 12. Contingent Liabilities

A) NHA MORTGAGE TRUST

A subsidiary of the company, FirstLine Trust Company, manages the NHA Mortgage Trust, which issues term notes secured by a portfolio of NHA insured mortgages. Manulife Financial has committed to purchase up to $600 million of these notes in the event that sufficient cash is not available from time to time within the Trust to meet current demands for interest and principal payments on the outstanding notes. If the company is called upon to fulfill this commitment, the notes so acquired would rank equally with other outstanding notes and be secured by the Trust's portfolio of NHA insured mortgages.

B) UNITED STATES INCOME TAXES

The company is subject to and expects to be reassessed for taxation years beginning in 1988, under the provisions of the United States Internal Revenue Code, for minimum investment income taxes applied to branches of foreign life insurance companies operating in the United States. The company believes that these provisions contravene the terms of the Canada-United States Tax Treaty and, consequently, intends to contest any reassessment. Although the outcome of such proceedings is currently not determinable, the company's legal counsel has advised that substantial arguments exist to support the company's position.

If the company is unsuccessful in defending its position, income taxes payable in the United States could be increased by up to $205 million. Any liability that may arise when this matter is resolved will be treated as a prior period adjustment.

## 13. Comparative Figures

Certain of the 1992 comparative figures have been reclassified to conform to the presentation adopted for 1993.

## 14. Segmented Information

The company and its subsidiaries operate in the life insurance industry in Canada, the United States, the United Kingdom and the Asia Pacific region, and in the trust and banking industries in Canada and the United Kingdom.

Revenues, net income and assets of each major operating segment include amounts related to the level of capital and surplus supporting those operations.

| 1993 ($000's omitted) | Revenue | Net Income | Assets |
|---|---|---|---|
| **Segmented by Type of Business:** | | | |
| Insurance and Annuities – | | | |
| Direct Written | **$ 6,548,182** | **$ 140,941** | **$ 34,527,975** |
| Reinsurance | **585,429** | **52,983** | **1,669,301** |
| Total | **7,133,611** | **193,924** | **36,197,276** |
| Trust and Banking | **252,402** | **(6,586)** | **2,296,483** |
| **Total** | **$ 7,386,013** | **$ 187,338** | **$ 38,493,759** |
| **Segmented by Geographic Area:** | | | |
| United States | **$ 3,675,526** | **$ 115,820** | **$ 20,604,520** |
| Canada | **2,843,654** | **5,768** | **14,248,031** |
| United Kingdom | **307,607** | **32,359** | **1,955,312** |
| Asia Pacific | **559,226** | **33,391** | **1,685,896** |
| **Total** | **$ 7,386,013** | **$ 187,338** | **$ 38,493,759** |

| 1992 ($000's omitted) | Revenue | Net Income | Assets |
|---|---|---|---|
| **Segmented by Type of Business:** | | | |
| Insurance and Annuities – | | | |
| Direct Written | $ 6,267,650 | $ 88,802 | $ 31,266,407 |
| Reinsurance | 470,741 | 28,288 | 1,277,792 |
| Total | 6,738,391 | 117,090 | 32,544,199 |
| Trust and Banking | 225,261 | (32,066) | 2,355,703 |
| **Total** | $ 6,963,652 | $ 85,024 | $ 34,899,902 |
| **Segmented by Geographic Area:** | | | |
| United States | $ 3,425,122 | $ 36,716 | $ 18,771,132 |
| Canada | 2,727,823 | 3,960 | 13,186,826 |
| United Kingdom | 327,497 | 26,190 | 1,533,001 |
| Asia Pacific | 483,210 | 18,158 | 1,408,943 |
| **Total** | $ 6,963,652 | $ 85,024 | $ 34,899,902 |

(See note below)

| **DURING THE YEAR** ($000's omitted) | TOTAL PREMIUMS | PAYMENTS TO POLICYHOLDERS AND BENEFICIARIES, INCLUDING POLICYHOLDER DIVIDENDS | NET INCOME |
|---|---|---|---|
| **1993** | **$ 4,456,046** | **$ 3,956,446** | **$ 187,338** |
| 1992 | 4,103,669 | 3,499,774 | 85,024 |
| 1991 | 4,000,215 | 2,933,123 | 207,617 |
| 1990 | 3,932,897 | 2,856,524 | 123,734 |
| 1989 | 3,521,816 | 2,668,979 | 222,402 |
| 1988 | 3,376,321 | 2,191,814 | 117,071 |
| 1987 | 3,270,184 | 2,146,890 | 136,618 |
| 1986 | 2,340,404 | 1,775,049 | 167,891 |
| 1985 | 2,385,698 | 1,520,945 | 225,326 |
| 1984 | 2,070,906 | 995,412 | 253,689 |

| **AT END OF YEAR** ($000's omitted) | TOTAL ASSETS | SURPLUS | NUMBER OF EMPLOYEES | NUMBER OF AGENTS |
|---|---|---|---|---|
| **1993** | **$ 38,493,759** | **$ 2,771,486** | **6,280** | **6,000** |
| 1992 | 34,899,902 | 2,584,148 | 6,295 | 6,004 |
| 1991 | 30,749,283 | 2,499,124 | 6,381 | 6,379 |
| 1990 | 26,305,211 | 2,174,076 | 6,324 | 6,299 |
| 1989 | 23,844,589 | 2,050,342 | 6,165 | 5,722 |
| 1988 | 22,232,033 | 1,827,940 | 5,930 | 4,947 |
| 1987 | 20,366,458 | 1,710,869 | 5,709 | 4,162 |
| 1986 | 17,667,152 | 1,574,251 | 5,211 | 3,693 |
| 1985 | 14,978,259 | 1,406,360 | 5,107 | 3,138 |
| 1984 | 11,146,284 | 1,193,706 | 4,407 | 2,652 |

*Certain historical data have not been restated. Please refer to Note 2 in the Notes to Consolidated Financial Statements.*

This dividend policy has been established pursuant to the Canadian Insurance Companies Act, section 165(2)(e), and applies to all existing participating policies in all Manulife Financial's geographic divisions, regardless of when these policies were originally issued. This dividend policy is subject to change from time to time by the Board of Directors of the company, and if and when changed, any new dividend policy may, at the discretion of the Board of Directors, become applicable to all then existing participating policies, regardless of when originally issued. This dividend policy and all dividend determinations are at all times intended to comply with any prevailing local regulatory requirements and professional actuarial practice standards in each geographic division.

The surplus of the company is derived from earnings from all sources. All classes of policies, both participating and non-participating, are expected to make a contribution to the surplus of the company. The use and distribution of Company surplus is at the discretion of the Board of Directors of the company. In exercising its discretion to establish the surplus distributable to participating policyholders at any time, the Board of Directors considers many factors. These include the available excess premiums of participating policies due to current experience more favourable than required to fund their guaranteed benefits and related expenses and their contribution to the surplus of the company. Trends in the experience of participating policies, trends in overall company earnings and surplus, and the amount of surplus needed to be retained by the company to ensure its continuing financial strength and to meet its long-term commitments and business objectives, are also taken into consideration.

The dividend allocation process endeavors to achieve reasonable equity between classes of participating policyholders and between generations of participating policyholders, by allocating the distributable surplus to classes of participating policies in the same proportion as they are considered to have contributed to the distributable surplus, recognizing that certain practical limits and prevailing local industry practices may apply in some circumstances. The dividend allocation process also recognizes certain specific classes of participating policyholders that receive either no dividends or dividends preset at policy issue.

To determine the contribution of classes of policies to the distributable surplus, all participating policies are grouped into classes with common experience related to factors such as mortality, investment return, expenses, taxes and persistency. Separate and unique dividend experience classes are established for policies of each geographic division. The same principles are applied to the dividend determinations for all dividend classes.

The dividend scales of the company are established by the Board of Directors from time to time, and are reviewed annually for all policies except those in inactive geographic divisions (where no new business is being sold) for which dividend scales are reviewed at least triennially or whenever there is a significant change in experience or in the business environment. Generally, the company distributes dividends annually to all participating policies and, in some geographic divisions, also distributes terminal dividends at surrender or maturity of a participating policy or death of an insured.

*March 24, 1994*

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**Branches**

Cincinnati
*Tel. (513)762-3700*
312 Walnut St., Ste. 3250
Cincinnati, OH 45202
R.E. Westaway, CLU
Branch Manager

East Ohio
*Tel. (216)328-1000*
3 Summit Park Dr., Ste. 250
Independence, OH 44131-2582
J.H. Blackburn, CLU, ChFC
General Manager

### OREGON

**Branch**

Portland
*Tel. (503)246-6789*
Five Lincoln Center
10200 S. W. Greenburg Rd.,
Ste. 205
Portland, OR 97223
J.R. Greene, CLU
Branch Manager

**Group Field Office**

Portland
*Tel. (503)241-7400*
One World Trade Center,
Ste. 1100
Portland, OR 97204
Don King
Group Office Manager

### PENNSYLVANNIA

**Branches**

Philadelphia
*Tel. (215)665-4900*
1600 Market St., Ste. 3200
Philadelphia, PA 19103
L.V. Day, Jr., CLU
Region Manager

Pittsburgh
*Tel. (412)471-4500*
Two Gateway Center
16th Floor, West Wing
Pittsburgh, PA 15222
J.J. Anderson
Branch Manager

**Group Field Offices**

Philadelphia
*Tel. (610)667-8054*
One Bala Plaza, Ste. 635
231 St. Asaphs Rd.
Bala Cynwyd, PA 19004
Gary Housman
Group Office Manager

Pittsburgh
*Tel. (412)471-4500*
Two Gateway Center, Ste. 1656
Pittsburgh, PA 15222
James Desmond
Group Office Manager

### TENNESSEE

**Branch**

Nashville
*Tel. (615)269-5353*
3100 West End Ave., Ste. 1250
Nashville, TN 37203
P.W. Anderson, CLU, ChFC
Branch Manager

### TEXAS

**Branches**

Dallas
*Tel. (214)702-6300*
One Galleria Tower
13355 Noel Rd., Ste. 1555
Dallas, TX 75240
J.W. McKinley,
CLU, ChFC, FLMI
Branch Manager

Houston
*Tel. (713)629-9180*
Executive Plaza East Ste. 900
4615 Southwest Freeway,
Houston, TX 77027
D. Clisham,
CLU, ChFC, FLMI
Branch Manager

San Antonio
*Tel. (210)377-3423*
10101 Reunion Place, Ste. 320
San Antonio, TX 78216
J.A. MacGowan,
CLU, ChFC, CFP
Branch Manager

**Group Field Offices**

Dallas
*Tel. (214)444-2468*
222 W. Las Colinas Blvd.,
Ste. 1047
Irving, TX 75039
Paul Pickering
Group Office Manager

Houston
*Tel. (713)626-9900*
4615 Southwest Frwy., Ste. 910
Houston, TX 77027-7106
Paul Pickering
Group Office Manager

### UTAH

**Branch**

Salt Lake City
*Tel. (801)350-9001*
One Utah Center
201 South Main, Ste. 900
Salt Lake City, UT 84111
C.J. Longanecker
Branch Manager

### VIRGINIA

**Branches**

Richmond
*Tel. (804)330-0011*
9011 Arboretum Pkwy., Ste. 250
P.O. Box 35006
Richmond, VA 23235-0006
R.S. Burns, CLU
General Manager

Washington, D.C.
*Tel. (703)522-5200*
1300 North 17th St., Ste.900
Rosslyn, VA 22209
J.C. Brinsfield, CLU, ChFC
General Manager

### WASHINGTON

**Branch**

Seattle
*Tel. (206)623-3992*
720 Olive Way, Ste. 1010
Seattle, WA 98101
J.T. Sheehan, CLU
General Manager

### WISCONSIN

**Branch**

Wisconsin
*Tel. (414)276-5556*
Two Plaza East
330 East Kilbourn Ave., Ste. 1155
Milwaukee, WI 53202
L.R. Sterkenburg
Branch Manager

## ASIA PACIFIC OPERATIONS

### Regional Office

*Tel. 510-5600*
Manulife Tower 31/F
169 Electric Rd., North Point
Hong Kong

Victor S. Apps
Vice President &
General Manager Greater China

Dave Allen
Vice President &
General Manager Pacific Rim

### Hong Kong

**Head Office**

*Tel. 510-5600*
Manulife Tower
169 Electric Rd., North Point
Hong Kong

*Tel. 510-5600*
Manulife Tower 31/F
Edward W.K. Lau
Agency Vice President

**Branch Offices**

Peninsula North Branch
*Tel. 510-3019*
Manulife Tower 19/F
Michael Y.K. Hui
District Manager

Hong Kong North Branch
*Tel. 510-3021*
Manulife Tower 21/F
Sandy K.L. Chow
District Manager

Island East Branch
*Tel. 510-3023*
Manulife Tower 23/F
Danny H.L. Chan
District Manager

Kowloon West Branch
*Tel. 510-3023*
Manulife Tower 23/F
Peter M.T. Tse
Branch Manager

Kowloon North Branch
*Tel. 510-3023*
Manulife Tower 23/F
Joseph K.O. Chan
Branch Manager

Peninsula South Branch
*Tel. 510-3024*
Manulife Tower 24/F
Harry W.T. Wong
District Manager

Oriental West Branch
*Tel. 510-3024*
Manulife Tower 24/F
Kinson K.S. Leung
Branch Manager

Victoria East Branch
*Tel. 510-3020*
Manulife Tower 20/F
Raymond S.H. Chan
Branch Manager

Victoria West Branch
*Tel. 510-3022*
Manulife Tower 22/F
Clement K.Y. Cho
Branch Manager

Hong Kong South Branch
*Tel. 510-3019*
Manulife Tower 19/F
Leslie C.L. Lau
Branch Manager

Island West Branch
*Tel. 510-3023*
Manulife Tower 23/F
Dominic K.W. Ng
Branch Manager

Oriental South Branch
*Tel. 510-3025*
Manulife Tower 25/F

Oriental North Branch
*Tel. 510-3019*
Manulife Tower 19/F
Frankie S.K. Ho
Branch Manager

Victoria North Branch
*Tel. 510-3020*
Manulife Tower 20/F
Carleton W.L. Li
Branch Manager

Oriental East Branch
*Tel. 510-3020*
Manulife Tower 20/F
Eddie S.H. So
Branch Manager

Island South Branch
*Tel. 510-3025*
Manulife Tower 25/F

Hong Kong Central Branch
*Tel. 510-3027*
Manulife Tower 27/F

Victoria South Branch
*Tel. 510-3025*
Manulife Tower 25/F

Hong Kong East Branch
*Tel. 510-3022*
Manulife Tower 22/F
Daniel K.C. Kuo
District Manager

Rose Chung's Branch
*Tel. 510-3019*
Manulife Tower 19/F
Rose Y. Y. Chung
Branch Manager

Jennifer Lee's Branch
*Tel. 510-3024*
Manulife Tower 24/F
Jennifer W. C. Lee
Branch Manager

George Lai's Branch
*Tel. 510-3024*
Manulife Tower 24/F
George T.N. Lai
Branch Manager

Michelle Lai's Branch
*Tel. 510-3024*
Manulife Tower 24/F
Michelle S.Y. Lai
Branch Manager

John Li's Branch
*Tel. 510-3024*
Manulife Tower 24/F
John C.A. Li
Branch Manager

K.K. Wong's Branch
*Tel. 510-3025*
Manulife Tower 25/F
K.K. Wong
Branch Manager

Thomas Wan's Branch
*Tel. 510-3025*
Manulife Tower 25/F
Thomas Y.K. Wan
Branch Manager

**Causeway Plaza**

189 Hennessy Rd.
Causeway Bay
Hong Kong

Hong Kong West Branch
*Tel. 835-6888*
Causeway Bay Plaza 23/F
Kelvin K.F. Wong
District Manager

Johnson Au's Branch
*Tel. 835-6888*
Causeway Bay Plaza 23/F
Johnson K.W. Au
Branch Manager

**Parklane**

Keewan Building
132-134 Nathan Rd.
Tsimshatsui
Kowloon

Peninsula East Branch
*Tel. 731-3888*
Keewan Building 12/F
William K.L. Luk
District Manager

Kowloon South Branch
*Tel. 731-3777*
Keewan Building 15/F
Peter W.C. Shum
District Manager

Peninsula West Branch
*Tel. 731-3888*
Keewan Building 12/F
Johnson M.T. Wong
District Manager

Sammy Wong's Branch
Tel 409-3888
Nan Fung Centre, 2101 H & I
Tsuen Wan
Sammy T. C. Wong
Branch Manager

### Philippines

**Head Office**

*Tel. 63-2-817-2976*
Manulife Centre, 7th Floor
Tordesillas cor Gallardo Sts.,
Salcedo Village
Makati, Metro Manila,
Philippines
Bobby Madrid
Country Vice President

**Branch Offices**

Metro East Branch
*Tel. 819-08-29*
Manulife Centre, 6th Floor
Adel C. Joseph
Branch Manager

Metro North Branch
*Tel. 818-50-09*
Manulife Centre, 3rd Floor
Greg V. Tongko
Branch Manager

Metro South Branch
*Tel. 815-42-26*
Manulife Centre, 5th Floor
John D. Chua
Branch Manager

Metro West Branch
*Tel. 818-52-09*
Manulife Centre, 1st Floor
Pancho S. Martinez
Branch Manager

Vis-Min Branch
*Tel. 032-211-921 to 28*
Martinez Bldg., 2nd Floor
Osmena Blvd., Cebu City
Bunny D. Pages
Senior Branch Manager

### Indonesia

**Joint Venture Company**

Dharmala Manulife
*Tel. 62-21-520-7161/2*
8-10th Fl. Mulia Tower
JL. Gatot Subroto Kav. 9-11
Jakarta 12930, Indonesia
David Horman
Country Vice President

**Branch Offices**

Jakarta Barat
*Tel. 62-21-520-7161/2*
Mulia Tower
Chandra Bonita
Branch Manager

Jakarta Raya
*Tel. 62-21-520-7161/2*
Mulia Tower
Nancy Sutikno
Assistant Branch Manager

Jakarta Utama
*Tel. 62-21-520-7161/2*
Mulia Tower
Indra O.S.
Branch Manager

Jakarta Pusat
*Tel. 62-21-520-7161/2*
Mulia Tower
Veronica Taruli
Branch Manager

Jakarta Cikini
*Tel. 62-21-520-7161/2*
Mulia Tower
Sonita Yangi
Branch Manager

Jakarta Menteng
*Tel. 62-21-520-7161/2*
Mulia Tower
Bima Aranta
Branch Manager

Jakarta Pratama
*Tel. 62-21-520-7161/2*
Mulia Tower
Herman Y.A.
Branch Manager

Jakarta Timur
*Tel. 62-21-520-7161/2*
Mulia Tower
Penny Djatnika
Branch Manager

Jakarta Metro
*Tel. 62-21-520-7161/2*
Mulia Tower
Jimmy Walia
Branch Manager

Jakarta Utara
*Tel. 62-21-520-7161/2*
Mulia Tower
A. Rachman Saleh
Branch Manager

Surabaya
*Tel. 62-31-516-033*
Gedung Surabaya Plaza
Blok A No. 10-15
JL. Pemuda No. 33-37
Surabaya
Michael Kusuma
Branch Manager

Surabaya B
*Tel. 62-31-514-207*
Gedung Surabaya Plaza
Susie Lasmono
Branch Manager

Solo
*Tel. 62-271-43-716*
JL. Honggowongso No. 24
Solo
Willy A. Prianto
Assistant Branch Manager

Bandung
*Tel. 62-22-430-089*
JL. Abdul Rivai No. 11
Bandung 40171
Wongkar Vayon
Branch Manager

Palembang
*Tel. 62-711-357-572*
JL. Veteran No. 28 E
Palembang 30125
Fachrizal Octavianus
Assistant Branch Manager

Medan
*Tel. 62-61-510-580*
JL. RA Kartini No. 18
Medan 20152
K. Yosi Azahari
Assistant Branch Manager

Semarang
*Tel. 62-24-415-609*
JL. Pandanaran No. 115
Semarang 50241
Yumnan Sabrie
Branch Manager

Malang
*Tel. 62-341-44-168*
JL. Let. Jen. Sutoyo No. 39 B
Malang 65141
Yurianto
Branch Manager

Pakanbaru
*Tel. 62-766-38-685*
Jl. Lr. Juanda 76
Pakanbaru
Yang Hui Fang
Unit Manager

Lampung
*Tel. 62-721-61-733*
JI.Raden Intan No. 88C
Tanjung Karang
Bandar Lampung
Fachrizal Octavianus
Branch Manager

Bali
*Tel. 62-361-235-830*
JL. Hayam Wuruk No. 124
Tanjung Bungkak
Denpasar, Bali
Salam Muhammadong
Assistant Branch Manager

### Singapore

**Joint Venture Company**

OUB Manulife Pte. Ltd.
*Tel. 65-224-1222*
10 Anson Rd.
International Plaza #06-18
Singapore 0207
Garry T. Dick, CLU, FLMI
Country Vice President

**Reinsurance**

Manulife Reinsurance
*Tel. 65-224-3919*
10 Anson Rd.
International Plaza #06-18
Singapore 0207
David Laskey
Principal Officer

### Korea

**Joint Venture Company**

Young Poong Manulife
Insurance Co.
*Tel. 822-515-5300 (Head Office)*
Young Poong Building 8/F
142 Nonhyon-Dong,
Gangnam-Ku
Seoul, Korea
Leigh Watson
Country Vice President

**Branch Offices**

Gangnam Branch
*Tel 822-515-5700*
Young Poong Building 8/F
B.R. Lee
Branch Manager

Jongro Branch
*Tel 822-399-5700*
Young Poong Building 7/F
33 Seolm-Dong, Jongro, Seoul
S.K. Choi
Branch Manager

### Taiwan

Manulife Taiwan Branch
*Tel. 886-2-740-9080*
IBM Plaza 4/F
2 Tun Hwa South Rd.
Section 1, Taipei
Taiwan R.O.C.

### China

**Representative Offices**

Beijing
*Tel. (86-1) 513-7766 Ext. 1629*
Suite 1629, Beijing Hotel
No. 33 East Chang An Avenue
Post Code 100004, Beijing
Johnson Zhang Sen-Fu
Representative

Shenzhen
*Tel. (86-755) 335-1000 Ext. 1719*
Suite 1719, UTC Plaza
Shen Nan Zhong Road
Post Code 518031, Shenzhen
Anny Guo Yang
Representative

# UNITED KINGDOM OPERATIONS

## CHIEF OFFICE

*Tel. 0438-356101*
Manulife House
St. George's Way
Stevenage, Hertfordshire SC1 1HP
F.A. Simons
Senior Vice President &
General Manager
U.K. Operations

## MANULIFE INTERNATIONAL INVESTMENT OFFICE

*Tel. 071-606-2353*
125 London Wall
London EC2Y 5BX
J. B. Mounsey
Senior Vice President
International Investments

## MANULIFE U.K. LTD.

### ENGLAND

**Life & Pensions Offices**

Birmingham
*Tel. 021-643-9581*
3 Duchess Place
Hagley Rd.
Birmingham B16 8NH
David Hill
Manager

Bournemouth
*Tel. 0202-715656*
41 Commercial Rd.
Parkstone
Poole B14 0UH
David Pilling
Senior Manager

Bristol
*Tel. 0272-268871*
40 Queens Sq., 3rd Floor
Bristol BS1 4QP
Mark Oswell
Manager

City
*Tel. 071-722-6563*
Centre Heights, 3rd Floor
137 Finchley Rd.
Swiss Cottage
London NW3 6JG
Richard Kwiecinski
Manager

Haywards Heath
*Tel. 0444-417878*
Sussex House
Perrymount Rd.
Haywards Heath RH16 1DN

Horsham
*Tel. 0403-211270*
13 Piries Place,
Horsham
West Sussex RH12 1EH
James Warren
Manager

Ipswich
*Tel. 0473-219444*
Crown House
Crown St.
Ipswich 1P1 3HS
John Search
Manager

Leeds
*Tel. 0532-443277*
Ebor Court, 1st Floor
Westgate
Leeds LS1 4ND
Trevor Oldroyd
Manager

Leicester
*Tel. 0533-555173*
Marlborough House
Marlborough St.
Welford Rd.
Leicester LE2 7AA
Allan Heggs
Manager

Liverpool
*Tel. 051-227-5611*
Oriel Chambers, 3rd Floor
5 Covent Gardens
Liverpool L2 8UD
Iain Mackie
Manager

Manchester
*Tel. 061-969-1121*
Jackson House
Sibson Rd.
Sale M33 1UZ
John Shaw
Senior Manager

Newcastle
*Tel. 091-285-3951*
Horsley Hse., The Regent Centre
Gosforth
Newcastle-upon-Tyne
NE3 3LW
Michael Petch
Senior Manager

North Derbyshire
*Tel. 0246-290606*
No. 2 Wards Yard
Dronfield
Sheffield S18 6QJ
Dorothy McNab
Manager

Nottingham
*Tel. 0602-476091*
Hounds Gate House
41 - 43 Hounds Gate
Nottingham NG1 7AA

Oxford
*Tel. 0865-245255*
2 Cambridge Terrace
Oxford OX1 1TJ
Mike Shea
Manager

St. Albans
*Tel. 0727-836111*
One The Courtyard
Alban Park
St. Albans AL4 0LA
Phillip Tiffin
Manager

Sandhurst
*Tel. 0276-451677*
6 Tanner's Yard
London Rd.
Bagshot
Surrey GU19 5HD
Stuart Atkinson
Manager

Sheffield
*Tel. 0742-701480*
Princess House, 3rd Floor
128 Queen St.
Sheffield S1 2DW
Andrew Cole
Manager

Southampton
*Tel. 0703-644688*
19 Eastlinks, Tollgate
Chandlers Ford
Eastleigh Hants SO5 3TG
Peter Frankling
Manager

South London
*Tel. 081-669-4300*
Westcombe House
7 - 9 Stafford Rd.
Wallington
Surrey SM6 9AN
John Challis
Manager

Stevenage
*Tel. 0438-745100*
Rutherford Close
Meadway Technology Park
Herts SG1 2SB
Barry Robinson
Senior Manager

### NORTHERN IRELAND

Belfast
*Tel. 0232-327792*
11 Donegall Sq. South, 3rd Floor
Belfast BT1 5JE

### SCOTLAND

Aberdeen
*Tel. 0224-641164*
Manulife House
23 Carden Place
Aberdeen AB1 1UQ
Brian Fitzpatrick
Manager

Glasgow
*Tel. 041-221-0082*
90 Saint Vincent St.
Glasgow G2 5UH
Dennis Moore
Manager

S.E. Scotland
*Tel. 0383- 621651*
Ground Floor Buchan House
Carnegie Campus
Queensferry Rd.
Dunfermline
Fife KY11 5WW

### WALES

Cardiff
*Tel. 0222-747678*
17 Lambourne Crescent
Cardiff Business Park
Llanishen
Cardiff CF4 5GG

## WESTERN TRUST & SAVINGS

### HEAD OFFICE

*Tel. 0752-224141*
The Moneycentre
Plymouth PL1 1SE
H.F. Cushnahan
Managing Director

**Branch Office**

Plymouth Branch
*Tel. 0752-224141 or 0752-256139*
1 Drake Circus
Plymouth PL1 1SE
Hasso von Bredow
Manager, Banking Operations

**Regional Sales Offices**

South West
*Tel. 0752-261161*
Sue Ball
Regional Sales Manager

South
*Tel. 0705-214596*
Andrew Valvona
Regional Sales Manager

South East
*Tel. 0293-822543*
Nigel Brawn
Regional Sales Manager

East
*Tel. 0245-227147*
Peter Marshall
Regional Sales Manager

North
*Tel. 0602-458216*
Steve Butler
Regional Sales Manager

Midlands
*Tel. 0905-797008*
Steve Pearse
Regional Sales Manager

Home Counties
*Tel. 0734-795365*
Terry Wilson
Regional Sales Manager

## OTHER

### BERMUDA

Hamilton
*Tel. (809)292-4876*
Manufacturers P&C Limited
Manulife (International) P&C Limited
Manulife (International) Reinsurance Limited
Manulife Reinsurance Ltd.
73 Front Street
P.O. Box HM 2455
Hamilton, HMJX Bermuda

## INVESTMENTS

### REAL ESTATE

**Canada**

#### ALBERTA

Calgary
*Tel. (403)264-4980*
Calgary House
550 - 6th Ave., S.W., Ste. 400
Calgary, Alberta T2P 0S2
D.A. McGregor
Director

Edmonton
*Tel. (403)420-6236*
Manulife Place
10180 - 101st St., Ste. 1720
Edmonton, Alberta T5J 3S4

#### BRITISH COLUMBIA

Metrotown
*Tel. (604)438-2302*
Metrotown Centre
4800 Kingsway, Ste. 400
Burnaby, B.C. V5H 4J2
D.J. Brabbins
Director

Vancouver
*Tel. (604)683-6616*
1111 West Georgia St., Ste. 405
Vancouver, B.C. V6E 4M3
M. Henry
Director

#### MANITOBA

Winnipeg
*Tel. (204)943-2431*
386 Broadway, Ste. 910,
Winnipeg, Manitoba R3C 3R6
C.E. Bars
Real Estate Director

#### NOVA SCOTIA

Halifax
*Tel. (902)422-9636*
1801 Hollis St., Ste. 200
Halifax, Nova Scotia B3J 3N4
D.D. Whittaker
Director

#### ONTARIO

Kitchener
*Tel. (519)746-1072*
Kingswood Business Centre
1 Blue Springs Dr., Ste. 402,
Waterloo, Ontario N2J 4M1
J.C. Cameron
Director

Ottawa
*Tel. (613)238-6611*
55 Metcalfe St., Ste. 260,
Ottawa, Ontario K1P 6L5
S. Hutchinson
Director

Toronto
*Tel. (416)923-9525*
Manulife Centre
55 Bloor St. West, Ste. 200
Toronto, Ontario M4W 1A5
A.J. Mangione
Director

**United States**

#### CALIFORNIA

Los Angeles
*Tel. (213)689-0813*
Ste. 2300, 865 South Figueroa St.
Los Angeles, CA 90017
T.A. Patton
Director

San Diego
*Tel. (619)292-1667*
Ste. 211, 7510 Clairemont Mesa Blvd.
San Diego, CA 92111-1539
G.M.R. Schaefer
Director

#### DISTRICT OF COLUMBIA

Washington, D.C.
*Tel. (202)682-9543*
Ste. 450, 1350 I St. N.W.
Washington, D.C. 20005-3305
K.R. Zabielski
Director

#### FLORIDA

Tampa
*Tel. (813)281-8089*
Rocky Point Center
Ste. 760, 3030 North Rocky Point Drive West
Tampa, FL 33607
D.L. McDonough
Real Estate Director

#### ILLINOIS

Chicago
*Tel. (708)605-8550*
Schaumburg Corporate Center
Ste. 104, 1515 Woodfield Rd.
Schaumburg, IL 60173
S.J. Ferguson
Director

### MORTGAGE

**Canada**

#### ALBERTA

Calgary
*Tel. (403)261-7900*
550 - 6th Ave., S.W., Ste. 1475
Calgary, Alberta T2P 0S2
V. Bayly
Branch Manager

Edmonton
*Tel. (403)429-2221*
Manulife Place
10180 - 101st. St., Ste. 1610
Edmonton, Alberta T5J 3S4
S.B. Kates
Branch Manager

#### BRITISH COLUMBIA

Vancouver
*Tel. (604)683-7746*
1111 West Georgia St., Ste. 1806
Vancouver, B.C. V6E 4M3
J.W. Popoff
Assistant Vice President
Canadian Mortgages

#### ONTARIO

Ottawa
*Tel. (613)234-2999*
Manulife Place
55 Metcalfe St., Ste. 250
Ottawa, Ontario K1P 6L5
A.N. Jensen
Branch Manager

Toronto
*Tel. (416)226-6511*
2 Sheppard Ave. East, Ste. 700
Willowdale, Ontario M2N 5Y7
John van Dongen
Assistant Vice President
Canadian Mortgages

Waterloo
*Tel. (519)746-1750*
1 Blue Springs Drive, Ste. 302
Waterloo, Ontario N2J 4M1
M.C. Robinson
Senior Investment Officer

#### QUÉBEC

Montréal
*Tel. (514)288-6988*
Centre ManuVie
2000 Mansfield St., Ste. 1020
Montréal, Québec H3A 2Z7
J.D. Boudreau
Branch Manager

(See note below)

| **SUBSIDIARY**<br>**Directly–Owned**<br>Indirectly–Owned | ADDRESS | PER CENT OWNERSHIP | CONSOLIDATED VALUE OF DIRECTLY-OWNED SUBSIDIARIES |
|---|---|---|---|
| **The Manufacturers Life Insurance Company of Michigan** | **Bloomfield Hills, Michigan, USA** | **100** | **$ 1,083,630,000** |
| The Manufacturers Life Insurance Company of America | Bloomfield Hills, Michigan, USA | 100 | |
| ManuLife Series Fund, Inc. | Toronto, Canada | 100 | |
| The Manufacturers Life Insurance Company (U.S.A.) | Bloomfield Hills, Michigan, USA | 100 | |
| Manulife Reinsurance Limited | Hamilton, Bermuda | 100 | |
| ManuLife Holding Corporation | Toronto, Canada | 100 | |
| Manufacturers Life Securities Corporation | Richmond, Virginia, USA | 100 | |
| ManEquity, Inc. | Toronto, Canada | 100 | |
| Manufacturers Adviser Corporation | Toronto, Canada | 100 | |
| ManuLife Service Corporation | Toronto, Canada | 100 | |
| Capital Design Corporation | Los Angeles, California, USA | 100 | |
| Underwriters International Inc. | South Windsor, Connecticut, USA | 50 | |
| **ManuLife Financial Services Limited** | **Toronto, Canada** | **100** | **184,811,000** |
| Young Poong Manulife Insurance Company | Seoul, South Korea | 50 | |
| The Manulife Group PLC | Hertfordshire, England | 100 | |
| Manulife International Investment Management Ltd. | London, England | 100 | |
| The Manufacturers Life Insurance Company (U.K.) Limited | Hertfordshire, England | 100 | |
| Manulife Management Limited | Hertfordshire, England | 100 | |
| Manulife Group Services limited | Hertfordshire, England | 100 | |
| Manulife International Fund Management Limited | London, England | 100 | |
| Western Trust Savings and Holdings Limited | Plymouth, England | 100 | |
| Western Trust & Savings Limited | Plymouth, England | 100 | |
| Western Trust Acceptances Limited | Plymouth, England | 100 | |
| Western Trust & Savings Properties Limited | Plymouth, England | 100 | |
| The Tamar Mortgage Corporation Limited | Plymouth, England | 100 | |
| London Credit Limited | Plymouth, England | 100 | |
| Western Trust Insurance Services Limited | Plymouth, England | 100 | |
| Tamar Mortgage Corporation No. 1 Limited | Plymouth, England | 100 | |
| Tamar Mortgage Corporation No. 2 Limited | Plymouth, England | 100 | |
| Tamar Mortgage Corporation No. 3 Limited | Plymouth, England | 100 | |
| **ManuLife Financial Holdings Limited** | **Toronto, Canada** | **100** | **141,306,000** |
| Manulife Bank of Canada | Waterloo, Canada | 100 | |
| Manulife Securities International Ltd. | Waterloo, Canada | 100 | |
| Cabot Investments Limited | Waterloo, Canada | 100 | |
| Cabot Financial Services Limited | Waterloo, Canada | 100 | |
| FirstLine Trust Company | Toronto, Canada | 79.3 | |
| FirstLine Securities Corporation | Toronto, Canada | 79.3 | |
| Equity Centre, Ltd. | Toronto, Canada | 79.3 | |
| Family Financial Services Limited | Toronto, Canada | 100 | |
| Family Trust Corporation | Toronto, Canada | 100 | |
| **ManuLife (International) Reinsurance Limited** | **Hamilton, Bermuda** | **100** | **58,800,000** |
| ManuLife (International) P&C Limited | Hamilton, Bermuda | 100 | |
| Manufacturers P&C Limited | Hamilton, Bermuda | 100 | |
| **ManuCab Ltd.** | **Toronto, Canada** | **100** | **31,741,000** |
| **ManuLife Investment Management Corporation** | **Toronto, Canada** | **100** | **13,139,000** |
| **ManuLife (International) Limited** | **Hong Kong** | **100** | **10,507,000** |
| **OUB ManuLife Pte. Limited** | **Singapore** | **50** | **6,145,000** |
| **P.T. Asuransi Jiwa Dharmala Manulife** | **Jakarta, Indonesia** | **51** | **1,960,000** |
| **Others** | | | **265,000** |
| **TOTAL** | | | **$ 1,532,304,000** |

Note: Certain immaterial subsidiaries have been excluded from this list.

# EMPLOYMENT EQUITY POLICY

It is Manulife Financial's policy to provide equal opportunity for all employees and persons seeking employment without discrimination on the basis of race, colour, religion, gender, sexual orientation, national origin, disability or age. We are committed to administering all employment practices fairly and equitably, including hiring, working conditions, benefits and privileges, compensation, training, advancements, transfers and termination.

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THE MANUFACTURERS LIFE INSURANCE COMPANY

Manulife Financial