Manufacturers P&C Limited

For More Information Contact:

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Manulife Financial is a leading Canadian-based financial services group serving millions of customers in 19 countries and territories worldwide. Operating as Manulife Financial in Canada and Asia, and primarily through John Hancock in the United States, the Company offers clients a diverse range of financial protection products and wealth management services through its extensive network of employees, agents and distribution partners. Funds under management by Manulife Financial and its subsidiaries were Cdn$405 billion (US$322 billion) as at March 31, 2009.

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Manufacturers P&C Limited

Annual Report 2008

AUDITORS' REPORT
TO THE SHAREHOLDER

MANUFACTURERS P&C LIMITED

We have audited the balance sheet of Manufacturers P&C Limited as at December 31, 2008 and the statements of operations, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young

Ernst & Young
Chartered Accountants
Barbados
March 6, 2009

MANUFACTURERS P&C LIMITED
BALANCE SHEET

As at December 31
(Expressed in U.S. Dollars)

ASSETS	2008	2007
Cash and cash equivalents (Note 7)	$ 107,301,015	$ 154,355,312
Investments (Note 5)	165,860,565	154,583,103
Other assets	182,844	169,804
Premiums receivable	12,578,142	11,692,435
Accrued investment income	2,466,525	2,385,421
Capital assets, net of accumulated depreciation	190,545	366,795
Balance due from related companies (Note 7)	200,000	2,221,571
	$ 288,779,636	$ 325,774,441
LIABILITIES		
Balances payable under reinsurance arrangements	$ 64,560,203	$ 72,357,690
Unearned premium reserve (Note 7)	16,673,454	24,313,304
Accounts payable and accrued liabilities	13,601,973	9,060,932
Balance due to related companies (Note 7)	53,365	230,828
	94,888,995	105,962,754
SHAREHOLDER'S EQUITY		
Share capital (Note 8)	100,000,000	100,000,000
Contributed surplus (Note 8)	20,000,000	20,000,000
Retained earnings	65,390,498	95,775,518
Accumulated other comprehensive income	8,500,143	4,036,169
	193,890,641	219,811,687
	$ 288,779,636	$ 325,774,441

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

Claudio Macchi
Chief Executive Officer

Stephen R. McArthur
Chairman of the Board of Directors

MANUFACTURERS P&C LIMITED
STATEMENTS OF OPERATIONS

For the year ended December 31
(Expressed in U.S. Dollars)

	2008	2007
Revenue		
Premiums assumed (Note 7)	$ 68,747,575	$ 69,280,430
Premiums ceded (Note 7)	-	(8,608,223)
Net premiums earned	68,747,575	60,672,207
Investment income (Note 5)	10,996,952	16,369,333
Other insurance income	-	29,293
Unrealized foreign exchange gain	347,562	272,908
	80,092,089	77,343,741
Expenses		
Claims incurred	5,051,497	25,832,526
Commissions and brokerage (Note 7)	557,406	7,159,762
General and administrative expenses (Note 7)	4,868,206	5,292,895
	10,477,109	38,285,183
Net income for the year	$ 69,614,980	$ 39,058,558

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

MANUFACTURERS P&C LIMITED
STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31
(Expressed in U.S. Dollars)

	2008	2007
Common shares		
Balance beginning and end of year	$ 100,000,000	$ 100,000,000
Contributed surplus		
Balance beginning and end of year	$ 20,000,000	$ 20,000,000
Retained earnings		
Balance, beginning of year	$ 95,775,518	$ 56,716,960
Net income	69,614,980	39,058,558
Common share dividends	(100,000,000)	-
Balance, end of year	$ 65,390,498	$ 95,775,518
Accumulated other comprehensive income		
Balance, beginning of year	$ 4,036,169	$ (1,218,110)
Unrealized gains on investments during the year	4,463,974	5,254,279
Balance, end of year	$ 8,500,143	$ 4,036,169
Total equity	$ 193,890,641	$ 219,811,687

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

MANUFACTURERS P&C LIMITED
STATEMENT OF CASH FLOWS

For the year ended December 31
(Expressed in U.S. Dollars)

	2008	2007
Cash flows from operating activities		
Net income for the year	$ 69,614,980	$ 39,058,558
Adjustment for:		
Amortization of capital assets	182,521	198,149
Unrealized foreign exchange gain	(347,562)	(272,908)
Amortization of premiums (discounts) on bonds	186,678	(2,876,335)
Loss on sale of investments	139,628	89,501
Gain on sale of capital assets	(42,081)	(10,601)
Operating profit before net change in non-cash assets and liabilities	69,734,164	36,186,364
Net change in non-cash assets and liabilities (Note 10)	(10,032,039)	(169,461,819)
Net cash provided by (used in) operating activities	59,702,125	(133,275,455)
Cash flows from investing activities		
Net sales of capital assets	35,810	8,109
Purchase of investments	(8,427,858)	(221,879,217)
Proceeds from the sale and maturity of investments	1,635,626	243,820,807
Net cash (used in) provided by investing activities	(6,756,422)	21,949,699
Cash flows from financing activities		
Dividends paid	(100,000,000)	-
Net cash used in financing activities	(100,000,000)	-
Net decrease in cash and cash equivalents	(47,054,297)	(111,325,756)
Cash and cash equivalents, beginning of year	154,355,312	265,681,068
Cash and cash equivalents, end of year	$ 107,301,015	$ 154,355,312

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

MANUFACTURERS P&C LIMITED
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008
(Expressed in U.S. Dollars)

1. Nature of Operations

Manufacturers P&C Limited (the "Company") was incorporated under the Laws of Bermuda on June 26, 1986. It filed Articles of Continuance under the Laws of Barbados on January 1, 1996. It is a wholly owned subsidiary of Manulife Holdings (Bermuda) Limited ("MHBL"). MHBL is a wholly owned subsidiary of The Manufacturers Life Insurance Company ("MLI"), a company incorporated in Canada that is a wholly owned subsidiary of Manulife Financial Corporation ("MFC"), a publicly traded stock insurance company incorporated in Canada.

The Company reinsures certain property and casualty insurance risks and participates in a few financing arrangements.

2. Significant Accounting Policies

The Company has prepared these financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") since these are the accounting principles followed by its ultimate parent company, MFC.

(a) Basis of preparation

The financial statements are prepared under historical cost convention, modified by the revaluation of certain investments. No account is taken of the effects of inflation.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, assets held in liquidity pools and short-term deposits, which have an original term to maturity of three months or less from the balance sheet date.

(c) Premiums

Premiums are reflected in income evenly over the terms of the reinsurance contracts. Unearned premiums represent net premiums that relate to the unexpired portion of the contract.

(d) Balances payable under reinsurance arrangements

The Company makes a provision for claims incurred but not reported; for the development of reported claims and for claims handling expenses advised by the ceding company in accordance with the terms of the contracts and supported by management estimates, and where appropriate, actuarial analysis. These estimates are continually reviewed and adjusted where necessary.

The determination of the provision for claims and related claims expenses is based on expected trends in claim severity and frequency and other factors that may vary as claims are settled, and will take into account any loss mitigation penalty that is contractually due to the Company upon cancellation by a cedant following a loss. Ultimate claims may differ from the amounts recorded in the financial statements. Changes in the amount of balances payable under reinsurance arrangements are recorded in income as part of claims incurred.

(e) Investments

Bonds are designated as available-for-sale and are carried at fair value. Unrealized gains and losses on available-for-sale bonds are recorded in other comprehensive income. Realized gains and losses on sale of bonds are recognized in income immediately. Impairment losses are recognized in income on available-for-sale bonds on an individual security basis when the bond is considered to be other than temporarily impaired. Impairment occurs when it is deemed probable that the Company will not be able to collect all amounts due according to contractual terms of the bond.

Investment income is recorded on an accrual basis. Investment income from assets supporting financing arrangements is credited directly to the related liabilities. Gains or losses on the sale of investments are fully recognized in the year of realization.

(f) Foreign currency transactions

Assets and liabilities denominated in foreign currencies are translated to United States dollars at the rates of exchange in effect at the balance sheet date. Revenue and expenses are translated at the average rates of exchange prevailing during the year. Gains and losses arising from foreign currency translation are included in income, except for those arising on translation of available-for-sale investments, which are included in other comprehensive income.

(g) Reinsurance ceded

The Company can reduce the losses to which it is exposed that may cause unfavourable underwriting results by reinsuring certain levels of risk in various areas of exposure with related reinsurance companies. Reinsurance premiums and reserves related to this ceded business are accounted for on a basis consistent with that used in accounting for the original reinsurance contracts assumed and the terms of the reinsurance contracts. Reinsurance contracts ceded do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured, to the extent that the reinsurer does not meet the obligations assumed under the reinsurance agreement.

3. Changes in Accounting Policies

(a) Financial instruments

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation". Sections 3862 and 3863 replace Handbook Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3863 carries forward unchanged the presentation requirements of Section 3861 while Section 3862 requires additional disclosures of the nature and extent of risks arising from financial instruments, including the objectives, policies, processes and methods used to measure and manage key risks. The new required disclosures are included in Note 6.

On October 17, 2008, the CICA announced amendments to Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3862 "Financial Instruments – Disclosures". These amendments permit companies to move certain financial assets out of categories that require fair value changes to be recognized immediately in net income. No such transfers have been affected by the Company.

(b) Capital disclosures

Effective January 1, 2008, the Company adopted CICA Handbook Section 1535 "Capital Disclosures". This section requires disclosure of the Company's objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. The new required disclosures are included in Note 12.

4. Future Accounting and Reporting Changes

(a) Goodwill and intangible assets

In February 2008, the CICA issued Section 3064 "Goodwill and Intangible Assets", replacing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Provisions concerning goodwill are unchanged from the previous Section 3062. Section 3064 will be effective on a prospective basis for the Company's fiscal year beginning January 1, 2009. The new sections are not expected to have any material impact on the Company's financial statements.

(b) Transition to International Financial Reporting Standards ("IFRS")

On February 13, 2008 the Canadian Accounting Standards Board confirmed that all publicly accountable enterprises in Canada will be required to adopt IFRS as a replacement of Canadian GAAP for periods beginning on or after January 1, 2011. As a subsidiary of a publicly accountable enterprise in Canada, the Company will adopt IFRS in its annual reports starting with 2011 and will provide corresponding comparative financial information for 2010.

The Company is in the process of evaluating the financial statement impact of the differences between Canadian GAAP and IFRS, and assessing the first time adoption and transitional options, in order to select the most appropriate accounting policies under IFRS. Until this process is complete, the full impact of adopting IFRS on the Company's future financial position and future results cannot be reasonably determined.

5. Investments

(a) Invested Assets

For the year ended December 31	Term to Maturity		2008 Carrying Value		2007 Carrying Value
Government bonds	<1 year	$	820,864	$	-
	1-5 years		121,717,839		119,350,758
	> 5 years		12,254,302		10,872,280
			134,793,005		130,223,038
Corporate bonds	<1 year		-		1,006,545
	1-5 years		15,876,864		5,249,190
	> 5 years		15,190,696		18,104,330
			31,067,560		24,360,065
Total		$	165,860,565	$	154,583,103

Since all securities are classified as available-for-sale, investments are carried at their fair values as at December 31, 2008. Fair values for bonds are determined with reference to quoted bid prices where available. When such prices are not available, fair values are determined using techniques which include security specific interest rates and discounted cash flows based on observable market data.

(b) Investment income

Investment income is comprised as follows:

For the year ended December 31		2008		2007
Interest Income	$	11,323,258	$	13,582,499
Amortization of (premiums) discounts on bonds		(186,678)		2,876,335
Loss on sale of investments		(139,628)		(89,501)
	$	10,996,952	$	16,369,333

6. Risk Management

The Company employs an enterprise-wide approach to all risk taking and risk management activities globally. The Company's enterprise risk management framework sets out policies and standards of practice related to governance, identification and monitoring, measurement and control and mitigation of key risks. Individual risk management strategies are in place for each specific key risk within the Company's broad risk categories: strategic, market and liquidity (includes market price, interest rate, foreign currency and liquidity risks), credit, insurance and operational.

(a) Market price and interest rate risk

Due to the nature of the insurance business, invested assets and insurance liabilities as well as revenues and expenses are impacted by movements in capital markets, interest rates and credit spreads. Accordingly, the Company considers these risks together in managing its asset and liability positions and ensuring that risks are properly managed. These risks are referred to collectively as market price and interest rate risk – the risk of loss resulting from adverse movements in market price, interest rates and credit spreads.

The following table shows the potential impact on shareholders' economic value of specific stress scenarios, each one reflecting a shock from the market levels as at December 31, 2008, that reflects a confidence level of approximately 87 per cent over a one-year horizon, according to the Company's internal models. The stress scenarios are:

- an immediate and permanent increase of one per cent in interest rates for all maturities across all markets,
- an immediate and permanent decrease of one per cent in interest rates for all maturities across all markets, subject to a minimum interest rate of 0.25 per cent.

1 per cent change in interest rates	Increase	Decrease
Impact on shareholder's equity account	$2,618,364	$(2,737,058)

The Company is exposed to interest rate risk in the event of a mismatch between the cash flows from the assets and liabilities. Management has established policies and guidelines for the matching of assets and liabilities designed to keep this exposure within acceptable limits. The yield on the Corporate bonds ranges from 3.8 per cent to 10.4 per cent (2007 – 3.8 per cent to 6.5 per cent) and on the Government bonds from 3.5 per cent to 5.0 per cent (2007 – 4.5 per cent to 5.0 per cent).

(b) Credit risk

The Company is exposed to credit risk from default of investments held in its asset portfolio. Management has established policies and guidelines for limiting exposure to credit risk by restricting concentration by issuer, rating, sector and geographic region. As at December 31, 2008, 81 per cent of bonds (2007 – 84 per cent) were rated at investment grade 'AAA'. Government bonds represented 81 per cent (2007 – 84 per cent) of the bond portfolio. U.S. Treasury Bonds comprise 96 per cent (2007 – 97 per cent) of the Government bond portfolio. None of the issuers of bonds included in the portfolio has defaulted in either interest or principal repayments.

Management believes that the credit risk relating to short-term financial assets and liabilities are mitigated by the close monitoring of these balances and by the quality of the financial institutions and insurance companies with whom the Company transacts business.

(c) Foreign currency risk

The Company's strategy of matching the currency of its assets with the currency of the liabilities that these assets support results in minimal financial exposure related to foreign currency fluctuations. It is the Company's policy to invest no less than 60 per cent of assets backing its capital and surplus in U.S. dollars-denominated assets. As a result, the Company is exposed to foreign currency fluctuations on the remaining balance. As at December 31, 2008, 99 per cent (2007 – 98 per cent) of the assets were denominated in U.S. dollars, as a result, changes in foreign currency will not have a significant impact on earnings.

(d) Underwriting risk

The largest part of the Company's business is providing property catastrophe retrocession protection to clients. The Company, therefore, has a large overall exposure to natural hazards, such as earthquakes, hurricanes, tsunamis, winter storms, floods, fires, tornadoes and other natural disasters. The underwriting risk stems from the possibility that the frequency and severity of catastrophe events differ from those assumed when pricing the product. On certain other contracts underwriting risk represents the risk resulting from: the possibility that cash flows deviate from expectation, the risk of loss resulting from errors in calculation of premium due to incorrect assumptions or mistakes in the calculation methods and, risk of loss from errors in calculation of reserves. The Company manages its exposure to underwriting risk by adhering to conservative pricing and reserving methodology, including peer review by MLI and maintaining clear underwriting guidelines and limits.

(e) Reinsurance risk

The Company may limit the amount of loss on any one contract by reinsuring certain levels of risk with other reinsurers. Reinsurance ceded does not discharge the Company of its liability. Failure of reinsurers to honour their obligations could result in losses to the Company. Consequently, allowances are established for amounts deemed uncollectible. The only reinsurance ceded by the Company was to a related party during 2007. There was no reinsurance ceded in 2008.

(f) Liquidity risk

Liquidity risk is the risk of loss from not having access to sufficient funds to meet both expected and unexpected cash demands. Unexpected cash demands could arise primarily from the notification of catastrophic losses by ceding companies. The Company manages its exposure to liquidity risk by maintaining a sufficient proportion of its assets in highly liquid investments. In addition, the Company sets guidelines on asset allocations portfolio, limit structures and maturity profiles of assets in order to ensure sufficient funding is available to meet insurance obligations.

7. Related Party Transactions

(a) Balance due from related companies:

For the year ended December 31		2008		2007
Manulife Holdings (Bermuda) Limited ("MHBL")	$	200,000	$	200,000
John Hancock Insurance Company of Vermont ("JHV")		-		1,996,571
Manulife Asset Management (Asia) Limited ("MAMAL")		-		25,000
	$	200,000	$	2,221,571

The balance due from MHBL represents a non-interest bearing demand loan which is repayable at any time and is denominated in U.S. dollars. The carrying value is the same as the fair value.

During 2007 the Company entered into certain reinsurance agreements with a related company, JHV, and recorded a ceded premium expense of $8,608,223. The agreement was commuted on December 31, 2007, and as a result the Company recorded an amount receivable of $1,996,571 which was settled in 2008.

The balance due from MAMAL in 2007 related to management fees receivable.

(b) Balance due to related companies:

For the year ended December 31		2008		2007
John Hancock Life Insurance Company (USA) - ("JHLICO")	$	52,915	$	-
Manufacturers Life Insurance Company ("MLI")		450		9,756
Manulife Europe Rückversicherungs-Aktiengesellschaft ("MERA")		-		221,072
	$	53,365	$	230,828

The balances payable to related companies represent amounts due for services provided.

(c)

The Company has entered into a third party reinsurance contract whereby it has assumed a portion of a Directors' and Officers' insurance policy that was issued to John Hancock Financial Services Inc. ("JHF"). JHF was acquired by MFC on April 28, 2004 and the merger agreement provided that JHF Directors' and Officers' liability insurance would remain in effect for a period of six years. The Company received premiums in the amount of $34,884,000 in 2004, of which $7,086,162 was unearned at December 31, 2008 (2007 - $12,455,804). MFC has provided a guarantee to the reinsured for this exposure.

(d)

The Company participates in a liquidity pool of an affiliate, Manulife Management Services Ltd. ("MMSL") as set forth in the terms of a Grid Note dated April 3, 2006. The maximum aggregate amount that the Company can invest into this liquidity pool is $500,000,000. The Company can improve the investment return on their excess cash through participation in this liquidity pool. As at December 31, 2008 the balance in the liquidity pool was $104,384,970 (2007 - $143,798,619) and is included in the cash and cash equivalents. The yield on the liquidity pool was 3.2 per cent (2007 - 5.1 per cent).

(e)

During 2007 Manulife Europe Rückversicherungs-Aktiengesellschaft ("MERA"), a wholly owned subsidiary of MLI entered into a reinsurance agreement with the Company and retroceded all their catastrophe reinsurance contracts to the Company in exchange for a ceding commission. The Company recorded assumed premiums of $22,100,137 and $6,400,000 in ceding commissions in 2007. No business was assumed from MERA in 2008.

(f)

During the year the Company entered into a novation agreement with MERA in which the Company assumed liabilities of $37,000 (2007 - $13,000,000) in respect of certain reinsurance contracts and received a cash consideration of the same amount. These contracts are in run-off.

(g)

Included in general and administrative expenses is an amount of $842,404 (2007 - $1,363,500), which represents amounts charged under agreements whereby certain administrative services are provided by affiliated companies.

8. Share Capital and Contributed Surplus

(a) Share capital:

The authorized capital of the Company consists of an unlimited number of common shares and cumulative redeemable preferred shares. The Company has issued 100,000,000 common shares.

(b) Contributed surplus:

The Directors of the Company may agree to return any part of the surplus contribution of MHBL to the shareholder if they determine that the shareholder's equity is in excess of the Company's needs.

9. Taxation

Under the provisions of the Exempt Insurance Act of Barbados, the Company is liable to tax at zero per cent for the first 15 years of its operations and thereafter at two per cent on the first $125,000 of taxable income.

10. Net Change in Non-Cash Assets and Liabilities

For the year ended December 31		2008		2007
Net change in non-cash assets and liabilities consists of:				
(Increase) decrease in other assets	$	(13,040)	$	43,826,044
(Increase) decrease in premium receivable		(885,707)		4,825,051
Increase in accrued investment income		(81,104)		(1,022,394)
Decrease (increase) in balance due from related companies		2,021,571		(2,021,571)
Decrease in balances payable under reinsurance arrangements		(7,797,487)		(57,107,524)
Decrease in unearned premiums reserve		(7,639,850)		(5,377,471)
Increase in accounts payable and accrued liabilities		4,541,042		2,956,224
Decrease in balance to related companies		(177,463)		(155,540,178)
	$	(10,032,039)	$	(169,461,819)
Interest received during the year	$	11,242,154	$	12,560,105
Interest paid during the year	$	(60)	$	(301,316)

11. Letters of Credit

Pursuant to the terms of certain reinsurance contracts, the Company has issued irrevocable letters of credit in the amount of $32,170,806 (2007 – $33,098,230). These letters of credit are intended to provide security to the insured parties in the event that the Company is unable to fulfill its obligations under these existing contracts. These letters of credit have no fixed expiration date and are cancellable at the discretion of the holder or upon the cancellation or commutation of the underlying contract.

12. Capital Management

The Company's policy is to maintain a strong capital base by routinely monitoring its capital adequacy from a Barbados solvency requirement and other insurance standards where appropriate. The Company employs risk based capital requirements, such as those developed by modern statistical modeling techniques, to ensure that: the Company is able to absorb losses due to under-pricing of the reinsurance product; to absorb an unexpected decline in the value of Company's assets; to provide a buffer for the potential undervaluation of the Company's unpaid claim liabilities and to provide a mechanism for financing the growth of the Company.

The Company is incorporated under the Barbados Companies Act and operates under the provisions of the Exempt Insurance Act of Barbados, 1983. Under these Acts the Company is required to comply with certain minimum capital and solvency criteria. The Company was in compliance with all external regulatory requirements during the current and previous financial years.

13. Fair Value of Financial Instruments

The methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practical to estimate a value are as follows:

(a) Short-term financial assets and liabilities

The carrying value of these assets and liabilities is a reasonable estimate of their fair value because of the short maturity of these instruments. Short-term financial assets comprise cash and cash equivalents, other assets, premiums receivable, accrued investment income and amounts due from related companies. Short-term financial liabilities comprise accounts payable and accrued liabilities and amounts due to related companies.

(b) Investments

Both the fair value and the basis for determining the fair value of investments are disclosed in Note 5 of these financial statements.