



Delivering  
Results



Preparing  
for the  
Future



# Delivering Results

# Preparing for the Future

Our Vision: To be the most professional financial services organization in the world, providing strong, reliable, trustworthy and forward-thinking solutions for our customers' most significant financial decisions.

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Solid Financial Results

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Core earnings of

**2.9**  
C\$ billion

Up 10% versus 2013

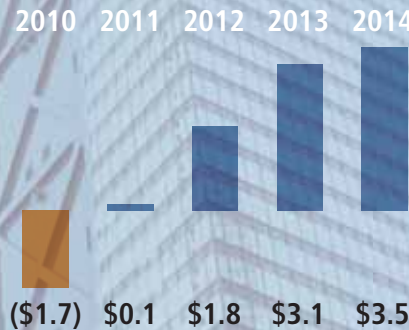
**25**  
consecutive  
quarters  
of record assets  
under management

**691**  
C\$ billion  
as of  
December 31, 2014

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Net income  
attributed  
to shareholders  
C\$ billions



Net income  
increased by 12%  
over 2013

**3.5**  
C\$ billion

Increase in  
quarterly dividend  
to common  
shareholders

**+19%**

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on page 14

Balance of Core Earnings  
by Geography

^ See more on page 17

Asia  
**30%**

United States  
**42%**

Canada  
**28%**

Insurance sales of

**2.5**  
C\$ billion

See more >  
on page 14

Record wealth sales of

**52.6**  
C\$ billion

^ See more  
on page 14

**21**  
C\$ billion

Customers received claims, cash surrender values, annuity payments and other benefits valued in excess of C\$21 billion.

Our Diverse Products and Services

Asia

- Individual life insurance
- Individual living benefits insurance
- Creditor insurance
- Group life & health insurance
- Mutual funds
- Annuities
- Investment-linked products
- Individual retirement savings plans
- Education savings plans
- Group retirement savings plans



✓ See more on page 11

#1 Leader (by net cash flow) in Mandatory Provident Fund market in Hong Kong.



360° view of the customer

We will take a holistic view of our relationships with customers.

✓ See more on page 23



Manulife Asia Today

12 Markets

100+ Bank Partners

12,800+ Employees

57,800+ Agents



**Canada**

- Individual life insurance
- Individual living benefits insurance
- Creditor insurance
- Travel insurance
- Group life, health & disability insurance
- Mutual funds
- Annuities
- Private wealth management
- Group retirement savings plans
- Mortgages & investment loans
- High interest savings accounts & Guaranteed Investment Certificates

**United States**

- Individual life insurance
- Long-term care insurance
- Mutual funds
- Annuities
- Education savings plans
- Group retirement savings plans

**Investment Capabilities**

- Public & private bonds
- Public & private equities
- Commercial mortgages
- Real estate
- Oil & gas
- Power & infrastructure
- Renewable energy
- Timberland & farmland
- Asset allocation solutions

To my fellow Shareholders,  
In the pages of this annual report you will find that your investment in Manulife/John Hancock continues to be rewarded with a one-year Total Shareholder Return (TSR) of 8.7%, and a two-year return of 73.9%.

We increased the common share dividend 19%, the first increase in almost seven years, signaling our strong financial results, robust capital ratio and decreasing leverage ratio.

I am pleased to report that the transformation of the Company has evolved with a strong, forward-looking strategy and the execution of two key acquisitions: Standard Life of Canada and the pension business of New York Life. In addition, our Asia Division has added nine new bancassurance arrangements, several new leadership teams and a talented new Chief Executive Officer. Asia, Canada, the United States, and our Global Asset Management business have strong leaders, positive momentum and new opportunities created by these initiatives.

Donald Guloiën, our Chief Executive Officer, has continued to demonstrate his consistent leadership with vision, energy, determination and the demeanor of a statesman. His Executive Management Team has delivered outstanding financial results while continuing the plan to move our business units into higher return, less capital intensive opportunities throughout our global platform. In that regard, we expect to report our wealth and asset management results in a form which will demonstrate the added enterprise value being created by the record growth of those businesses.

Your Board of Directors remains very engaged in the oversight of our Company and has played a very active role in the strategic planning process.

In addition to our eight three-day scheduled Board meetings, individual Directors have committed time and energy to better understand and provide oversight of Company operations worldwide. In 2014, all Directors participated in our three-day strategic planning session in Hong Kong where members also met with employees, managers, government officials, business leaders, customers and investors to learn firsthand how our business is viewed in that important market.

During 2014, individual Board members and teams of Board members met with local management teams and employees in Japan, China, the Philippines, Indonesia, Vietnam, Thailand and Singapore. Two of our Directors have engaged with the Board of Manulife Bank to assure consistency of governance, while others joined me in onsite visits to operations in Waterloo, Canada and John Hancock in Boston, USA. Of special note was a visit by Directors to our "Red Lab" where we are developing new technology solutions and initiatives for both insurance and wealth management.

As you can appreciate, both in our meetings and onsite visits, our Board maintains an especially keen focus and active oversight of risk management, cybersecurity, expense management and our human resources.

Building a culture focused on customer centricity requires recruiting and retaining the best and brightest employees at every skill level. We support



**Richard B. DeWolfe**  
Chairman of the Board

every effort to be an equal opportunity employer of choice in every market. We encourage building high morale through training, education, mobility, recognition, as well as competitive compensation and benefits, and we place special emphasis on gender equity and the importance of diversity.

The Directors regularly meet with employees to listen and encourage high aspirations and promote long-term careers. In a further effort to add to the positive tone at the top, the Board of Directors has adopted a formal diversity policy as another best practice in corporate governance.

This year, the Company was once again ranked near the pinnacle of Canadian good governance ratings. We continued our active shareholder engagement and outreach programs, and took the time to meet with both ISS Risk Metrics and Glass, Lewis & Co. to better understand how shareholder concerns are reflected in their annual recommendations. One notable change influenced by all of these activities is the management proposal to limit the right to exercise new stock option grants prior to five years from the award date, except due to hardship, even for executives who retire, thus encouraging a long-term focus on growth and shareholder value.

As I reflect on 2014, I am delighted with our accomplishments and the momentum we have created working together. I truly am honoured to have the support of a hard-working, energetic and unselfish group of activist colleagues who have

trusted me with the gavel. I am especially thankful for the opportunity to have served with Mr. Scott Hand who retires this year after eight years of service. Scott has been a powerful voice of practical reason and experienced insight, always focused on creating value for shareholders and policyholders. We are delighted that Tom Jenkins has joined the Board of Directors. Tom has a great deal of experience as a chief executive and corporate director. His more than 30 years in technology innovation and economic development in both the private and public sectors will be invaluable to the Board and a great benefit to shareholders.

As I write this letter of positive reflections, it is now 2015; oil prices are at their lowest level in nine years, Europe struggles to maintain financial balance, equity markets have slumped, interest rates remain low, foreign exchange is a topic with daily surprises and terrorism is a worldwide worry. In spite of headwinds, we are all at work on your behalf, ever cautious and vigilant, working with optimism toward greater success at Manulife, a company committed to promoting wellness and providing more financial certainty in an often uncertain world.

**Richard B. DeWolfe**  
Chairman of the Board

In 2014, we delivered excellent advice, innovative products, and strong financial performance for our customers around the world. We stayed focused on our vision to help people with their big financial decisions.

We paid out claims, cash surrender values, annuity payments and other benefits to customers, with a value in excess of \$21 billion. And as a result of the trust they place in us, we now manage \$691 billion of assets on behalf of our clients.

Manulife and John Hancock customers globally enjoy peace of mind, knowing they are protected by the solid financial strength of our Company.

In every part of our business we strive to deliver excellent service to our customers, and where we do not, we are actively working to improve it.

## OVERVIEW OF RESULTS

As a result of these activities, and the many other fine efforts of our people, we made further progress toward reaching our financial goals. In 2014, we delivered strong sales and growth in both net income and core earnings.

We established strong sales momentum in our insurance businesses, ended 2014 with another record year for wealth management sales, and achieved our 25th consecutive quarter of record assets under management.

We have enjoyed a very positive trend in net income over the last five years: During 2010, we had a loss of \$1.7 billion. In 2011, a small gain. In 2012, earnings increased to \$1.8 billion. In 2013, we saw a further improvement to \$3.1 billion. In 2014, we ended the year with net income of \$3.5 billion, an increase of 12% over 2013, or an increase of 26% if we adjust for the extraordinary

gain associated with the sale of our Taiwan insurance operations in 2013.

Now, looking forward, it would be overly optimistic to extrapolate that rate of growth over the next five years. I have two notes of caution:

1. Our net income in 2014 included investment-related gains and favourable market impacts.
2. The current macro-economic environment and, in particular, low interest rates and oil prices present some specific headwinds for 2015. Not insurmountable, but headwinds nonetheless.

From a core earnings perspective, we completed the year just \$12 million shy of our goal of \$2.9 billion ... and we viewed that goal as quite ambitious.

Our capital ratio also remained strong at 248%, and our leverage ratio reduced from 31% to 27.8%.

One of our most notable achievements in the year is what did not happen: In 2014, U.S. government rates fell more than 100 basis points, and Japanese rates dropped approximately 50 basis points during the year. In many ways, the year was similar to 2011, but unlike 2011, the impact on Manulife's earnings in 2014 was barely noticeable, which is a great testimony to the quality of the hedging programs and other mitigants that we now have in place.

We would caution those who think that we will benefit enormously from increased rates at some time in the future, a view that is perhaps emphasized too much. Yes, we will benefit from an increase in rates, but perhaps not as much as some people anticipate.





**Donald A. Guloien**  
President and  
Chief Executive Officer

Our business strategy is unfolding very well, and I am confident that it will continue to deliver excellent results for our shareholders.

As our Chairman mentioned, Manulife produced a Total Shareholder Return in 2014 of 8.7%, and a two-year return of 73.9%. We increased the common share dividend by 19%, the first increase in almost seven years. This dividend increase reflected our strong financial results, robust capital ratio and decreasing leverage ratio.

In September, we announced the acquisition of the Canadian-based operations of Standard Life plc, which adds approximately 1.4 million new customers and \$27 billion in mutual fund and pension assets. This transaction accelerates our global wealth and asset management strategy through a range of capabilities, including the defined contribution pension business and liability-driven investing.

A few months later, we announced that we are acquiring New York Life's Retirement Plan Services business, adding US\$50 billion of pension assets, providing significant scale and new capabilities, and positioning John Hancock Retirement Plan Services as a major plan provider in the largest economy in the world.

These two transactions are consistent with our strategy to grow our global wealth and asset management business around the world; they will add important new capabilities, and will further increase our global pension assets by about \$80 billion.

We continued to make substantial progress with our Efficiency and Effectiveness initiative, with projects being completed at a faster pace than originally anticipated. In 2014, we achieved approximately \$200 million in net pre-tax savings, which enabled us to fund new strategic initiatives to accelerate our long-term earnings growth. One area where we need to invest more is technology, and we will be increasing our focus on customer-facing technologies that enhance the experience with us.

## **GROWTH STRATEGY AND PERFORMANCE**

We made substantive progress on our growth strategies in 2014.

### **Developing our Asian opportunity to the fullest**

We achieved record insurance sales on a constant currency basis with new product launches and channel expansion accelerating our growth, notably in Japan (+60%), China (+28%) and Hong Kong (+15%). While Asia insurance sales were very strong in 2014, we need to continue to deliver

strong momentum to achieve Asia's 2016 core earnings objectives. We delivered record wealth sales on a constant currency basis, in line with the levels set in 2013; and we strengthened our bancassurance footprint by entering into nine new insurance distribution agreements, two of which are exclusive.

#### **Building our balanced Canadian business**

While core earnings were below our expectations in 2014, we continued to build on our balanced franchise. We continued to deliver solid mutual funds and group retirement sales. We experienced a decline in Group Benefits sales and Manulife Bank lending volumes, where we decided to maintain our pricing disciplines despite strong competitive pressures. Once again, we emphasize margins over market share. With the successful completion of the transaction, Canadian Division will be integrating Standard Life's businesses in 2015.

#### **Continuing to drive sustainable earnings and opportunistic growth in the United States**

In addition to the announced acquisition of New York Life's Retirement Plan Services, we delivered record wealth sales. John Hancock Retirement Plan Services sales decreased 8% in 2014. Continued

re-pricing initiatives are underway to regain share in an intensely competitive Retirement Plan Services market. Insurance sales increased sequentially in each quarter of the year, driven by product enhancements.

#### **Growing our wealth and asset management businesses around the world**

In addition to our 25th consecutive quarter of record assets under management, we delivered record institutional sales at Manulife Asset Management across a broad variety of mandates, including \$1.1 billion in mandates from our Private Markets business in its inaugural year, and generated over \$18 billion of net flows into our asset management and group retirement businesses. And looking ahead, our pipeline is strong.

#### **BEYOND FINANCIAL MEASURES**

As you know, progress may be measured in different ways. Beyond quantitative results such as sales, earnings or capital ratios, excellence in how we manage our operations, deliver customer-centric products and services, and contribute to our communities is equally important.

For example, in 2014, Manulife was named one of Canada's Top Employers for Young People for

## Manulife stock among Barclays' Global Top Picks.

Barclays, December 2014

## “My father was recently diagnosed with early-onset

**Alzheimer’s.** Because my father practiced what he preached, he is insured with disability income, long-term care, and of course, life insurance. When his time eventually does come, his policies will allow my mother to not have to worry. If I wasn’t already before, this example has made me a true believer in the power of these products.”

the third year in a row. In the United States, John Hancock received the 2014 Corporate Social Responsibility Award from the Foreign Policy Association. In Hong Kong, Manulife won again the Reader’s Digest Trusted Brands Award: Manulife was the Gold winner in the Insurance category for the 11th time and in the Provident Fund category for the third time.

Manulife and John Hancock continue to invest in the many communities in which we live and operate, supporting sustainability and volunteerism.

### PREPARING FOR THE FUTURE

At our annual planning session in Hong Kong, our Board of Directors approved the boldest, most forward-thinking strategy we have ever conceived. This new strategy will set the course for attaining our vision of helping people with their big financial decisions.

The world is changing rapidly. Major trends and disruptors, including but not limited to technology, threaten to make our industry and our Company less and less relevant unless we take deliberate measures.

Over the next four years, we plan to invest heavily in our strategy in order to realize our vision, and put our Company in a highly competitive position in 2018 and beyond.

### Our customer is better educated and gaining control

We are seeing profound changes in how the increasingly educated and empowered customer researches and buys products. Anyone with access to the Internet can tap into a huge amount of information to gain expertise in almost any field. We need to prepare for an environment where we can meet the needs of smart and savvy consumers who can discover online what products and

services they need and the price they should pay. In addition, established online companies and new start-ups are raising expectations on what the online customer experience could be.

### Our customers’ profiles are changing and “money in motion” is creating opportunities

In parts of Asia, the middle class is experiencing dramatic growth in its levels of wealth and consumption. At the same time, the “silver class” continues to grow at unprecedented rates in Japan. In countries like Malaysia and Vietnam, we are witnessing a booming youthful population. In North America, baby boomers are retiring. We can help these customers navigate through this reality.

At the same time, we cannot forget the global growth of millennials who are early adopters of technology and demonstrate a distinct set of needs and preferences. We need to build a better understanding of this population’s preferences going forward.

All of these groups are different demographically and from a socio-economic standpoint, but the changes in their lives, such as inter-generational wealth transfer, put “money in motion” and create new opportunities to differentiate our offerings for each of these specific customer segments.

### Media and technology are accelerating the sharing of ideas and trends around the world

Social media and other forms of technology have redefined the pace at which news and trends are shared with our customers around the world. These platforms create new ways of engaging directly with our customers.

**Technology is enabling and disrupting industries**

As these platforms grow in influence, disruptive technologies are opening new ways to provide our customers with a more seamless end-to-end experience. Apps, mobile advancements and digital tools are enabling us to more simply and effectively meet our customers' needs. At the same time, technology has the potential to disrupt our industry. We are seeing the emergence of online platforms that could change the modality of advice. Therefore, we must embrace technological change and invest in specific areas that will enhance the customer experience.

**Regulators are becoming more aggressive customer advocates**

In parallel to all this, we are now seeing regulators converge on a common outcome: to provide the right product to the right customer at a fair and transparent price. This goal is consistent with our values and helps ensure that our customers will continue to turn to us for their big financial decisions because of the quality of the advice and offerings we make available.

**Our competitive landscape is being redefined**

Our traditional competitors are also enhancing their focus on the customer. In some cases, we are seeing competitors shift from competing on price to competing on customer experience. Non-traditional players have the potential to redefine the competitive environment should they decide to enter our industry.

**Customers are yearning for simplicity**

Paradoxically, while our customers are better educated and have more control and access to unlimited information, they want simplicity. In contrast, financial services products can be complex and daunting. We have an opportunity to simplify our offerings, and relate them more to our customers' aspirations and goals.

All of these changes create a significant opportunity for us. Now, more than ever, differentiation matters in our business. For all these reasons, it is imperative that we embrace change and do this better and faster than our competitors.

The status quo is no longer an option.

## Customer

**"I would like to give you feedback on the wonderful and excellent service I received from Ms. Clara Wat in relation to my insurance portfolio inquiry. She was very thoughtful and professional and I am touched by her understanding and good listening skills. Your company should be proud of your staff as my experience has been much more than that I had expected."**

“We have MFC as our top pick in the large-cap, Canadian Financial Institutions segment because we see the company as more geared to an accelerating U.S. recovery than any of its domestic banking or life insurance peers.”

**The first theme of our strategy is to develop more holistic and long-lasting customer relationships:**

- We will build a 360-degree view of the customer to engage them in more personalized and thoughtful sales conversations.
- We will deliver a simpler, more customer needs-focused experience.
- We will equip our distributors with tools that enable them to effectively meet a broader range of customer needs.
- And where appropriate, we will grow the channels where we have more control of the end-to-end customer experience and where a broader range of customer needs can be met. This includes growing direct channels and advice channels that can be accessed anytime, anywhere.

**Our second theme is to continue to build and integrate our global wealth and asset management businesses as well as expand our investment offices into key markets, not restricting ourselves to geographies where we currently have, or expect to have, insurance operations**

The need for wealth and asset management is growing around the world. There is an opportunity to add value in locations where we currently do not have operations to meet the needs of our global customers, from individual investors to institutions such as pension funds and sovereign wealth funds.

**Our third theme is to leverage skills and experience across our international operations**

If we are going to get maximum advantage from the investments we are making, we need to leverage our investments across our global organization.

If we deliver on these themes, I am confident that Manulife will delight both customers and shareholders in 2018 and beyond.

**ACKNOWLEDGING SOME GREAT CONTRIBUTIONS TO OUR FINE COMPANY**

On a personal note, I am grateful for the tremendous support and counsel of Manulife’s Board of Directors and our Chairman, Dick DeWolfe.

I would like to thank Scott Hand, who is retiring from the Board, for his wise counsel and support over the past eight years.

I would also like to thank Bob Cook, who is retiring after 36 years with the Company, and who was most recently Head of our Asia Division.

Our success could not have occurred without the dedicated efforts of more than 28,000 employees, almost 58,000 agents and the thousands of our other distribution partners around the world.

Also, I would like to thank our shareholders for their continued confidence in our organization and our ability to deliver results. I believe the Company is well positioned to continue to deliver the disciplined and sustainable growth required to meet our long-term objectives.



**Donald A. Guloien**  
President and  
Chief Executive Officer

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the “safe harbour” provisions of Canadian provincial securities laws and the U.S. Private Securities Litigation Reform Act of 1995. The forward-looking statements in this document include, but are not limited to, statements with respect to our 2016 management objectives for core earnings and core ROE, our 2016 goal for pre-tax run rate savings related to our Efficiency and Effectiveness Initiative, statements with respect to the anticipated benefits and the completion of and timing for completion of the acquisition of New York Life’s retirement plan services business, and the benefits and costs of the acquisition of the Canadian-based operations of Standard Life plc, the anticipated effect of the acquisition on Manulife’s strategy, operations and financial performance, including its EPS, earnings capacity, capital and MCCR ratio, dividends, financial leverage, 2016 management objectives for core earnings and core ROE, products, services and capabilities, earnings contributions, cost savings, transition and integration costs, and revenue synergies. The forward-looking statements in this document also relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and can generally be identified by the use of words such as “may”, “will”, “could”, “should”, “would”, “likely”, “suspect”, “outlook”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “plan”, “forecast”, “objective”, “seek”, “aim”, “continue”, “goal”, “restore”, “embark” and “endeavour” (or the negative thereof) and words and expressions of similar import, and include statements concerning possible or assumed future results. Although we believe that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements and they should not be interpreted as confirming market or analysts’ expectations in any way. Certain material factors or assumptions are applied in making forward-looking statements, including: that the acquisition of New York Life’s retirement plan services business will be completed in the first half of 2015; in respect of the acquisition of the Canadian-based operations of Standard Life plc, estimates for 2015 and 2016 EPS; estimated after-tax cost savings, including estimated savings as a result of synergies from areas such as information technology, real estate and personnel costs; estimated integration costs; revenue synergies increasing over time; and, in the case of our 2016 management objectives for core earnings and core ROE, the assumptions described under “Key Planning Assumptions and Uncertainties” in this document and actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from expectations include but are not limited to: the factors identified in “Key Planning Assumptions and Uncertainties” in this document; general business and economic conditions (including but not limited to the performance, volatility and correlation of equity markets, interest rates, credit and swap spreads, currency rates, investment losses and defaults, market liquidity and creditworthiness of guarantors, reinsurers and counterparties);

changes in laws and regulations; changes in accounting standards; our ability to execute strategic plans and changes to strategic plans; downgrades in our financial strength or credit ratings; our ability to maintain our reputation; impairments of goodwill or intangible assets or the establishment of provisions against future tax assets; the accuracy of estimates relating to morbidity, mortality and policyholder behaviour; the accuracy of other estimates used in applying accounting policies and actuarial methods; our ability to implement effective hedging strategies and unforeseen consequences arising from such strategies; our ability to source appropriate assets to back our long dated liabilities; level of competition and consolidation; our ability to market and distribute products through current and future distribution channels, including through our proposed collaboration arrangements with Standard Life plc; unforeseen liabilities or asset impairments arising from acquisitions and dispositions of businesses, including with respect to the acquisition of the retirement plan services business of New York Life and the Canadian-based operations of Standard Life plc; the realization of losses arising from the sale of investments classified as available-for-sale; our liquidity, including the availability of financing to satisfy existing financial liabilities on expected maturity dates when required; obligations to pledge additional collateral; the availability of letters of credit to provide capital management flexibility; accuracy of information received from counterparties and the ability of counterparties to meet their obligations; the availability, affordability and adequacy of reinsurance; legal and regulatory proceedings, including tax audits, tax litigation or similar proceedings; our ability to adapt products and services to the changing market; our ability to attract and retain key executives, employees and agents; the appropriate use and interpretation of complex models or deficiencies in models used; political, legal, operational and other risks associated with our non-North American operations; acquisitions and our ability to complete acquisitions including the availability of equity and debt financing for this purpose; the failure to realize some or all of the expected benefits of the acquisition of New York Life’s retirement plan services business and the Canadian-based operations of Standard Life plc; the disruption of or changes to key elements of the Company’s or public infrastructure systems; environmental concerns; and our ability to protect our intellectual property and exposure to claims of infringement. Additional information about material risk factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the body of this document as well as under “Risk Management and Risk Factors” and “Critical Accounting and Actuarial Policies” in the Management’s Discussion and Analysis and in the “Risk Management” note to the consolidated financial statements as well as under “Risk Factors” in our most recent Annual Information Form and elsewhere in our filings with Canadian and U.S. securities regulators. We do not undertake to update any forward-looking statements, except as required by law.

# 2014 Manulife Financial Corporation Annual Report

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# Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is current as of February 19, 2015.

## Overview

***Manulife is a leading Canada-based financial services company with principal operations in Asia, Canada and the United States. Manulife's vision is to be the most professional financial services organization in the world, providing strong, reliable, trustworthy and forward-thinking solutions for our clients' big significant financial decisions. Our international network of more than 87,000 employees and agents offers our clients a broad range of financial protection and wealth management products and services. We offer personal and corporate products to millions of customers across our three operating divisions: Asia, Canada and the United States.***

***Assets under management<sup>1</sup> by Manulife and its subsidiaries were \$691 billion as at December 31, 2014.***

**Manulife's net income attributed to shareholders was \$3.5 billion in 2014 compared with \$3.1 billion in 2013.** Net income attributed to shareholders is comprised of core earnings<sup>1</sup> (consisting of items we believe reflect the underlying earnings capacity of the business), which amounted to \$2.9 billion in 2014 compared with \$2.6 billion in 2013, and items excluded from core earnings, of \$0.6 billion in 2014 compared with \$0.5 billion in 2013. Net income per common share for 2014 was \$1.82, compared with \$1.63 in 2013. Return on common shareholders' equity for 2014 was 11.9%, compared with 12.8% for 2013.

In 2014, we delivered strong growth in both net income and core earnings, announced two important acquisitions, and increased our dividend 19%. Our strategy is delivering results and this year continued a trend of improvement over the last five years. While the current macro environment, including low interest rates, produced headwinds, our results for 2014 were essentially on plan and show that we continue to make progress toward our financial goals.

In 2014, we established strong momentum in our life insurance sales and achieved our 25<sup>th</sup> consecutive quarter of record assets under management. Our business growth will be supplemented by the strategic acquisitions of the Canadian-based operations of Standard Life plc and, subject to receipt of regulatory approvals, New York Life's pension business. Despite the global economy continuing to face serious headwinds, our forward-thinking approach to our business will continue to help us in 2015 and beyond.

**Insurance sales<sup>1</sup>** were \$2.5 billion in 2014, a decline of 10%<sup>2</sup> compared with 2013 largely due to a decrease in Group Benefits sales reflecting our disciplined approach to pricing in the very competitive market. Excluding Group Benefits, insurance sales increased 13% compared with the prior year. In Asia, we achieved record insurance sales on a constant currency basis, up 31% over 2013, driven by continued momentum in corporate products in Japan, successful sales campaigns and product launches in Hong Kong, and double digit sales growth in our Asia Other businesses. In Canada, retail insurance sales grew reflecting the successful launch of a simplified universal life solution. In the U.S., insurance sales increased sequentially in each quarter of the year, but decreased compared with 2013 amid a sluggish estate planning market.

**Wealth sales<sup>1</sup>** were a record \$52.6 billion in 2014, a 1% increase from the previous record reported in 2013. Excluding new bank loan volumes (which we include in wealth sales), wealth sales increased 3% over the prior year, with solid contributions from all three geographies. In Asia, we achieved record wealth sales on a constant currency basis that trended upward throughout the year as a result of new product launches, marketing campaigns, and improved market sentiment. In Canada, wealth sales excluding new bank loan volumes increased, led by our second highest annual group retirement sales on record. In the U.S., mutual fund sales continued to be strong and outpaced the industry<sup>3</sup>, outweighing the negative impact of intensified competitive pressures in the group retirement market.

**The Minimum Continuing Capital and Surplus Requirements ("MCCSR") ratio** for The Manufacturers Life Insurance Company ("MLI") was 248% at the end of 2014, the same ratio as at December 31, 2013. MFC's financial leverage ratio was 27.8% at December 31, 2014 compared with 31.0% at the end of 2013.

## Strategic Direction

In 2014, we made significant progress towards our strategic priorities:

- Developing our Asian opportunity to the fullest – Achieved record insurance sales on a constant currency basis with new product launches and channel expansion accelerating our growth, notably in Japan (+60%), China (+28%) and Hong Kong (+15%); delivered record wealth sales in line with the levels set in 2013; strengthened our bancassurance footprint by entering into nine new insurance distribution agreements, two of which are exclusive.
- Growing our wealth and asset management businesses around the world – Achieved our 25<sup>th</sup> consecutive quarter of record assets under management; delivered record institutional sales at Manulife Asset Management across a broad variety of mandates, including \$1.1 billion in mandates from our Private Markets business in its inaugural year; generated over \$18 billion of net flows into our asset management and group retirement businesses.

<sup>1</sup> This item is a non-GAAP measure. See "Performance and Non-GAAP Measures" below.

<sup>2</sup> Growth (declines) in sales, premiums and deposits and assets under management are stated on a constant currency basis. Constant currency basis is a non-GAAP measure. See "Performance and Non-GAAP Measures" below.

<sup>3</sup> Strategic Insight: ICI Confidential. Direct Sold mutual funds, fund-of-funds and ETF's are excluded. Organic sales growth rate is calculated as: net new flows divided by beginning period assets. Industry data through December 2014.



- Building on our balanced Canadian business – Announced the acquisition of the Canadian-based operations of Standard Life plc, which closed on January 30, 2015; delivered solid Group Retirement Solutions and mutual fund sales; generated Retail Insurance sales growth, driven by the successful launch of a simplified universal life product; reported lower lending volumes at Manulife Bank and a decline in Group Benefits sales amid competitive pressures.
- Continuing to drive sustainable earnings and opportunistic growth in the U.S. – Announced our agreement to acquire New York Life’s Retirement Plan Services (“RPS”) business; delivered record wealth sales with strong mutual fund volumes outweighing the negative impact of intensified competitive pressures in the RPS market; continued to build momentum in insurance sales over the course of the year, driven by product changes.

Our strategy builds on these priorities and will set the course for attaining our vision of “helping people with their significant financial decisions”.

The first theme of our strategy is to develop more holistic and long-lasting customer relationships. Our strategy is to:

- Build a 360-degree view of our customer to engage them in more personalized and thoughtful sales conversations.
- Deliver a simpler, more customer needs-focused experience.
- Equip our distributors with tools that enable them to effectively meet a broader range of customer needs.
- And where appropriate, grow the channels where we have more control of the end-to-end customer experience and where a broader range of customer needs can be met. This includes growing direct channels and advice channels that can be accessed anytime, anywhere.

Our second theme is to continue to build and integrate our global wealth and asset management businesses in existing markets, as well as expand our investment and sales offices into new markets in order to meet the needs of our customers, from individual investors to institutions such as pension funds and sovereign wealth funds. The need for wealth and asset management services is growing around the world, including locations where we do not currently have operations, and the opportunity for asset managers to add value also exists in those locations. We will not restrict ourselves to geographies where we currently have, or expect to have, insurance operations.

Our third theme is to leverage skills and experience across our international operations. If we are going to get maximum advantage from the investments we are making, we need to amortize our investment across our global organization.

# Financial Performance

As at and for the years ended December 31,  
(C\$ millions, unless otherwise stated)

	2014	2013	2012
<b>Net income attributed to shareholders</b>	<b>\$ 3,501</b>	\$ 3,130	\$ 1,810
Preferred share dividends	(126)	(131)	(112)
<b>Common shareholders' net income</b>	<b>\$ 3,375</b>	\$ 2,999	\$ 1,698
<b>Reconciliation of core earnings to net income attributed to shareholders:</b>			
<b>Core earnings<sup>(1)</sup></b>	<b>\$ 2,888</b>	\$ 2,617	\$ 2,249
Investment-related experience in excess of amounts included in core earnings	359	706	949
<b>Core earnings and investment-related experience in excess of amounts included in core earnings</b>	<b>\$ 3,247</b>	\$ 3,323	\$ 3,198
Other items to reconcile core earnings to net income attributed to shareholders:			
Direct impact of equity markets and interest rates and variable annuity guarantee liabilities	412	(336)	(582)
Changes in actuarial methods and assumptions	(198)	(489)	(1,081)
Disposition of Taiwan insurance business <sup>(2)</sup>	12	350	(50)
Other items	28	282	325
<b>Net income attributed to shareholders</b>	<b>\$ 3,501</b>	\$ 3,130	\$ 1,810
Basic earnings per common share (C\$)	\$ 1.82	\$ 1.63	\$ 0.94
Diluted earnings per common share (C\$)	\$ 1.80	\$ 1.62	\$ 0.92
Diluted core earnings per common share (C\$) <sup>(1)</sup>	\$ 1.48	\$ 1.34	\$ 1.15
Return on common shareholders' equity ("ROE") (%)	11.9%	12.8%	7.8%
Core ROE (%) <sup>(1)</sup>	9.8%	10.6%	9.8%
Sales <sup>(1)</sup>			
Insurance products <sup>(3)</sup>	\$ 2,544	\$ 2,757	\$ 3,279
Wealth products	\$ 52,604	\$ 49,681	\$ 35,940
Premiums and deposits <sup>(1)</sup>			
Insurance products	\$ 25,015	\$ 24,549	\$ 24,221
Wealth products	\$ 72,986	\$ 63,701	\$ 51,280
Assets under management (C\$ billions) <sup>(1)</sup>	\$ 691	\$ 599	\$ 531
Capital (C\$ billions) <sup>(1)</sup>	\$ 39.6	\$ 33.5	\$ 29.2
MLI's MCCR ratio	248%	248%	211%

<sup>(1)</sup> This item is a non-GAAP measure. For a discussion of our use of non-GAAP measures, see "Performance and Non-GAAP Measures" below.

<sup>(2)</sup> The \$12 million amount in 2014 relates primarily to closing adjustments to the 2013 disposition of our Taiwan insurance business sale and the \$50 million charge in 2012 represents closing adjustments to the 2011 disposition of our Life Retrocession business.

<sup>(3)</sup> Insurance sales have been adjusted to exclude Taiwan for all periods due to the sale of our Taiwan insurance business at the end of 2013.

## Analysis of Net Income

**Manulife's full year 2014 net income attributed to shareholders was \$3.5 billion compared with \$3.1 billion for full year 2013.** Net income attributed to shareholders is comprised of core earnings (consisting of items we believe reflect the underlying earnings capacity of the business), which amounted to \$2.9 billion in 2014 compared with \$2.6 billion in 2013, and items excluded from core earnings, which amounted to \$0.6 billion in 2014 compared with \$0.5 billion in 2013.

The \$271 million increase in core earnings compared with 2013 was due to higher fee income on higher asset levels in our wealth management businesses, lower net hedging costs and the favourable impact of a stronger U.S. dollar, partially offset by unfavourable policyholder experience in the U.S. On a divisional basis, Asia core earnings increased 16% over the prior year after adjusting for increased dynamic hedging costs (there is a corresponding decrease in macro hedging costs in the Corporate and Other segment), changes in currency rates and the sale of our Taiwan insurance business at the end of 2013. Core earnings increased by 2% over the prior year in Canada and declined by 15% in the U.S. primarily due to the second order impact of market factors along with risk management activities and unfavourable policyholder experience. The second order impact of market factors included the unfavourable impact that declines in the yield curve and corporate spreads had on the release of provisions for adverse deviation in the insurance business and the impact that higher equity markets and risk management activities had on releases of margins in the variable annuity business. The first order impact of market factors is included in the direct impact of equity markets and interest rates and is excluded from core earnings.

The \$100 million year-over-year increase in items excluded from core earnings was primarily due to a \$291 million reduction in charges related to changes in actuarial methods and assumptions and a \$748 million increase from the direct impact of equity markets and interest rates and variable annuity guarantee liabilities, partially offset by one-time items in 2013 and lower investment-related experience in 2014. In addition, while investment-related experience was strong in both years, the \$359 million gain reported in 2014 (in excess of the \$200 million of investment gains included in core earnings) was \$347 million lower than in 2013.

The investment-related experience gains are a combination of reported investment experience as well as the impact of investing activities on the measurement of our policy liabilities. Investment-related experience gains in 2014 of \$559 million (2013 – \$906 million), including the \$200 million reported in core earnings, were composed of: \$667 million (2013 – \$571 million) primarily related to the impact of investing activities (both fixed income and alternative long-duration assets) on the measurement of our policy liabilities; and \$103 million (2013 – \$162 million) due to favourable credit experience relative to our long-term assumptions, partly offset by the \$211 million (2013 – \$55 million) impact of fair value related losses on alternative long-duration assets.

Investment-related experience gains in 2013 also included \$228 million related to asset allocation activities that enhanced surplus liquidity and resulted in higher yielding assets in the respective liability segments.

The table below reconciles 2014 net income attributed to shareholders of \$3,501 million to core earnings of \$2,888 million.

For the years ended December 31, (C\$ millions, unaudited)	2014	2013	2012
<b>Core earnings<sup>(1)</sup></b>			
Asia Division <sup>(2)</sup>	\$ 1,008	\$ 921	\$ 963
Canadian Division <sup>(2)</sup>	927	905	835
U.S. Division <sup>(2)</sup>	1,383	1,510	1,085
Corporate and Other (excluding expected cost of macro hedges and core investment gains)	(446)	(506)	(345)
Expected cost of macro hedges <sup>(2),(3)</sup>	(184)	(413)	(489)
Investment-related experience in core earnings <sup>(4)</sup>	200	200	200
<b>Total core earnings</b>	<b>\$ 2,888</b>	<b>\$ 2,617</b>	<b>\$ 2,249</b>
Investment-related experience in excess of amounts included in core earnings <sup>(4)</sup>	359	706	949
<b>Core earnings and investment-related experience in excess of amounts included in core earnings</b>	<b>\$ 3,247</b>	<b>\$ 3,323</b>	<b>\$ 3,198</b>
Changes in actuarial methods and assumptions <sup>(5)</sup>	(198)	(489)	(1,081)
Direct impact of equity markets and interest rates and variable annuity guarantee liabilities <sup>(6)</sup> (see table below)	412	(336)	(582)
Disposition of Taiwan insurance business in 2013 <sup>(7)</sup>	12	350	(50)
Impact of in-force product changes and recapture of reinsurance treaties <sup>(8)</sup>	24	261	260
Material and exceptional tax related items <sup>(9)</sup>	4	47	322
Goodwill impairment charge	–	–	(200)
Restructuring charge related to organizational design <sup>(10)</sup>	–	(26)	(57)
<b>Net income attributed to shareholders</b>	<b>\$ 3,501</b>	<b>\$ 3,130</b>	<b>\$ 1,810</b>

(1) This item is a non-GAAP measure. See "Performance and Non-GAAP Measures" below.

(2) The decrease in expected cost of macro hedges in 2014 compared with 2013 was partially offset by an increase in dynamic hedging costs included in Asia, Canada and U.S. core earnings.

(3) The 2014 net loss from macro equity hedges was \$304 million and consisted of a \$184 million charge related to the estimated expected cost of the macro equity hedges relative to our long-term valuation assumptions and a \$120 million charge because actual markets outperformed our valuation assumptions (included in the direct impact of equity markets and interest rates and variable annuity guarantee liabilities below).

(4) As outlined under "Critical Accounting and Actuarial Policies" below, net insurance contract liabilities under IFRS for Canadian insurers are determined using the Canadian Asset Liability Method ("CALM"). Under CALM, the measurement of policy liabilities includes estimates regarding future expected investment income on assets supporting the policies. Experience gains and losses are reported when current period activity differs from what was assumed in the policy liabilities at the beginning of the period. These gains and losses can relate to both the investment returns earned in the period, as well as to the change in our policy liabilities driven by the impact of current period investing activities on future expected investment income assumptions. The direct impact of interest rates and equity markets is reported separately. The inclusion of up to \$200 million per annum of favourable investment experience will be increasing to \$400 million per annum commencing 1Q15. See "Performance and Non-GAAP Measures" below for more information.

(5) Of the \$198 million charge for change in actuarial methods and assumptions in 2014, \$69 million was reported in the third quarter as part of the comprehensive annual review of valuation assumptions. Over the full year, charges due to lapse assumption changes, and updates to actuarial standards related to segregated fund bond calibration criteria, were partially offset by benefits due to refinements related to the projection of asset and liability cash flows, including an in depth review of the modelling of future tax cash flows for our U.S. Insurance business, updates to mortality and morbidity assumptions, and updates to actuarial standards related to economic reinvestment assumptions.

(6) The direct impact of equity markets and interest rates is relative to our policy liability valuation assumptions and includes changes to interest rate assumptions, as well as experience gains and losses on derivatives associated with our macro equity hedges. We also include gains and losses on the sale of available-for-sale ("AFS") debt securities as management may have the ability to partially offset the direct impacts of changes in interest rates reported in the liability segments. See table below for components of this item.

(7) The \$12 million amount in 2014 relates primarily to closing adjustments to the 2013 disposition of our Taiwan insurance business sale and the \$50 million charge in 2012 represents closing adjustments to the Life Retrocession sale in 2011.

(8) The 2014 amount relates to the recapture of a reinsurance treaty in Canada. The 2013 gain of \$261 million includes the impact on the measurement of policy liabilities of policyholder-approved changes to the investment objectives of separate accounts that support our Variable Annuity products in the U.S. and a reinsurance recapture transaction in Asia. The \$260 million gain in 2012 largely relates to a recapture of a reinsurance treaty and in-force segregated funds product changes in Canada.

(9) The \$4 million gain in 2014 relates to tax rate changes in Asia. The 2013 tax item primarily reflects the impact on our deferred tax asset position of Canadian provincial tax rate changes. Included in the 2012 tax items are \$264 million of material and exceptional U.S. tax items and \$58 million for changes to tax rates in Japan.

(10) The restructuring charge is related to severance, pension and consulting costs for the Company's Organizational Design Project, which was completed in the second quarter of 2013.

The net gain (loss) related to the direct impact of equity markets and interest rates and variable annuity guarantee liabilities in the table above is attributable to:

For the years ended December 31, (C\$ millions, unaudited)	2014	2013	2012
Direct impact of equity markets and variable annuity guarantee liabilities <sup>(1)</sup>	\$ (182)	\$ 458	\$ 851
Fixed income reinvestment rates assumed in the valuation of policy liabilities <sup>(2)</sup>	729	(276)	(740)
Sale of AFS bonds and derivative positions in the Corporate and Other segment	(40)	(262)	(16)
Charges due to lower fixed income ultimate reinvestment rate ("URR") assumptions used in the valuation of policy liabilities <sup>(3)</sup>	(95)	(256)	(677)
<b>Direct impact of equity markets and interest rates and variable annuity guarantee liabilities</b>	<b>\$ 412</b>	<b>\$ (336)</b>	<b>\$ (582)</b>

(1) In 2014, gross equity exposure losses of \$2,179 million and gross equity hedging charges of \$120 million from macro hedge experience were partially offset by gains of \$2,117 million from dynamic hedging experience which resulted in a loss of \$182 million.

(2) The gain in 2014 for fixed income reinvestment assumptions was driven by the favourable impact on the measurement of policy liabilities of changes in yield curves primarily in the U.S. and Canada.

(3) The periodic URR charges have ceased effective 4Q14 due to revisions to the Canadian Actuarial Standards of Practice related to economic reinvestment assumptions.

## Earnings per Common Share and Return on Common Shareholders' Equity

Net income per common share for 2014 was \$1.82, compared with \$1.63 in 2013. Return on common shareholders' equity for 2014 was 11.9%, compared with 12.8% for 2013.

## Revenue

Revenues include (i) premiums received on life and health insurance policies and fixed annuity products, net of premiums ceded to reinsurers; (ii) investment income comprised of income earned on general fund assets, credit experience and realized gains and losses on assets held in the Corporate segment; (iii) fee and other income received for services provided; and, (iv) realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities and on macro hedging program. Premium and deposit equivalents from administrative services only ("ASO"), as well as deposits received by the Company on investment contracts such as segregated funds, mutual funds and managed funds are not included in revenue; however, the Company does receive fee income from these products, which is included in revenue. These fee generating deposits and ASO premium and deposit equivalents are an important part of our business and as a result, revenue does not fully represent sales and other activity taking place during the respective periods. The premiums and deposits metric below includes these factors.

For 2014, revenue before realized and unrealized gains (losses) was \$37.4 billion, an increase of 5% over 2013, after adjusting for the one-time gain on the sale of our Taiwan insurance business in 4Q13. The increase was driven by higher fee income due to higher asset levels in our wealth management businesses and the strengthening of the U.S. dollar. Net premium income on a constant currency basis increased in Asia by 12%, but declined in Canada and the U.S. by 2% and 13%, respectively.

Net unrealized and realized gains (losses) on assets supporting insurance and investment contract liabilities and on our macro hedging program primarily related to the impact of movements in interest rates on the fair value of our bond and fixed income derivative holdings. In 2014, the general decrease in interest rates resulted in an increase in revenue while in 2013 the increase in interest rates resulted in a decrease in revenue.

See "Financial Performance – Impact of Fair Value Accounting" below.

## Revenue

For the years ended December 31,  
(C\$ millions, unaudited)

	2014	2013	2012
Gross premiums	\$ 25,226	\$ 24,892	\$ 24,617
Ceded premiums	(7,343)	(7,382)	(7,194)
Net premium income prior to fixed deferred annuity coinsurance	\$ 17,883	\$ 17,510	\$ 17,423
Premiums ceded relating to fixed deferred annuity coinsurance	–	–	(7,229)
Investment income	10,808	9,860	9,802
Other revenue <sup>(1)</sup>	8,739	8,876	7,289
Total revenue before net realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities and on macro hedging program	\$ 37,430	\$ 36,246	\$ 27,285
Realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities and on macro hedging program	17,092	(17,607)	1,825
<b>Total revenue</b>	<b>\$ 54,522</b>	<b>\$ 18,639</b>	<b>\$ 29,110</b>

<sup>(1)</sup> Other revenue in 2013 includes a pre-tax gain of \$479 million on the sale of our Taiwan insurance business.

## Premiums and Deposits

Premiums and deposits<sup>4</sup> is an alternate measure of our top line growth, as it includes all new policyholder cash flows and, unlike total revenue, is not impacted by the volatility created by fair value accounting. Premiums and deposits for insurance products were \$25.0 billion in 2014, down 1% on a constant currency basis compared with 2013. Premiums and deposits for wealth products were \$73.0 billion in 2013, an increase of 9% on a constant currency basis over 2013.

## Assets under Management

Assets under management<sup>4</sup> as at December 31, 2014 were a record \$691 billion, an increase of \$92 billion, or 9% on a constant currency basis, compared with December 31, 2013. The increase was largely attributable to growth in our asset management business, favourable equity markets, and the fair value accounting impact of the reduction in interest rates on fixed income investments.

## Assets under Management

As at December 31,  
(C\$ millions)

	2014	2013	2012
General fund	\$ 269,310	\$ 232,709	\$ 227,932
Segregated funds net assets <sup>(1)</sup>	256,532	239,871	209,197
Mutual funds, institutional advisory accounts and other <sup>(1),(2)</sup>	165,287	126,353	94,029
<b>Total assets under management</b>	<b>\$ 691,129</b>	<b>\$ 598,933</b>	<b>\$ 531,158</b>

<sup>(1)</sup> Segregated funds net assets, mutual fund assets and other funds are not available to satisfy the liabilities of the Company's general fund.

<sup>(2)</sup> Other funds represent pension funds, pooled funds, endowment funds and other institutional funds managed by the Company on behalf of others.

<sup>4</sup> This item is a non-GAAP measure. See "Performance and Non-GAAP Measures" below.

## Capital

Total capital<sup>5</sup> was \$39.6 billion as at December 31, 2014 compared with \$33.5 billion as at December 31, 2013, an increase of \$6.1 billion. The increase included net income of \$3.5 billion, currency impacts of \$1.9 billion and net capital issued of \$1.0 billion (excludes \$1.0 billion redemption of senior debt of MFC as it is not included in the definition we use for capital), partially offset by cash dividends of \$0.9 billion over the period.

The Minimum Continuing Capital and Surplus Requirements (“MCCSR”) ratio for The Manufacturers Life Insurance Company (“MLI”) was 248% at the end of 2014, consistent with the ratio at the end of 2013. MFC’s financial leverage ratio was 27.8% at December 31, 2014 compared with 31.0% at the end of 2013.

During 2014, we raised \$1.8 billion of new financing and \$1.8 billion matured or was redeemed, including \$1.0 billion of senior debt.

We also issued \$2.26 billion of subscription receipts that were exchanged for common shares after year end, as a result of the closing of the acquisition of the Canadian-based operations of Standard Life plc on January 30, 2015. On a pro-forma basis, had the transaction closed on December 31, 2014, the MCCSR ratio would be in the range of 235% to 240% and the financial leverage ratio would have been approximately 27.1%. The impact on the MCCSR ratio will be partially offset by the favourable impact of change in the MCCSR guidelines effective January 1, 2015.

## Impact of Fair Value Accounting

Fair value accounting policies affect the measurement of both our assets and our liabilities. The difference between the reported amounts of our assets and liabilities determined as of the balance sheet date and the immediately preceding balance sheet date in accordance with the applicable mark-to-market accounting principles is reported as investment-related experience and the direct impact of equity markets and interest rates and variable annuity guarantees that are dynamically hedged, each of which impacts net income (see “Analysis of Net Income” above).

We reported \$17.1 billion of net realized and unrealized gains in investment income in 2014. These amounts were driven by the mark-to-market impact of the decrease in interest rates on our bond and fixed income derivative holdings and the increase in equity markets on our equity futures in our macro and dynamic hedging program, as well as other items.

As outlined under “Critical Accounting and Actuarial Policies” below, net insurance contract liabilities under IFRS are determined using the Canadian Asset Liability Method (“CALM”), as required by the Canadian Institute of Actuaries. The measurement of policy liabilities includes the estimated value of future policyholder benefits and settlement obligations to be paid over the term remaining on in-force policies, including the costs of servicing the policies, reduced by the future expected policy revenues and future expected investment income on assets supporting the policies. Investment returns are projected using the current asset portfolios and projected reinvestment strategies. Experience gains and losses are reported when current period activity differs from what was assumed in the policy liabilities at the beginning of the period. We classify gains and losses by assumption type. For example, current period investing activities that increase (decrease) the future expected investment income on assets supporting the policies will result in an investment-related experience gain (loss).

## Public Equity Risk and Interest Rate Risk

At December 31, 2014, the impact of a 10% decline in equity markets was estimated to be a charge of \$480 million and the impact of a 50 basis point decline in interest rates on our earnings was estimated to be a charge of \$100 million. See “Risk Management and Risk Factors” below.

## Impact of Foreign Exchange Rates

We have operations in many markets worldwide, including Canada, the United States and various countries in Asia, and generate revenues and incur expenses in local currencies in these jurisdictions, which are translated to Canadian dollars. The bulk of our exposure to movements in foreign exchange rates is to the U.S. dollar.

Items impacting our Consolidated Statements of Income are translated to Canadian dollars using average exchange rates for the respective period. For items impacting our Consolidated Statements of Financial Position, period end rates are used for currency translation purpose. The following table provides the most relevant foreign exchange rates for 2014 and 2013.

Exchange rate	Quarterly					Full Year	
	4Q14	3Q14	2Q14	1Q14	4Q13	2014	2013
Average <sup>(1)</sup>							
U.S. dollar	<b>1.1356</b>	1.0890	1.0905	1.1031	1.0494	<b>1.1046</b>	1.0298
Japanese yen	<b>0.0099</b>	0.0105	0.0107	0.0107	0.0105	<b>0.0105</b>	0.0106
Hong Kong dollar	<b>0.1464</b>	0.1405	0.1407	0.1422	0.1353	<b>0.1425</b>	0.1328
Period end							
U.S. dollar	<b>1.1601</b>	1.1208	1.0676	1.1053	1.0636	<b>1.1601</b>	1.0636
Japanese yen	<b>0.0097</b>	0.0102	0.0105	0.0107	0.0101	<b>0.0097</b>	0.0101
Hong Kong dollar	<b>0.1496</b>	0.1443	0.1378	0.1425	0.1372	<b>0.1496</b>	0.1372

<sup>(1)</sup> Average rates for the quarter are from Bank of Canada which are applied against Consolidated Statements of Income items for each period. Average rate for the full year is a 4 point average of the quarterly average rates.

In general, our net income benefits from a weakening Canadian dollar and is adversely affected by a strengthening Canadian dollar as net income from the Company’s foreign operations are translated to Canadian dollars. However, in a period of losses, the weakening

<sup>5</sup> This item is a non-GAAP measure. See “Performance and Non-GAAP Measures” below.

of the Canadian dollar has the effect of increasing the losses. The relative impact of foreign exchange in any given period is driven by the movement of currency rates as well as the proportion of earnings generated in our foreign operations.

Changes in foreign exchange rates, primarily due to the strengthening of the U.S. dollar compared to the Canadian dollar, increased core earnings by \$129 million in 2014 compared with 2013. The impact of foreign currency on items excluded from core earnings is not relevant given the nature of these items.

#### Fourth Quarter Financial Highlights

For the quarters ended December 31,  
(C\$ millions, except per share amounts)

	2014	2013	2012
Net income attributed to shareholders	\$ 640	\$ 1,297	\$ 1,077
Core earnings <sup>(1),(2)</sup> (see next page for reconciliation)	\$ 713	\$ 685	\$ 554
Diluted earnings per common share (C\$)	\$ 0.33	\$ 0.68	\$ 0.57
Diluted core earnings per common share (C\$) <sup>(2)</sup>	\$ 0.36	\$ 0.35	\$ 0.28
Return on common shareholders' equity (annualized)	8.1%	20.2%	19.2%
Sales <sup>(2)</sup>			
Insurance products <sup>(3)</sup>	\$ 760	\$ 617	\$ 922
Wealth products	\$ 13,762	\$ 12,241	\$ 10,439
Premiums and deposits <sup>(2)</sup>			
Insurance products	\$ 6,649	\$ 6,169	\$ 6,629
Wealth products	\$ 18,863	\$ 15,367	\$ 17,499

<sup>(1)</sup> Impact of currency movement on 4Q14 versus 4Q13 was \$35 million.

<sup>(2)</sup> This item is a non-GAAP measure. See "Performance and Non-GAAP Measures" below.

<sup>(3)</sup> Insurance sales have been adjusted to exclude Taiwan for all periods due to the sale of our Taiwan insurance business at the end of 2013.

**Manulife's 4Q14 net income attributed to shareholders** was \$640 million compared with \$1,297 million in 4Q13. Net income attributed to shareholders is comprised of core earnings which amounted to \$713 million in 4Q14 compared with \$685 million in 4Q13, and items excluded from core earnings, which netted to a loss of \$73 million in 4Q14 compared with a net gain of \$612 million in 4Q13.

The \$28 million increase in core earnings compared with 4Q13 was the result of higher fee income due to higher asset levels in our wealth management businesses, increases in new business volumes, lower expenses and the strengthening of the U.S. dollar, partially offset by policyholder experience losses in North America. On a divisional basis, Asia core earnings increased 19% compared with 4Q13, after adjusting for increased dynamic hedging costs (there is a corresponding decrease in macro hedging costs in the Corporate and Other segment), changes in currency rates and the sale of our Taiwan insurance business at the end of 2013. Canadian core earnings decreased 4% and U.S. core earnings decreased 15%, both divisions reported policyholder experience losses in 4Q14.

With respect to items excluded from 4Q14 core earnings, fair value losses related to impact of the sharp decline in oil prices on investments held in Canada and the U.S. were mostly offset by the favourable impact on the measurement of policy liabilities of changes in yield curves as investment-related experience losses were \$353 million (of which gains of \$50 million were included in core earnings and \$403 million of losses were excluded from core earnings) and gains related to the direct impact of interest rates and equity markets were \$377 million. Charges related to actuarial methods and assumptions and policy changes netted to \$59 million and included a net gain of \$65 million from the implementation of the Canadian Actuarial Standards Board's revisions to the Actuarial Standards of Practice related to economic reinvestment assumptions. A gain from changes to fixed income reinvestment assumptions (an allowance for the use of credit spread assets for all durations, a change from deterministic to stochastically generated scenarios for most North American businesses, and changes to risk free interest rate scenarios) was partly offset by a new margin for adverse deviation for alternative long-duration assets and public equities.

Items excluded from core earnings in 4Q13 included strong investment-related experience and the one-time gains related to the sale of our Taiwan insurance business and to changes to investment objectives of separate accounts that support our U.S. variable annuity products.

#### Analysis of Net Income

The table below reconciles the 4Q14 net income attributed to shareholders of \$640 million to core earnings of \$713 million.

(C\$ millions, unaudited)	4Q 2014	4Q 2013
<b>Core earnings<sup>(1)</sup></b>		
Asia Division <sup>(2)</sup>	\$ 260	\$ 227
Canadian Division <sup>(2)</sup>	224	233
U.S. Division <sup>(2)</sup>	338	366
Corporate and Other (excluding expected cost of macro hedges and core investment gains)	(112)	(138)
Expected cost of macro hedges <sup>(2),(3)</sup>	(47)	(53)
Investment-related experience in core earnings <sup>(4)</sup>	50	50
<b>Core earnings</b>	<b>\$ 713</b>	<b>\$ 685</b>
Investment-related experience in excess of amounts included in core earnings <sup>(4)</sup>	(403)	215
<b>Core earnings and investment-related experience in excess of amounts included in core earnings</b>	<b>\$ 310</b>	<b>\$ 900</b>
Other items to reconcile core earnings to net income attributed to shareholders:		
Gains (charges) on direct impact of equity markets and interest rates and variable annuity guarantee liabilities (see table below) <sup>(4),(5)</sup>	377	(81)
Changes in actuarial methods and assumptions <sup>(6)</sup>	(59)	(133)
Disposition of Taiwan insurance business	12	350
Impact of in-force product changes and recapture of a reinsurance treaty <sup>(7)</sup>	-	261
<b>Net income attributed to shareholders</b>	<b>\$ 640</b>	<b>\$ 1,297</b>

- (1) This item is a non-GAAP measure. See "Performance and Non-GAAP Measures" below.
- (2) The decrease in expected cost of macro hedges cost in 4Q14 compared with 4Q13 was partially offset by an increase in dynamic hedging costs included in Asia, Canada and U.S. divisional core earnings.
- (3) The 4Q14 net loss from macro equity hedges was \$107 million and consisted of a \$47 million charge related to the estimated expected cost of the macro equity hedges relative to our long-term valuation assumptions and a charge of \$60 million because actual markets outperformed our valuation assumptions (included in direct impact of equity markets and interest rates and variable annuity guarantee liabilities below).
- (4) As outlined under "Critical Accounting and Actuarial Policies" below, net insurance contract liabilities under IFRS for Canadian insurers are determined using CALM. Under CALM, the measurement of policy liabilities includes estimates regarding future expected investment income on assets supporting the policies. Experience gains and losses are reported when current period activity differs from what was assumed in the policy liabilities at the beginning of the period. These gains and losses can relate to both the investment returns earned in the period, as well as to the change in our policy liabilities driven by the impact of current period investing activities on future expected investment income assumptions. The direct impact of equity markets and interest rates is separately reported. The inclusion of up to \$200 million per annum of favourable investment experience will be increasing to \$400 million per annum commencing 1Q15. See "Performance and Non-GAAP Measures" below for more information.
- (5) The direct impact of equity markets and interest rates is relative to our policy liability valuation assumptions and includes changes to interest rate assumptions, including experience gains and losses on derivatives associated with our macro equity hedges. We also include gains and losses on derivative positions and the sale of AFS bonds in the Corporate and Other segment. See table below for components of this item. Until 3Q14 this also included a quarterly URR update.
- (6) The 4Q14 charge of \$59 million is primarily attributable to method and modeling refinements, partially offset by a gain of \$65 million due to the implementation of the Canadian Actuarial Standards Board's revisions to the Canadian Actuarial Standards of Practice related to economic reinvestment assumptions.
- (7) The 4Q13 gain of \$261 million included \$193 million related to policyholder approved changes to the investment objectives of separate accounts that support our Variable Annuity products in the U.S. and \$68 million related to a recapture of a reinsurance treaty in Asia.

The gain (charge) related to the direct impact of equity markets and interest rates and variable annuity guarantee liabilities in the table above is attributable to:

C\$ millions, unaudited	4Q 2014	4Q 2013
Direct impact of equity markets and variable annuity guarantee liabilities <sup>(1)</sup>	\$ (142)	\$ 105
Fixed income reinvestment rates assumed in the valuation of policy liabilities <sup>(2)</sup>	533	(105)
Sale of AFS bonds and derivative positions in the Corporate and Other segment	(14)	(55)
Charges due to lower fixed income URR assumptions used in the valuation of policy liabilities <sup>(3)</sup>	–	(26)
<b>Direct impact of equity markets and interest rates and variable annuity guarantee liabilities</b>	<b>\$ 377</b>	<b>\$ (81)</b>

(1) In 4Q14, gross equity exposure losses of \$881 million and gross equity hedging charges of \$60 million from macro hedge experience were partially offset by gains of \$799 million from dynamic hedging experience which resulted in a loss of \$142 million.

(2) The gain in 4Q14 for fixed income reinvestment assumptions was driven by the favourable impact on the measurement of policy liabilities of changes in yield curves primarily in the U.S. and Canada.

(3) The periodic URR charges have ceased effective 4Q14 due to revisions to the Canadian Actuarial Standards of Practice related to economic reinvestment assumptions.

## Sales

**Insurance sales** were \$760 million in 4Q14, an increase of 20% compared with 4Q13, with all divisions reporting strong growth. In Asia, we achieved record sales, with most territories growing at a double digit pace. In Canada, we had a strong fourth quarter in large case Group Benefits sales. In the U.S., we continued to build momentum in life insurance sales as product enhancements and targeted pricing changes implemented earlier in the year continued to make an impact.

**Wealth sales** were \$13.8 billion in 4Q14, an increase of 6% compared with 4Q13. New bank loan volumes (which we include in wealth sales) declined due to competitive rate pressures in a slowing residential mortgage market. Excluding new bank loan volumes, 4Q14 wealth sales increased 9% compared with the prior year. In Asia, wealth sales continued to demonstrate outstanding momentum, growing 64% from 4Q13, benefiting from new product launches, marketing campaigns and improved market sentiment. In Canada, group retirement sales increased compared with 4Q13 with strong sales of defined contribution plans. In the U.S., wealth sales were in line with the prior year, reflecting continued strong mutual fund sales.

## Efficiency and Effectiveness Initiative

Our Efficiency and Effectiveness ("E&E") initiative, announced November 2012, is aimed at leveraging our global scale and capabilities to achieve operational excellence throughout the organization. In 2013, we achieved pre-tax run rate savings<sup>6</sup> of approximately \$200 million. In 2014, we continued to make substantial progress and have now achieved pre-tax run rate savings in excess of \$300 million related to operations, information services, procurement, workplace transformation, as well as organizational design. This has translated into approximately \$200 million in net pre-tax savings, which enabled us to fund new initiatives to accelerate our long-term earnings growth. We remain on track to achieve \$400 million in pre-tax E&E savings in 2016.<sup>7</sup>

Over the next four years, we also plan to invest a significant amount in projects in order to realize our strategic vision. The amount of that investment is subject to change as our strategy unfolds. In particular, we intend to ensure that projects are appropriately sequenced and prioritized given recent headwinds.

## Acquisition of Canadian-based operations of Standard Life plc

On September 3, 2014, MLI entered into an agreement with Standard Life Oversea Holdings Limited, a subsidiary of Standard Life plc, and Standard Life plc to acquire the shares of Standard Life Financial Inc. and of Standard Life Investments Inc., collectively the Canadian-based operations of Standard Life plc.

On January 30, 2015, the Company completed its purchase of the Canadian-based operations of Standard Life plc for cash consideration of \$4.0 billion. Upon closing, the Company's outstanding subscription receipts were automatically exchanged on a one-for-one basis for 105,647,334 MFC common shares, with a stated value of approximately \$2.2 billion. In addition, pursuant to the

<sup>6</sup> Pre-tax run rate savings represent cumulative annualized savings from the E&E initiative.

<sup>7</sup> See "Caution regarding forward-looking statements" above.

terms of the subscription receipts, a dividend equivalent payment of \$0.155 per subscription receipt (\$16.4 million in the aggregate) was also paid to holders of subscription receipts, which is an amount equal to the cash dividends declared on MFC common shares for which record dates have occurred during the period from September 15, 2014 to January 29, 2015.

The following table summarizes the unaudited assets and liabilities of the Canadian-based operations of Standard Life plc as at December 31, 2014.

(C\$ millions, unaudited)	As at December 31, 2014
<b>Assets</b>	
Invested assets	\$ 18,670
Other assets	970
Segregated funds' net assets	31,251
<b>Total assets</b>	<b>\$ 50,891</b>
<b>Liabilities</b>	
Insurance and investment contract liabilities	\$ 16,271
Other liabilities	771
Subordinated debentures	403
Segregated funds' net liabilities	31,251
<b>Total liabilities assumed</b>	<b>\$ 48,696</b>
<b>Net assets</b>	<b>\$ 2,195</b>

The difference between the purchase price and the determination of the final fair value of tangible net assets acquired as of January 30, 2015 represents goodwill and intangible assets. Due to the recent closing of the acquisition, the fair value determination and the initial purchase price accounting for the business combination have not been completed, and certain disclosures have not been provided. The final allocation of the purchase price as at January 30, 2015 will be determined after completing a comprehensive evaluation of the fair value of assets (including intangibles) and liabilities acquired at that date.

This transaction significantly builds the Company's capability to serve customers in all of Canada, and elsewhere in the world, from Quebec. On a pro forma basis as of December 31, 2014 after giving effect to the transaction, the acquisition:

- adds \$20.9 billion in assets under administration<sup>8</sup> in capital accumulation plans to our group retirement business in Canada, bringing our total group retirement assets under administration in capital accumulation plans in Canada to \$46.1 billion;
- adds \$6.5 billion in assets under management to our mutual funds business in Canada, bringing our total mutual fund assets under management<sup>8</sup> in Canada to \$39.6 billion; and,
- adds \$0.7 billion in premiums and deposits to our Canadian group benefits business, bringing our total Canadian group benefits premiums and deposits in Canada to \$7.8 billion.

Transaction highlights<sup>9</sup>:

- Excluding transition and integration costs, after the first year we expect the transaction to be accretive by approximately \$0.03 to earnings per common share ("EPS") per year over each of the next 3 years. It will also increase our earnings capacity beyond our 2016 core earnings objective of \$4 billion.
- The transaction, and the financing, maintain our strong capital position and financial flexibility, and in no way inhibit our ability to pay dividends. In fact, it will enhance our ability to increase dividends in the future.
- We believe the transaction will improve core earnings, however the transition costs reported in core earnings will create a modest, temporary headwind on our core return on common shareholders' equity ("Core ROE") 2016 objective of 13%.
- Excluding transition and integration costs, the transaction is expected to be marginally accretive to EPS in the 1<sup>st</sup> year.
- The transaction increases earnings contributions from less capital intensive, fee-based businesses.
- Integration costs totaling \$150 million post-tax are expected to be incurred in the first 3 years and we expect revenue synergies which will build over time.
- Annual cost savings of \$100 million post-tax is expected to be largely achieved by the 3<sup>rd</sup> year.
- At the time of announcement, we indicated we were targeting an MCCR ratio in the range of 235% to 240% at close. The pro forma ratio assuming we had closed on December 31, 2014 would have been in that range.
- We also indicated that we were targeting a financial leverage ratio of approximately 28% at close. The pro forma ratio assuming we had closed on December 31, 2014 would have been approximately 27.1%.
- We continue to target a 25% financial leverage ratio over the long-term.

<sup>8</sup> This item is a non-GAAP measure. See "Performance and Non-GAAP Measures" below.

<sup>9</sup> See "Caution regarding forward-looking statements" above and "Performance and Non-GAAP Measures" below.



# Performance by Division

## Asia Division

*Manulife has a demonstrated business expertise in Asia dating back more than 100 years. Since issuing our first Asian policy in Shanghai in 1897, we have pursued strong, sustained growth and remained a leading provider of financial protection and wealth management products. We are relentlessly focused on helping our customers prepare for their futures, and that focus drives our growth strategy and underpins our commitment to the region. We are diversified across Asia, including some of the world's largest and fastest-growing economies, with operations in Hong Kong, Japan, Indonesia, the Philippines, Singapore, China, Taiwan, Vietnam, Malaysia, Thailand, Macau and Cambodia.*

*We offer a broad portfolio of products and services including life and health insurance, annuities, mutual funds and retirement solutions that cater to the needs of individuals and corporate customers through a multi-channel network, supported by a team of approximately 9,000 employees. We now have more than 57,800 contracted agents selling our products and have expanded our distribution capabilities to include more than 100 bank partnerships and more than 500 dealers, independent agents and brokers.*

In 2014, Asia Division contributed 18% of the Company's total premiums and deposits and, as at December 31, 2014, accounted for 13% of the Company's assets under management.

### Financial Performance

Asia Division reported net income attributed to shareholders of \$1,247 million in 2014 compared with \$2,519 million in 2013. Net income attributed to shareholders is made up of core earnings (consisting of items we believe reflect the underlying earnings capacity of the business), which amounted to \$1,008 million in 2014 compared with \$921 million in 2013, and items excluded from core earnings, which amounted to \$239 million for 2014 compared with \$1,598 million in 2013.

Expressed in U.S. dollars, the presentation currency of the division, net income attributed to shareholders was US\$1,129 million in 2014 compared with US\$2,451 million in 2013, core earnings was US\$913 million in 2014 compared with US\$893 million in 2013 and items excluded from core earnings were US\$216 million in 2014 compared with US\$1,558 million in 2013. The increase in core earnings was US\$138 million after adjusting for the increased dynamic hedging costs (there is a corresponding decrease in macro hedging costs in the Corporate and Other segment), the impact of changes in currency rates and sale of our Taiwan insurance business at the end of 2013. This 16% increase was driven by higher new business volumes and margins, growth in our in-force business and favourable policyholder experience. The US\$1,342 million decrease in items excluded from core earnings was due to the non-recurrence of large gains reported in 2013 related to the direct impact of equity markets and interest rates and variable annuity guarantee liabilities, the sale of our Taiwan insurance business and the recapture of a reinsurance treaty.

For the years ended December 31, (\$ millions)	Canadian \$			US \$		
	2014	2013	2012	2014	2013	2012
<b>Core earnings<sup>(1)</sup></b>	<b>\$ 1,008</b>	\$ 921	\$ 963	<b>\$ 913</b>	\$ 893	\$ 963
Items to reconcile core earnings to net income attributed to shareholders:						
Direct impact of equity markets and interest rates and variable annuity guarantee liabilities <sup>(2)</sup>	173	1,164	911	157	1,142	920
Investment-related experience related to fixed income trading, market value increases in excess of expected alternative assets investment returns, asset mix changes and credit experience	62	16	55	56	18	56
Favourable impact of enacted tax rate changes	4	–	40	3	–	40
Disposition of Taiwan insurance business	–	350	–	–	334	–
Impact of recapture of a reinsurance treaty	–	68	–	–	64	–
<b>Net income (loss) attributed to shareholders</b>	<b>\$ 1,247</b>	\$ 2,519	\$ 1,969	<b>\$ 1,129</b>	\$ 2,451	\$ 1,979

<sup>(1)</sup> Core earnings is a non-GAAP measure. See "Performance and Non-GAAP Measure" below.

<sup>(2)</sup> The direct impact of equity markets and interest rates is relative to our policy liability valuation assumptions and includes changes to interest rate assumptions. The net gain of \$173 million in 2014 (2013 – net gain of \$1,164 million) consisted of a \$47 million gain (2013 – \$1,057 million gain) related to variable annuities that are not dynamically hedged, a \$1 million gain (2013 – \$60 million gain) on general fund equity investments supporting policy liabilities and on fee income and a \$125 million gain (2013 – \$75 million gain) related to fixed income reinvestment rates assumed in the valuation of policy liabilities and nil (2013 – \$28 million loss) related to variable annuity guarantee liabilities that are dynamically hedged. The amount of variable annuity guaranteed value that was dynamically hedged at the end of 2014 was 51% (2013 – 49%). Our variable annuity guarantee dynamic hedging strategy is not designed to completely offset the sensitivity of policy liabilities to all risks associated with the guarantees embedded in these products.

## Sales

**Asia Division's 2014 insurance sales** were a record US\$1,278 million, an increase of 31%<sup>10</sup> compared with 2013, driven by double digit sales growth in most of the territories in which we operate. Sales in Japan of US\$589 million were 60% higher than the prior year driven by strong sales of corporate products and channel expansion. Hong Kong sales of US\$293 million increased 15% from 2013, reflecting new product launches and successful sales campaigns. In Indonesia, sales of US\$114 million grew 8% over the prior year as strong growth in bancassurance business was partially offset by lower agency sales. Asia Other sales (excluding Japan, Hong Kong and Indonesia) of US\$282 million were 17% higher than in 2013 driven by successful product launches and improved agent productivity in China, the Philippines and Vietnam.

**Asia Division's 2014 wealth sales** were a record US\$8.0 billion, an increase of 2% compared with 2013. Japan sales of US\$1.5 billion were 11% lower than the prior year due to lower mutual fund sales, reflecting a shift in investor product preferences in the second half of 2013; partly offset by higher sales from new product launches and expanded bank distribution. Hong Kong sales of US\$1.2 billion increased 6% from 2013, driven by continued momentum in pension sales and successful sales campaigns. In Indonesia, sales of US\$851 million grew 4% over the prior year as higher mutual fund sales, reflecting improved market sentiment since 2Q14, were partly offset by lower single premium unit-linked sales. Asia Other sales of US\$4.4 billion were 5% higher than 2013 driven by higher mutual fund sales in Taiwan and Thailand and the contribution from the asset management company acquired at end of 2013 in Malaysia.

## Sales

For the years ended December 31, (\$ millions)	Canadian \$			US \$		
	2014	2013	2012	2014	2013	2012
Insurance products <sup>(1)</sup>	\$ 1,412	\$ 1,052	\$ 1,370	\$ 1,278	\$ 1,020	\$ 1,370
Wealth products	8,900	8,536	5,690	8,045	8,319	5,698

<sup>(1)</sup> All periods have been restated to exclude insurance product sales from Taiwan due to the sale of our Taiwan insurance business at the end of 2013.

## Revenue

Total revenue in 2014 of US\$10.8 billion increased US\$2.2 billion compared with 2013, primarily driven by the impact of fair value accounting (see "Financial Performance – Impact of Fair Value Accounting" above). Revenue before net realized and unrealized investment gains and losses decreased by US\$0.3 billion primarily due to lower revenue from the non-recurrence of the one-time gain on the sale of our Taiwan insurance business in 2013 of US\$454 million, partially offset by the increase in premium and fee income.

## Revenue

For the years ended December 31, (\$ millions)	Canadian \$			US \$		
	2014	2013	2012	2014	2013	2012
Net premium income	\$ 7,275	\$ 6,330	\$ 7,045	\$ 6,583	\$ 6,148	\$ 7,050
Investment income	1,271	1,224	1,104	1,150	1,187	1,101
Other revenue	1,334	1,963	716	1,208	1,898	715
Revenue before net realized and unrealized investment gains (losses) <sup>(1)</sup>	\$ 9,880	\$ 9,517	\$ 8,865	\$ 8,941	\$ 9,233	\$ 8,866
Net realized and unrealized investment gains (losses)	2,078	(619)	1,090	1,867	(593)	1,091
<b>Total revenue</b>	<b>\$ 11,958</b>	<b>\$ 8,898</b>	<b>\$ 9,955</b>	<b>\$ 10,808</b>	<b>\$ 8,640</b>	<b>\$ 9,957</b>

<sup>(1)</sup> See "Financial Performance – Impact of Fair Value Accounting" above.

## Premium and Deposits

Premiums and deposits for the full year 2014 of US\$16.2 billion increased 5% on a constant currency basis compared with 2013. Of this, premiums and deposits for insurance products of US\$6.4 billion increased 13% compared with 2013 (adjusted to exclude the Taiwan insurance business sold in 2013). Premiums and deposits for wealth products of US\$9.8 billion increased by 3% compared with 2013. The increase was driven by sales from new single premium whole life products (classified as wealth sales due to their high investment component) and the favourable impact of expanded distribution in Japan, continued momentum in pension sales in Hong Kong and improved market sentiment in Indonesia, partially offset by lower single premium unit-linked sales in Indonesia and the non-recurrence of strong sales of the Strategic Income Fund in the first half of 2013 due to a shift in investor preference from bonds to equities.

## Premiums and Deposits

For the years ended December 31, (\$ millions)	Canadian \$			US \$		
	2014	2013	2012	2014	2013	2012
Insurance products	\$ 7,066	\$ 6,337	\$ 6,650	\$ 6,396	\$ 6,154	\$ 6,655
Wealth products	10,831	10,167	6,811	9,789	9,908	6,822
<b>Total premiums and deposits</b>	<b>\$ 17,897</b>	<b>\$ 16,504</b>	<b>\$ 13,461</b>	<b>\$ 16,185</b>	<b>\$ 16,062</b>	<b>\$ 13,477</b>

<sup>10</sup> Growth (declines) in sales, premiums and deposits and assets under management are stated on a constant currency basis. Constant currency basis is a non-GAAP measure. See "Performance and Non-GAAP Measures" below.

## Assets under Management

Asia Division assets under management as at December 31, 2014 were US\$75.1 billion, an increase of 10% on a constant currency basis compared with December 31, 2013, driven by net policyholder cash inflows of US\$2.0 billion, combined with the impact of the decline in interest rates and higher equity markets, partially offset by a weaker yen compared with the U.S. dollar.

## Assets under Management

As at December 31, (\$ millions)	Canadian \$			US \$		
	2014	2013	2012	2014	2013	2012
General fund	\$ 41,991	\$ 34,756	\$ 36,608	\$ 36,198	\$ 32,680	\$ 36,800
Segregated funds	22,925	23,568	24,647	19,761	22,160	24,780
Mutual and other funds	22,167	18,254	16,480	19,108	17,164	16,563
<b>Total assets under management</b>	<b>\$ 87,083</b>	<b>\$ 76,578</b>	<b>\$ 77,735</b>	<b>\$ 75,067</b>	<b>\$ 72,004</b>	<b>\$ 78,143</b>

## Strategic Direction

Manulife Asia's strategic ambition is to become a premier pan-Asian insurance and wealth management franchise that is well positioned to meet the evolving protection, savings and retirement needs of its customers. Our core strategy of providing customers with personalized financial solutions that enable them to confidently secure their own and their family's financial future focuses on expanding our professional agency force and alternative distribution channel, building and expanding our portfolio of products in wealth and protection, building long-lasting customer relationships as well as investing in our brand across Asia. Our agency and bank distribution strategies will help us to reach the rapidly expanding middle class across Asia and by leveraging our insurance and asset management businesses, we will offer holistic retirement solutions from insurance, pensions and mutual funds to support the needs of the aging population. We will also accelerate the development of mobile and digital platforms and interactions to enhance our customers' experience.

In 2014, we entered into several new strategic bancassurance agreements, including with RHB Bank in Singapore and Industrial and Commercial Bank of China in Macau. We also strengthened our strategic bancassurance alliance in the Philippines by renewing our 10-year distribution agreement with China Banking Corporation, which also increased its stake in our joint venture company, Manulife China Bank Life Assurance Corporation, to 40%. To support our customer centricity objectives, we improved our public websites to enhance customer experience and launched an electronic point of sale solution in a number of markets to improve the structure and efficiency of the financial advice and sales process.

In Hong Kong, in 2014, we were first-in-market with a multiple critical illness plan which provides customers with increased protection and we continued to build our retirement business with the launch of two new retirement products. In addition, through advancements in technology we enhanced customer experience, strengthened agency training and development, and promoted our brand in the retirement field.

In Japan, in 2014, we expanded corporate, retail and bancassurance distribution and enhanced customer experience by streamlining sales and back-office processes, and point-of-sales tools for new products.

In Indonesia, in 2014, we further developed our sharia business by signing a memorandum of understanding to form a new strategic bancassurance partnership with a local sharia bank and launched a series of new products and riders to cater to the growing protection and investment needs of the middle class. To further promote our brand awareness in the market, we launched a series of branding campaigns throughout the year including one that coincided with the important national festival, Eid al-Fitr, in July.

In the Other Asia territories, in 2014, we continued investing to expand and diversify our distribution channels and develop our wealth and asset management businesses. We also focused on improving product competitiveness, for example in Singapore where we improved insurance sales in the second half of the year by 162% compared with the first half of the year.

## Canadian Division

*Serving one in five Canadians, our Canadian Division is one of the leading financial services organizations in Canada. We offer a broad portfolio of protection, estate planning, investment and banking solutions through a diversified independent distribution network, supported by a team of more than 8,600 employees.*

*Our Individual Insurance business offers a broad portfolio of insurance products, including universal, whole and term life, as well as living benefits insurance, designed to meet the protection, estate and retirement planning needs of middle- and upper-income customers. Manulife Investments offers a range of investment products and services that span the investor spectrum, from those just starting to build their financial portfolio to individuals and families with complex retirement and estate planning needs, while Manulife Private Wealth provides personalized investment management, private banking and estate solutions to affluent clients. Manulife Bank offers flexible debt and cash flow management solutions as part of their financial plan. We also provide group life, health, disability and retirement solutions to Canadian employers; more than 20,000 Canadian businesses and organizations entrust their employee benefit programs to Manulife's Group Benefits. Life, health and specialty products, such as travel insurance, are also offered through alternative distribution channels, including sponsor groups and associations, as well as direct-to-customer marketing.*

In 2014, Canadian Division contributed 22% of the Company's total premiums and deposits and, as at December 31, 2014, accounted for 23% of the Company's assets under management.

### Financial Performance

Canadian Division's net income attributed to shareholders was \$1,003 million in 2014 compared with \$828 million in 2013. Net income attributed to shareholders is comprised of core earnings (consisting of items we believe reflect the underlying earnings capacity of the business), which amounted to \$927 million for 2014 compared with \$905 million for 2013, and items excluded from core earnings, which amounted to a gain of \$76 million for 2014 compared with a loss of \$77 million in 2013.

The \$22 million increase in core earnings over the prior year reflected in-force business growth, including higher fee income from our growing wealth management businesses, and improved policyholder experience partially offset by higher strain on insurance sales. In addition, 2013 core earnings benefited from a release of tax provisions related to the closure of prior years' tax filings. The increase in items excluded from core earnings was driven by more favourable market and investment-related experience in 2014.

The table below reconciles net income attributed to shareholders to core earnings for Canadian Division for 2014, 2013 and 2012.

For the years ended December 31, (C\$ millions)	2014	2013	2012
<b>Core earnings<sup>(1)</sup></b>	<b>\$ 927</b>	<b>\$ 905</b>	<b>\$ 835</b>
Items to reconcile core earnings to net income attributed to shareholders:			
Investment gains (losses) related to fixed income trading, market value increases in excess of expected alternative assets investment returns, asset mix changes and credit experience	<b>1</b>	(34)	(10)
Direct impact of equity markets and interest rates and variable annuity guarantee liabilities <sup>(2)</sup>	<b>51</b>	(40)	85
Impact of a recapture of a reinsurance treaty and in-force product changes <sup>(3)</sup>	<b>24</b>	–	259
Impact of change in marginal tax rate	–	(3)	–
<b>Net income attributed to shareholders</b>	<b>\$ 1,003</b>	<b>\$ 828</b>	<b>\$ 1,169</b>

<sup>(1)</sup> Core earnings is a non-GAAP measure. See "Performance and Non-GAAP Measures" below.

<sup>(2)</sup> The direct impact of equity markets and interest rates is relative to our policy liability valuation assumptions and includes changes to interest rate assumptions. The gain of \$51 million in 2014 (2013 – \$40 million charge) consisted of a \$20 million gain (2013 – \$28 million gain) on general fund equity investments supporting policy liabilities, a \$30 million gain (2013 – \$187 million charge) related to fixed income reinvestment rates assumed in the valuation of policy liabilities, nil (2013 – \$12 million gain) related to unhedged variable annuities and a \$1 million gain (2013 – \$107 million gain) related to variable annuity guarantee liabilities that are dynamically hedged. The amount of variable annuity guaranteed value that was dynamically hedged at the end of 2014 was 90% (2013 – 92%). Our variable annuity guarantee dynamic hedging strategy is not designed to completely offset the sensitivity of policy liabilities to all risks associated with the guarantees embedded in these products.

<sup>(3)</sup> The \$24 million gain in 2014 relates to the recapture of a reinsurance treaty. The \$259 million gain in 2012 included \$137 million related to the recapture of a reinsurance treaty and \$122 million related to in-force segregated funds product changes.

### Sales

Insurance sales for 2014 were \$578 million, 49% lower than 2013 levels, reflecting the impact of competitive pressures and a disciplined approach to pricing in Group Benefits. Excluding Group Benefits, 2014 insurance sales were 3% higher than in 2013. Retail Markets' insurance sales of \$167 million increased 4% from 2013 as our simplified universal life product, Manulife UL, gained traction.

Sales of wealth products in 2014 were \$11.5 billion, a decrease of \$635 million or 5% from 2013 levels due to lower new bank loan volumes (which we include in wealth sales) as a result of competitive pressures in a slowing residential mortgage market. Excluding new bank loan volumes, wealth sales increased 3% compared with 2013. Growth in fee-based businesses included our second highest annual sales on record in group retirement, modest growth in segregated fund products and continued momentum in mutual funds, partially offset by lower fixed product sales reflecting our deliberate rate positioning in this market.

## Sales

For the years ended December 31,  
(C\$ millions)

	2014	2013	2012
Retail Markets	\$ 167	\$ 161	\$ 169
Institutional Markets	411	964	1,141
<b>Insurance products</b>	<b>\$ 578</b>	<b>\$ 1,125</b>	<b>\$ 1,310</b>
New bank loan volumes	\$ 3,236	\$ 4,146	\$ 4,576
Other wealth products	8,262	7,987	5,481
<b>Wealth products</b>	<b>\$ 11,498</b>	<b>\$ 12,133</b>	<b>\$ 10,057</b>

## Revenue

Revenue of \$13.8 billion in 2014 increased \$7.7 billion from \$6.1 billion in 2013 due to the impact of fair value accounting. Total revenue before net realized and unrealized gains and losses was \$9.6 billion in 2014, in line with 2013 levels. Other income was stable year-over-year as increased fee income from growth in our wealth management businesses was offset by normal volatility related to reinsurance in Group Benefits.

## Revenue

As at December 31,  
(C\$ millions)

	2014	2013	2012
Net premium income	\$ 3,728	\$ 3,774	\$ 3,599
Investment income	3,298	3,346	3,073
Other revenue	2,611	2,644	2,778
Total revenue before net realized and unrealized gains (losses)	\$ 9,637	\$ 9,764	\$ 9,450
Net realized and unrealized gains (losses) <sup>(1)</sup>	4,136	(3,704)	779
<b>Total revenue</b>	<b>\$ 13,773</b>	<b>\$ 6,060</b>	<b>\$ 10,229</b>

<sup>(1)</sup> See "Financial Performance – Impact of Fair Value Accounting" above.

## Premiums and Deposits

Premiums and deposits of \$21.6 billion in 2014 were 2% higher than the \$21.2 billion reported in 2013 reflecting growth in our group retirement business from sales and deposits from a growing in-force block of plan participants. Insurance products' premiums and deposits in 2014 were slightly lower than 2013 due to volatility in single premiums. Excluding single premiums, premiums and deposits in insurance products were 3% higher than 2013.

## Premiums and Deposits

For the years ended December 31,  
(C\$ millions)

	2014	2013	2012
Insurance products	\$ 10,508	\$ 10,552	\$ 10,310
Wealth products	11,111	10,620	7,809
<b>Total premiums and deposits</b>	<b>\$ 21,619</b>	<b>\$ 21,172</b>	<b>\$ 18,119</b>

## Assets under Management

Assets under management of \$158.9 billion as at December 31, 2014 grew by \$13.7 billion or 9% from \$145.2 billion at December 31, 2013 driven by growth in our wealth management businesses and the impact of equity market appreciation and lower interest rates.

## Assets under Management

As at December 31,  
(C\$ millions)

	2014	2013	2012
General fund	\$ 85,070	\$ 80,611	\$ 79,961
Segregated funds	57,028	51,681	44,701
Mutual and other funds	33,411	27,560	20,675
Less mutual funds held by segregated funds	(16,605)	(14,641)	(12,138)
<b>Total assets under management</b>	<b>\$ 158,904</b>	<b>\$ 145,211</b>	<b>\$ 133,199</b>

## Strategic Direction

Our aspiration is to be the trusted partner for financial solutions in Canada, building long-lasting, meaningful relationships with our customers throughout their lifetimes. To meet our customers' needs in the manner suited to them, we will continue to develop new

capabilities, supported by significant investments in technology, while continuing to leverage our historical strengths of product innovation, distribution excellence and service quality. Through disciplined, risk-appropriate growth, we will continue to deliver high quality sustainable earnings and shareholder value.

Our large customer base, strong distribution partnerships and leading market presence provide a solid foundation for continued growth. Our recently completed acquisition of the Canadian-based operations of Standard Life plc will significantly contribute to our growth strategy, particularly in wealth and asset management. Transformative to our group retirement business, the transaction almost doubles assets under administration to over \$46 billion<sup>11</sup> and adds over \$6 billion<sup>12</sup> to our mutual fund assets under management. It will enhance our presence in Quebec and significantly builds our capability to serve customers in all of Canada, and the world, from Quebec.

With over 76,000 licensed advisors and 660 Manulife sales professionals, we serve one in five Canadians. In 2014, we expanded our distribution reach through increased broker-dealer penetration, adding new advisors and extending existing relationships. We will continue to expand our distribution relationships and to invest in support for our advisors to help their businesses thrive, including our wholesaler teams that assist advisors with creative product and sales solutions for our customers, as well as our leading professional tax and estate planning teams. In 2014, we established our Consumer Solutions team to bring a dedicated focus to developing alternative marketing and product solutions for our advisor partners, as well as existing and prospective new customers.

Our broad solutions portfolio is a key competitive strength. Further expansion and integration of our portfolio, combined with expanded distribution capabilities and enhanced service delivery, will help us to continue to meet the needs of a wide spectrum of customers, ranging from those just starting out to established individuals and families with more complex retirement and estate planning needs. In 2014, in collaboration with Manulife Asset Management (“MAM”), we continued to build our presence in equity mandates and diversify our investment funds platform delivering record mutual fund assets under management. We also continued to improve our competitive positioning and expand our market reach with the introduction of Manulife UL, a universal life solution combining simplified investment options with long-term insurance protection.

In the group benefits and retirement markets, we will continue to leverage our strong market position, further enhanced by the acquisition of the Canadian-based operations of Standard Life plc, to support employers across all market segments in providing cost effective options to their employees. In 2014, we launched our Mental Health Specialist Team, the first of its kind in Canada, to enhance support to our group disability insurance clients and their employees. We also continued to increase our profile with small business employers by launching a small business website, and by expanding our suite of investment funds for smaller pension plans, enhancing investment options in an underserved segment of the market.

Service quality is critical to building relationships with existing customers and to attracting new customers. We closely monitor customer and advisor feedback to proactively improve the service experience. We will continue to focus on enhancing our customers’ experience, putting their needs at the centre of everything we do as we invest in process improvement initiatives and increased automation. In 2014, we continued to improve our on-line customer-facing technology enhancing e-submission capabilities and introducing new mobile applications.

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<sup>11</sup> Assets in capital accumulation plans only on a pro forma basis after giving effect to the transaction as at December 31, 2014.

<sup>12</sup> Source: Investment Funds Institute of Canada, data as of December 31, 2014.

## U.S. Division

*Operating under the John Hancock brand in the U.S., we focus on providing financial solutions at every stage of our clients' lives. Our product suite includes life insurance, mutual funds, 401(k) plans, long-term care ("LTC") insurance, and annuities. We distribute our products primarily through affiliated and non-affiliated licensed financial advisors. Our U.S. Division has a team of approximately 5,800 employees. John Hancock is a household name in the U.S. with 89% overall brand recognition<sup>13</sup>.*

*John Hancock Insurance offers a broad portfolio of insurance products, including universal, variable, whole, and term life insurance designed to provide estate, business, income protection and retirement solutions for high net worth and emerging affluent markets. We also provide LTC Insurance which is designed to cover the cost of long-term services and support, including personal and custodial care in a variety of settings such as the home, a community organization, or other facility in the event of an illness, accident, or through the normal effects of aging.*

*U.S. Wealth Management offers a broad range of products and services focused on individuals and business markets, as well as institutional oriented products for employee benefit plan funding solutions. John Hancock Retirement Plan Services ("JH RPS") provides 401(k) plans to small and medium-sized businesses. John Hancock Investments ("JH Investments") offers a variety of mutual funds and 529 College Savings plans. We also manage an in-force block of fixed deferred, variable deferred and payout annuity products.*

*Signator Investors, Inc. is our affiliated broker/dealer and is comprised of a national network of independent firms with over 1,500 registered representatives.*

In 2014, U.S. Division contributed 51% of the Company's total premiums and deposits and, as at December 31, 2014, accounted for 57% of the Company's assets under management.

### Financial Performance

U.S. Division reported net income attributed to shareholders of \$2,147 million in 2014 compared with \$2,908 million in 2013. Net income attributed to shareholders is comprised of core earnings (consisting of items we believe reflect the underlying earnings capacity of the business), which amounted to \$1,383 million in 2014 compared with \$1,510 million in 2013, and items excluded from core earnings, which were \$764 million in 2014 compared with \$1,398 million in 2013.

Expressed in U.S. dollars, the functional currency of the division, 2014 net income attributed to shareholders was US\$1,946 million compared with US\$2,820 million in 2013, core earnings were US\$1,252 million compared with US\$1,469 million in 2013, and items excluded from core earnings were US\$694 million compared with US\$1,351 million in 2013. The US\$217 million decrease in core earnings was driven by unfavourable policyholder experience in JH Insurance including higher long-term care claims, compared with favourable experience in 2013; increased dynamic hedging costs (there is a corresponding decrease in macro hedging costs in the Corporate and Other segment); the unfavourable impact of market factors on insurance and annuity expected earnings; and lower favourable tax related items. The decrease in core earnings was partially offset by higher wealth management fee income due to higher asset levels and lower deferred acquisition amortization costs due to the run-off of our Variable Annuity business.

The US\$657 million decrease in items excluded from core earnings compared with the prior year related to the non-recurrence of a gain in 2013 related to policyholder-approved changes to the investment objectives of separate accounts that support our Variable Annuity products as well as lower investment-related experience gains. The direct impact of interest rates and equity markets was not materially different in total; however, the gains in 2013 were due to equity markets and in 2014 were due to interest rates.

<sup>13</sup> The 2013 GfK Brand Tracking Study.

The table below reconciles net income attributed to shareholders to core earnings for U.S. Division for 2014, 2013 and 2012.

For the years ended December 31, (\$ millions)	Canadian \$			US \$		
	2014	2013	2012	2014	2013	2012
<b>Core earnings<sup>(1)</sup></b>	<b>\$ 1,383</b>	\$ 1,510	\$ 1,085	<b>\$ 1,252</b>	\$ 1,469	\$ 1,088
Items to reconcile core earnings to net income attributed to shareholders:						
Investment-related experience related to fixed income trading, market value increases in excess of expected alternative assets investment returns, asset mix changes and credit experience	<b>482</b>	893	1,026	<b>447</b>	868	1,029
Direct impact of equity markets and interest rates and on variable annuity guarantee liabilities <sup>(2)</sup>	<b>282</b>	312	(363)	<b>247</b>	299	(364)
Impact of release of tax reserves, in-force product changes and recapture of reinsurance treaties <sup>(3)</sup>	–	193	171	–	184	173
<b>Net income attributed to shareholders</b>	<b>\$ 2,147</b>	\$ 2,908	\$ 1,919	<b>\$ 1,946</b>	\$ 2,820	\$ 1,926

<sup>(1)</sup> Core earnings is a non-GAAP measure. See "Performance and Non-GAAP Measure" below.

<sup>(2)</sup> The direct impact of equity markets and interest rates is relative to our policy liability valuation assumptions and includes changes to interest rate assumptions. Our variable annuity guarantee dynamic hedging strategy is not designed to completely offset the sensitivity of policy liabilities to all risks associated with the guarantees embedded in these products. The US\$247 million gain in 2014 (2013 – US\$299 million gain) consisted of a US\$106 million loss (2013 – US\$302 million gain) related to variable annuities that are dynamically hedged, a US\$14 million gain (2013 – US\$121 million gain) on general fund equity investments supporting policy liabilities, a US\$8 million loss (2013 – US\$197 million gain) related to variable annuities that are not dynamically hedged, and a US\$347 million gain (2013 – US\$321 million loss) related to fixed income reinvestment rates assumed in the valuation of policy liabilities. The amount of variable annuity guaranteed value that was dynamically hedged or reinsured at the end of 2014 was 94% (2013 – 94%).

<sup>(3)</sup> The 2013 US\$184 million gain was related to policyholder-approved changes to the investment objectives of separate accounts that support our Variable Annuity products. The 2012 US\$173 million net gain for the impact of release of tax reserves and recapture of reinsurance treaties included US\$172 million due to a material updated assessment of prior years' uncertain tax positions and net gains of US\$10 million on the Life recapture of a reinsurance treaty offset by net losses of US\$9 million on the fixed deferred annuity reinsurance transactions.

## Sales

In 2014, we achieved record sales in our U.S. mutual fund business and continued to achieve success in the repositioning of our U.S. insurance products. Sales in our 401(k) business declined due to lower market activity and competitive pressures.

U.S. Division sales of insurance products were US\$501 million in 2014, a decrease of US\$62 million or 11% compared with 2013. Sales were hampered by slow industry sales, particularly in the estate planning products market. We continue to experience improvements in business mix and profitability as a result of the pricing and product actions taken in 2013 and early 2014. Building on strong momentum from these actions, John Hancock Insurance sales increased sequentially in each quarter of 2014.

U.S. Division sales of wealth management products were US\$29.2 billion in 2014, an increase of US\$1.0 billion or 3% compared with 2013. Record mutual fund sales driven by continued improvement in sales force productivity, a strong product line-up and product performance, and a focus on key distribution partners were partially offset by lower 401(k) sales. Our strong product line-up, including 38 Four- or Five-Star Morningstar<sup>14</sup> rated mutual funds, also helped drive strong retention and net flows contributing to record assets under management in JH Investments.

## Sales

For the years ended December 31, (\$ millions)	Canadian \$			US \$		
	2014	2013	2012	2014	2013	2012
Insurance products	<b>\$ 554</b>	\$ 580	\$ 599	<b>\$ 501</b>	\$ 563	\$ 599
Wealth management products	<b>32,206</b>	29,012	20,193	<b>29,156</b>	28,174	20,213

## Revenue

Total revenue in 2014 of US\$26.1 billion increased US\$20.5 billion compared with 2013 primarily driven by fair value accounting. Revenue before net realized and unrealized investment gains (losses) was US\$15.9 billion, a decrease of US\$0.5 billion. Net premium income was US\$6.2 billion, a decrease of \$1.0 billion primarily due to lower Universal Life premiums consistent with the sluggish estate planning market and lower deposits on in-force annuity business. Other Revenue of US\$4.1 billion consists of asset fee income, cost of insurance fees and annuity mortality and expense fees and surrender charges. The increase in other revenue of US\$0.2 billion compared with 2013 is due to other fee income in the Asset Management business driven by higher average asset values, partially offset by lower fee income and mortality and expense fees as the in-force variable annuity business continues to run off.

<sup>14</sup> For each fund with at least a three year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return that accounts for variation in a fund's monthly performance (including effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category, the next 22.5%, 35%, 22.5% and bottom 10% receive 5, 4, 3, 2 or 1 star, respectively. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance associated with its three, five and 10 year (if applicable) Morningstar Rating metrics. Past performance is no guarantee of future results. The overall rating includes the effects of sales charges, loads and redemption fees, while the load-waived does not. Load-waived rating for Class A shares should only be considered by investors who are not subject to a front-end sales charge.



## Revenue

For the years ended December 31, (\$ millions)	Canadian \$			US \$		
	2014	2013	2012	2014	2013	2012
Net premium income <sup>(1)</sup>	\$ 6,803	\$ 7,324	\$ (547)	\$ 6,155	\$ 7,112	\$ (495)
Investment income	6,262	5,567	5,489	5,668	5,402	5,496
Other revenue	4,531	4,034	3,626	4,102	3,915	3,627
Revenue before net realized and unrealized investment gains (losses)	\$ 17,596	\$ 16,925	\$ 8,568	\$ 15,925	\$ 16,429	\$ 8,628
Net realized and unrealized gains (losses) <sup>(2)</sup>	11,271	(11,187)	1,123	10,154	(10,896)	1,055
<b>Total revenue</b>	<b>\$ 28,867</b>	<b>\$ 5,738</b>	<b>\$ 9,691</b>	<b>\$ 26,079</b>	<b>\$ 5,533</b>	<b>\$ 9,683</b>

<sup>(1)</sup> Net premium income is net of ceded premiums. In 2012 ceded premiums included \$7,229 (US\$7,181) related to fixed deferred annuity coinsurance transactions whereby the Company entered into coinsurance agreements to reinsure approximately 90% of its U.S. book value fixed deferred annuity business.

<sup>(2)</sup> See "Financial Performance – Impact of Fair Value Accounting" above.

## Premiums and Deposits

U.S. Division total premiums and deposits for 2014 were US\$45.5 billion, an increase of US\$0.3 billion or 1% compared with 2013. Of this, premiums and deposits for insurance products were US\$6.7 billion, a decrease of US\$0.7 billion compared with 2013. The decrease was due to lower first year and single universal life premiums consistent with the sluggish estate planning market. Premiums and deposits for wealth management products were US\$38.8 billion, an increase of US\$1.0 billion compared with 2013, reflecting a US\$1.6 billion increase in mutual fund sales partially offset by lower deposits on in-force annuity business.

## Premiums and Deposits

For the years ended December 31, (\$ millions)	Canadian \$			US \$		
	2014	2013	2012	2014	2013	2012
Insurance products	\$ 7,368	\$ 7,579	\$ 7,165	\$ 6,665	\$ 7,359	\$ 7,168
Wealth management products	42,855	38,940	28,779	38,809	37,827	28,799
<b>Total premiums and deposits</b>	<b>\$ 50,223</b>	<b>\$ 46,519</b>	<b>\$ 35,944</b>	<b>\$ 45,474</b>	<b>\$ 45,186</b>	<b>\$ 35,967</b>

## Assets under Management

U.S. Division assets under management as at December 31, 2014 were a record US\$343.5 billion, up 7% from December 31, 2013. This increase was due to market factors, including the impact of a decline in interest rates and higher equity markets, and strong net mutual fund sales, partially offset by variable and fixed annuity payments.

## Assets under Management

December 31, (\$ millions)	Canadian \$			US \$		
	2014	2013	2012	2014	2013	2012
General fund	\$ 136,682	\$ 112,930	\$ 112,405	\$ 117,821	\$ 106,177	\$ 112,979
Segregated funds	174,397	162,596	137,931	150,330	152,873	138,635
Mutual funds and other	87,450	64,894	42,321	75,382	61,014	42,536
<b>Total assets under management</b>	<b>\$ 398,529</b>	<b>\$ 340,420</b>	<b>\$ 292,657</b>	<b>\$ 343,533</b>	<b>\$ 320,064</b>	<b>\$ 294,150</b>

## Strategic Direction

We remain focused on building a leading financial services company which leverages our trusted John Hancock brand and capabilities to provide solutions for our customers' wealth and protection needs. We expect to grow our leadership positions in our core markets, to expand into adjacent markets in a differentiated manner, and to develop a better understanding of – and closer relationships with – our customers. We believe our businesses are well positioned in their markets and have plans to continue to differentiate and grow as we move forward.

JH Insurance focuses on meeting the income protection, wealth transfer and estate planning needs of high net worth and emerging affluent customers. We are expanding our access to customers with an increased focus on financial advisors who traditionally have not included life insurance as part of their core business. We are creating a more modern buying experience supported by technology to allow us to present the right customer with the right product at the right time. In 2014, we introduced a web-based Field Underwriting Guide to help modernize the insurance application and underwriting process. Moving forward, we will continue to invest and build technology that continues to modernize the insurance purchasing process, improve our underwriting experience, and create a more engaging customer experience. We remain an active participant in the LTC insurance market and continue to focus on developing products that provide customer value through simplified and more transparent design.

JH Investments will continue to use its manager-of-managers model, which provides the flexibility to quickly react to new investment trends and adjust for poor performance, and delivered record mutual fund sales in 2014 and achieved record levels of assets under management in 2014. Also in 2014, we fully adapted our product suite and distribution structure to reflect the shifts in the advisor-sold channel to a fee-based model and increased reliance on broker/dealer platforms and recommended lists. We will focus on

strategic product development that complements our product portfolio and provides customers with solutions for complete asset allocation with a continued emphasis on institutional quality investment strategies delivered to the retail customer. JH Investments will work in collaboration with MAM to support the expansion of in-house asset management capabilities.

JH RPS is focused on maintaining a leadership position in the small-case market and expects to benefit from the continued growth of 401(k) plans and the increasingly critical role such plans have for a majority of Americans' retirement savings. Our leadership in the small-plan case market provides us the advantages of a significant asset base, industry-leading technical expertise, and deep distribution relationships. In 2014, we continued to build out service capabilities and expanded our recordkeeping services into the mid-sized plan market. We also introduced a comprehensive program focused on delivering price competitiveness, fee transparency, new investment options, and exceptional customer service to our in-force plans. At the end of 2014, we announced an agreement to acquire New York Life's RPS business. The transaction is expected to close in the first half of 2015, subject to regulatory approvals and other customary closing conditions. When the acquisition is completed, our 401(k) assets under administration are expected to increase by approximately US\$50 billion (60%) to approximately US\$135 billion, representing 55,000 retirement plans and over 2.5 million plan participants. Further, by joining New York Life's strength and expertise in the mid- and large-plan segments with our leadership in the small-plan segment we will significantly expand John Hancock's market presence and become one of the major plan providers in the United States.<sup>15</sup>

We remain focused on providing education and advice services to JH RPS plan participants who are no longer part of an employer sponsored 401(k) group plan. The education centre is staffed with customer service employees and licensed registered representatives who are able to provide a full range of services from basic information and forms to holistic financial planning and investment advice, depending upon the level of guidance the participant needs.

Our broker-dealer, Signator Investors, Inc., continues to focus on increasing advisor headcount, improving advisor productivity, and providing a more complete solution set which includes both insurance products and fee-based wealth management. In 2014, Signator completed the integration of Symetra Investment Services, increasing our affiliated advisor headcount by 15%.

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<sup>15</sup> See "Caution regarding forward-looking statements" above.

# Corporate and Other

*Corporate and Other is comprised of investment performance on assets backing capital, net of amounts allocated to operating divisions, financing costs, Investment Division's external asset management business (Manulife Asset Management), our Property and Casualty ("P&C") Reinsurance business as well as our run-off reinsurance business lines including variable annuities and accident and health.*

For segment reporting purposes the impact of updates to actuarial assumptions, settlement costs for macro equity hedges and other non-operating items are included in this segment's earnings.

As at December 31, 2014, Corporate and Other contributed 8.4% of the Company's premiums and deposits and as at December 31, 2014, accounted for 6.7% of the Company's assets under management.

## Financial Performance

Corporate and Other reported a net loss attributed to shareholders of \$896 million in 2014 compared with a net loss of \$3,125 million in 2013. The net loss attributed to shareholders includes both the core loss (consisting of items we believe reflect the underlying earnings capacity of the business) and items excluded from core loss. The core loss was \$430 million in 2014 compared with \$719 million in 2013 and items excluded from core loss were charges of \$466 million in 2014 compared with a loss of \$2,406 million in 2013. Both years included \$200 million of total company investment-related experience gains that are reported in core earnings.

The \$289 million year-over-year decrease in core loss was driven by a reduction in macro hedging expected costs in 2014 (which is mostly offset by increased dynamic hedge costs in the operating divisions), lower expenses and the non-recurrence of tax charges. Partially offsetting these items were lower net investment yields as well as the non-recurrence of the release of P&C Reinsurance claims provisions. The \$1,940 million reduction in items excluded from core loss primarily related to lower macro hedge experience costs and \$291 million of lower charges related to changes in actuarial methods and assumptions.

The table below reconciles the net loss attributed to shareholders to the core loss for Corporate and Other for 2014, 2013 and 2012.

For the years ended December 31, (C\$ millions)	2014	2013	2012
Core loss excluding expected cost of macro hedges and core investment-related experience	\$ (446)	\$ (506)	\$ (345)
Expected cost of macro hedge	(184)	(413)	(489)
Investment-related experience included in core earnings	200	200	200
<b>Total core loss<sup>(1)</sup></b>	<b>\$ (430)</b>	<b>\$ (719)</b>	<b>\$ (634)</b>
Items to reconcile core loss to net loss attributed to shareholders:			
Direct impact of equity markets and interest rates <sup>(2)</sup>	\$ (94)	\$ (1,772)	\$ (1,215)
Changes in actuarial methods and assumptions	(198)	(489)	(1,081)
Goodwill impairment charge	–	–	(200)
Investment-related experience related to mark-to-market items <sup>(3)</sup>	14	31	78
Offset to core investment-related experience above	(200)	(200)	(200)
Impact of tax changes, business dispositions and acquisitions	12	50	62
Restructuring charges	–	(26)	(57)
<b>Net loss attributed to shareholders</b>	<b>\$ (896)</b>	<b>\$ (3,125)</b>	<b>\$ (3,247)</b>

<sup>(1)</sup> Core loss is a non-GAAP measure. See "Performance and Non-GAAP Measures" below.

<sup>(2)</sup> The direct impact of equity markets and interest rates included \$119 million (2013 – \$1,438 million) of losses on derivatives associated with our macro equity hedges and losses of \$41 million (2013 – \$262 million) on the sale of AFS bonds. In 2012, it also included a \$677 million charge related to lower fixed income URR assumptions used in the valuation of policy liabilities. Starting in 2013, the URR assumptions were updated quarterly and reported in the operating segments. In 2014, the charge reported in the operating divisions was \$95 million (2013 – \$256 million). Other items in this category netted to a gain of \$66 million (2013 – charge of \$72 million).

<sup>(3)</sup> Investment-related experience includes mark-to-market gains or losses on assets held in the Corporate and Other segment other than gains on AFS equities and seed money investments in new segregated or mutual funds.

## Revenue

Revenue was a loss of \$76 million for 2014 compared with a loss of \$2,058 million reported in 2013.

### Revenue

For the years ended December 31, (C\$ millions)	2014	2013	2012
Net premium income	\$ 77	\$ 82	\$ 97
Investment income (loss) <sup>(1)</sup>	(23)	(276)	(989)
Other revenue	263	234	159
Revenue before net realized and unrealized investment gains (losses) and on the macro hedge program	\$ 317	\$ 40	\$ (733)
Net realized and unrealized gains (losses) <sup>(2)</sup> on the macro hedge program	(393)	(2,098)	(42)
<b>Total revenue</b>	<b>\$ (76)</b>	<b>\$ (2,058)</b>	<b>\$ (775)</b>

<sup>(1)</sup> Includes losses of \$60 million (2013 – \$323 million) on the sale of AFS bonds.

<sup>(2)</sup> See "Financial Performance – Impact of Fair Value Accounting" above.

## Premiums and Deposits

Premiums and deposits were \$8.3 billion for 2014 compared with \$4.1 billion reported in 2013. These amounts primarily relate to Investment Division's external asset management business. (See "Investment Division" below).

## Premiums and Deposits

For the years ended December 31,  
(C\$ millions)

	2014	2013	2012
Life Retrocession	\$ 2	\$ 2	\$ 2
Property and Casualty Reinsurance	75	80	95
Institutional and other deposits	8,185	3,974	7,880
<b>Total premiums and deposits</b>	<b>\$ 8,262</b>	<b>\$ 4,056</b>	<b>\$ 7,977</b>

## Assets under Management

Assets under management of \$46.6 billion as at December 31, 2014 (2013 – \$36.7 billion) included assets managed by Manulife Asset Management on behalf of third-party institutional clients of \$41.2 billion (2013 – \$32.5 billion) and the Company's own funds of \$13.4 billion (2013 – \$4.9 billion), partially offset by a \$8.0 billion (2013 – \$0.7 billion) total company adjustment related to the reclassification of derivative positions from invested assets to other assets and liabilities. The increase in the Company's own funds includes \$2.2 billion of net cash proceeds in escrow from the issuance of subscription receipts, net income earned over the period and the impact of the stronger U.S. dollar.

## Assets under Management

As at December 31,  
(C\$ millions)

	2014	2013	2012
General fund	\$ 5,567	\$ 4,413	\$ (1,043)
Segregated funds – elimination of amounts held by the Company	(202)	(175)	(166)
Institutional advisory accounts	41,248	32,486	28,776
<b>Total assets under management</b>	<b>\$ 46,613</b>	<b>\$ 36,724</b>	<b>\$ 27,567</b>

## Strategic Direction

Our P&C Reinsurance business provides substantial retrocessional capacity for a very select clientele in the property and aviation reinsurance markets. We manage the risk exposures in relation to the overall balance sheet risk and volatility as well as the prevailing market pricing conditions.

The strategic direction for our Manulife Asset Management business is included in the "Investment Division" section that follows.

# Investment Division

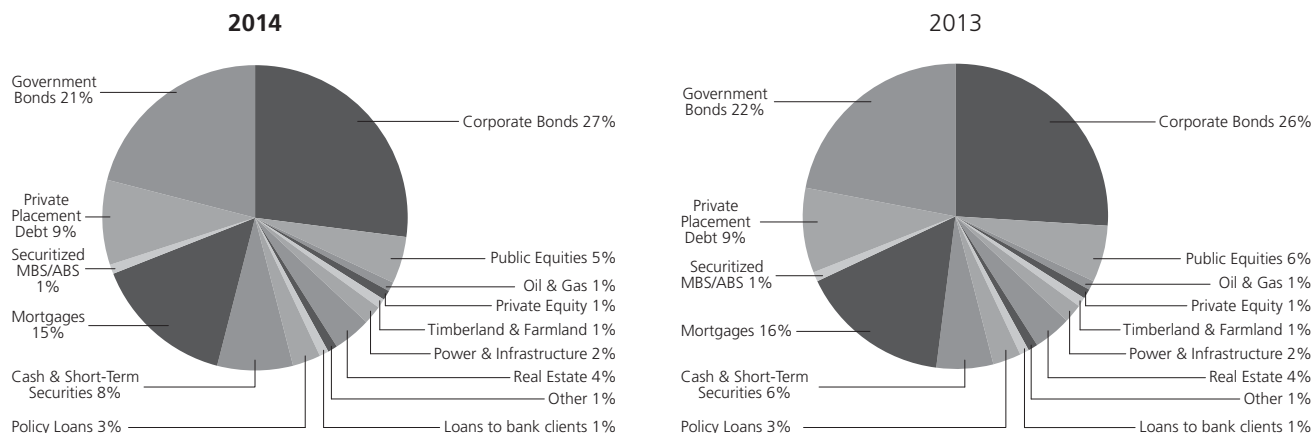
*Manulife's Investment Division manages the Company's general fund assets and, through Manulife Asset Management ("MAM"), provides comprehensive asset management solutions to institutional clients and investment funds, and investment management services to retail clients through Manulife and John Hancock product offerings. The Investment Division has expertise managing a broad range of investments including public and private bonds, public and private equities, commercial mortgages, real estate, power and infrastructure, timberland, farmland, and oil and gas, and provides asset allocation solutions. With a team of more than 2,600 employees, the Investment Division has a physical presence in key markets, including the United States, Canada, the United Kingdom, Japan, Hong Kong, and Singapore. In addition, MAM has a joint venture asset management business in China, Manulife TEDA Fund Management Company Ltd.*

## General Fund

Our investment philosophy for the General Fund is to invest in an asset mix that optimizes our risk adjusted returns and matches the characteristics of our underlying liabilities. We follow a bottom up approach which combines our strong asset management skills with an in-depth understanding of the characteristics of each investment. We invest in a diversified mix of assets, including a variety of alternative long-duration asset classes. Our diversification strategy has historically produced superior risk adjusted returns while reducing overall risk. We use a disciplined approach across all asset classes and we do not chase yield in the riskier end of the fixed income market. This strategy has resulted in a well-diversified, high quality investment portfolio, which consistently delivers strong and steady investment-related experience. Our risk management strategy is outlined in the "Risk Management and Risk Factors" section below.

## General Fund Assets

As at December 31, 2014, our General Fund invested assets totaled \$269.3 billion compared with \$232.7 billion at the end of 2013. The following charts show the asset class composition as at December 31, 2014 and December 31, 2013.



## Investment Income

For the year ended December 31, (C\$ millions, unless otherwise stated)	2014		2013	
	Income	Yield <sup>(1)</sup>	Income	Yield <sup>(1)</sup>
Interest income	\$ 9,023	3.7%	\$ 8,670	3.8%
Dividend, rental and other income	1,800	0.7%	1,425	0.6%
Impairments and provision for loan losses	(165)	(0.1%)	(39)	–
Other, including gains (losses) on sale of AFS debt securities	150	0.1%	(196)	(0.1%)
Investment income before realized and unrealized gains on assets supporting insurance and investment contract liabilities and on macro equity hedges	\$ 10,808		\$ 9,860	
Realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities and on macro hedging program				
Debt securities	\$ 8,935	3.6%	\$ (7,759)	(3.3%)
Public equities	772	0.3%	1,351	0.6%
Mortgages and private placements	58	–	38	–
Alternative long-duration assets and other investments	885	0.4%	723	0.3%
Derivatives, including macro equity hedging program	6,442	2.6%	(11,960)	(5.1%)
	\$ 17,092		\$ (17,607)	
<b>Total investment income (loss)</b>	<b>\$ 27,900</b>	<b>11.8%</b>	<b>\$ (7,747)</b>	<b>(3.3%)</b>

<sup>(1)</sup> Yields are based on IFRS income and are calculated using the geometric average of assets held at IFRS carrying value during the reporting period.

In 2014, the \$27.9 billion of investment income (2013 – loss of \$7.7 billion) consisted of:

- \$10.8 billion of investment income before net realized and unrealized gains on assets supporting insurance and investment contract liabilities and on macro equity hedges (2013 – \$9.9 billion); and
- \$17.1 billion of net realized and unrealized gains on assets supporting insurance and investment contract liabilities and on macro equity hedges (2013 – loss of \$17.6 billion).

The increase in investment income before realized and unrealized gains was due to the strengthening of global currencies compared to the Canadian dollar, and the gains from the sale of AFS debt securities held in our Corporate and Other segment.

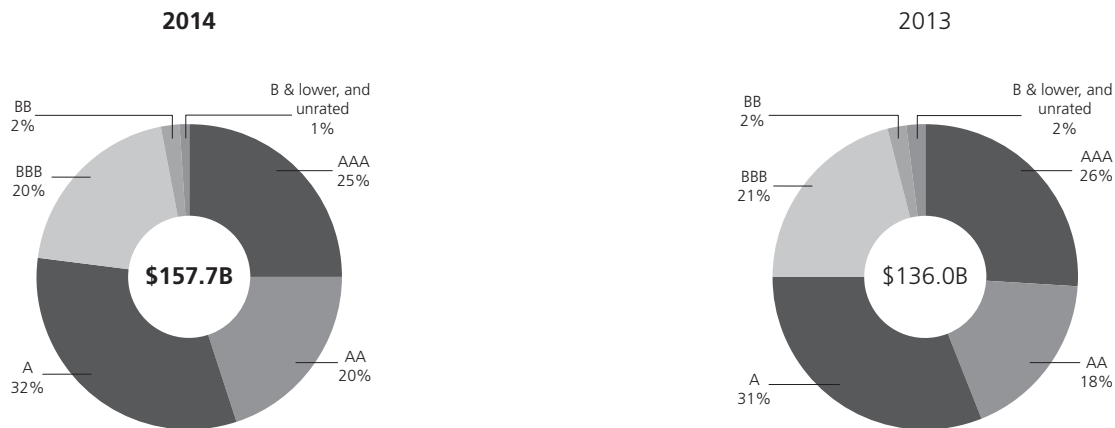
Net realized and unrealized gains (losses) primarily reflect the impact of changes in interest rates. In 2014, the general decrease in interest rates resulted in gains of \$8.9 billion on debt securities, while in 2013 the increase in interest rates resulted in losses of \$7.8 billion. A relatively modest increase in equity markets in 2014 resulted in gains of \$0.8 billion (2013 – gains of \$1.4 billion) on public equities supporting insurance and investment contract liabilities. Net gains of \$6.4 billion on derivatives in 2014, including the macro equity hedging program, primarily related to the impact of lower interest rates on the fair value of interest rate swaps, partially offset by the impact of higher equity markets on shorted equity futures.

As the measurement of insurance and investment contract liabilities includes estimates regarding future expected investment income on assets supporting these liabilities, net income reflects the difference between the mark-to-market accounting on the measurement of both assets and liabilities. See “Financial Performance – Impact of Fair Value Accounting” above.

### Debt Securities and Private Placement Debt

We manage our high quality fixed income portfolio to optimize yield and quality while ensuring that asset portfolios remain diversified by sector, industry, duration, issuer, and geography. As at December 31, 2014, our fixed income portfolio of \$157.7 billion (2013 – \$136.0 billion) was 97% investment grade and 77% was rated A or higher (2013 – 96% and 75%, respectively). Our private placement debt holdings provide diversification benefits (issuer, industry, and geography) and, because they often have stronger protective covenants and collateral than debt securities, they typically provide better credit protection and potentially higher recoveries in the event of default. Geographically, 27% (2013 – 29%) is invested in Canada, 51% (2013 – 50%) is invested in the U.S., and the remaining 22% (2013 – 21%) is invested in Asia, Europe and other geographic areas.

## Debt Securities and Private Placement Debt – by Credit Quality<sup>(1)</sup>



<sup>(1)</sup> Reflects credit quality ratings as assigned by Nationally Recognized Statistical Rating Organizations (“NRSRO”) using the following priority sequence order: Standard & Poor’s, Moody’s, Dominion Bond Rating Service, Fitch, and Japan Credit Rating. For those assets where ratings by NRSRO are not available, disclosures are based upon internal ratings as described in the “Risk Management and Risk Factors” section below.

As at December 31, Per cent of carrying value	2014			2013		
	Debt securities	Private placement debt	Total	Debt securities	Private placement debt	Total
Government and agency	43	10	38	44	10	39
Utilities	13	47	18	12	41	17
Financial	15	6	14	16	9	15
Energy	8	9	8	7	9	7
Consumer (non-cyclical)	5	9	6	5	10	6
Industrial	5	7	5	5	7	5
Basic materials	2	5	3	2	6	3
Consumer (cyclical)	2	6	2	2	7	2
Securitized (MBS/ABS)	3	–	2	3	–	2
Telecommunications	2	–	2	2	–	2
Technology	1	1	1	1	–	1
Media and internet	1	–	1	1	1	1
<b>Total per cent</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total carrying value (C\$ billions)</b>	<b>\$ 134.4</b>	<b>\$ 23.3</b>	<b>\$ 157.7</b>	<b>\$ 115.0</b>	<b>\$ 21.0</b>	<b>\$ 136.0</b>

As at December 31, 2014, gross unrealized losses on our fixed income holdings were \$0.6 billion or well less than 1% of the amortized cost of these holdings (2013 – \$2.9 billion or 2%). Of this amount, \$65 million (2013 – \$73 million) related to debt securities trading below 80% of amortized cost for more than 6 months. Securitized assets represented \$19 million of the gross unrealized losses and \$4 million of the amounts trading below 80% of amortized cost for more than 6 months (2013 – \$55 million and \$14 million, respectively). After adjusting for debt securities held in participating policyholder and pass-through segments and the provisions for credit included in the insurance and investment contract liabilities, the potential impact to shareholders’ pre-tax earnings for debt securities trading at less than 80% of amortized cost for greater than 6 months was approximately \$59 million as at December 31, 2014 (2013 – \$52 million).

As at December 31, 2014, the Company had an aggregate \$3.4 billion of public and private securitized assets, consisting of Commercial Mortgage Backed Securities, Residential Mortgage Backed Securities, and Asset Backed Securities representing 1% of total invested assets (2013 – \$3.4 billion and 1%).

## Mortgages

As at December 31, 2014, mortgages represented 15% (2013 – 16%) of invested assets with 62% of the mortgage portfolio invested in Canada (2013 – 62%) and 38% in the U.S. (2013 – 38%). As shown below, the overall portfolio is also diversified by geographic region, property type, and borrower. Of the total mortgage portfolio, 25% (2013 – 28%) is insured, primarily by the Canada Mortgage and Housing Corporation (“CMHC”) – Canada’s AAA rated government backed national housing agency, with 49% (2013 – 54%) of residential mortgages insured and 6% (2013 – 7%) of commercial mortgages insured.

As at December 31, (C\$ millions)	2014		2013	
	Carrying value	% of total	Carrying value	% of total
Commercial				
Retail	\$ 6,359	16	\$ 5,901	16
Office	6,160	16	5,647	15
Multi-family residential	3,863	10	3,533	9
Industrial	2,127	5	2,103	6
Other commercial	2,221	5	2,143	6
	\$ 20,730	52	\$ 19,327	52
Manulife Bank single-family residential	17,619	45	16,998	45
Agricultural	1,109	3	1,233	3
<b>Total mortgages</b>	<b>\$ 39,458</b>	<b>100</b>	<b>\$ 37,558</b>	<b>100</b>

Our commercial mortgage loans are originated with a hold-for-investment philosophy. They have low loan-to-value ratios, high debt-service coverage ratios, and currently no loans are in arrears. Geographically, 33% are in Canada and 67% are in the U.S. (2013 – 33% and 67%, respectively). We are diversified by property type and largely avoid risky market segments such as hotels, construction loans and second liens.

## Non-CMHC Insured Commercial Mortgages<sup>(1)</sup>

As at December 31,	2014		2013	
	Canada	U.S.	Canada	U.S.
Loan-to-Value ratio <sup>(2)</sup>	60%	60%	59%	61%
Debt-Service Coverage ratio <sup>(2)</sup>	1.52x	1.87x	1.47x	1.85x
Average duration	3.8 years	5.8 years	3.1 years	5.6 years
Average loan size (C\$ millions)	\$ 6.6	\$ 13.4	\$ 5.4	\$ 12.0
Loans in arrears <sup>(3)</sup>	–	–	–	–

<sup>(1)</sup> Excludes Manulife Bank commercial mortgage loans of \$35 million (2013 – \$38 million).

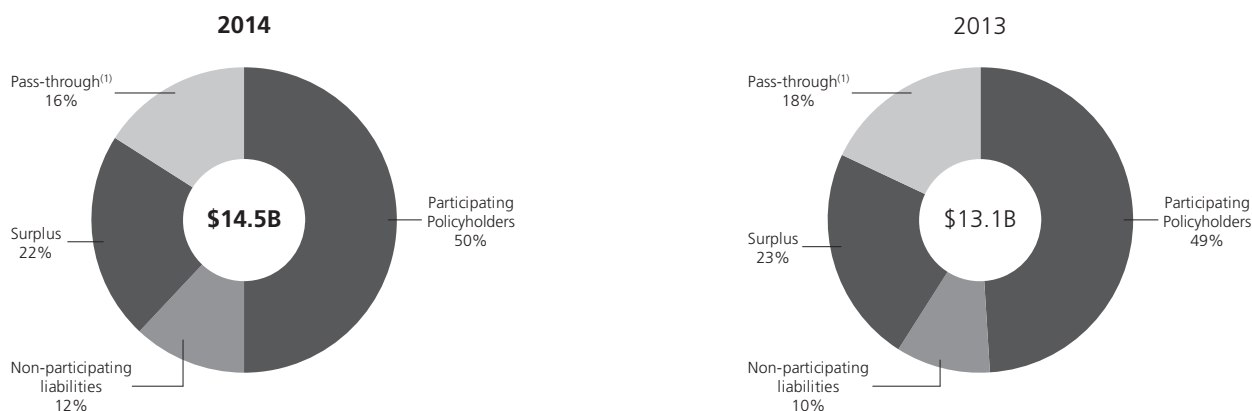
<sup>(2)</sup> Loan-to-Value and Debt-Service Coverage are based on re-underwritten cash flows.

<sup>(3)</sup> Arrears defined as over 90 days past due in Canada and over 60 days past due in the U.S.

## Public Equities

As at December 31, 2014, public equity holdings of \$14.5 billion represented 5% (2013 – \$13.1 billion and 6%) of invested assets and, when excluding participating policyholder and pass-through segments, represented 2% (2013 – 2%) of invested assets. The portfolio is diversified by industry sector and issuer. Geographically, 34% (2013 – 34%) is held in Canada, 35% (2013 – 32%) is held in the U.S., and the remaining 31% (2013 – 34%) is held in Asia, Europe and other geographic areas.

## Public Equities – by Segment



<sup>(1)</sup> Public equities denoted as pass-through are held by the Company to support the yield credited on equity-linked investment funds for Canadian and Indonesian life insurance products.



## Alternative Long-Duration Assets ("ALDA")

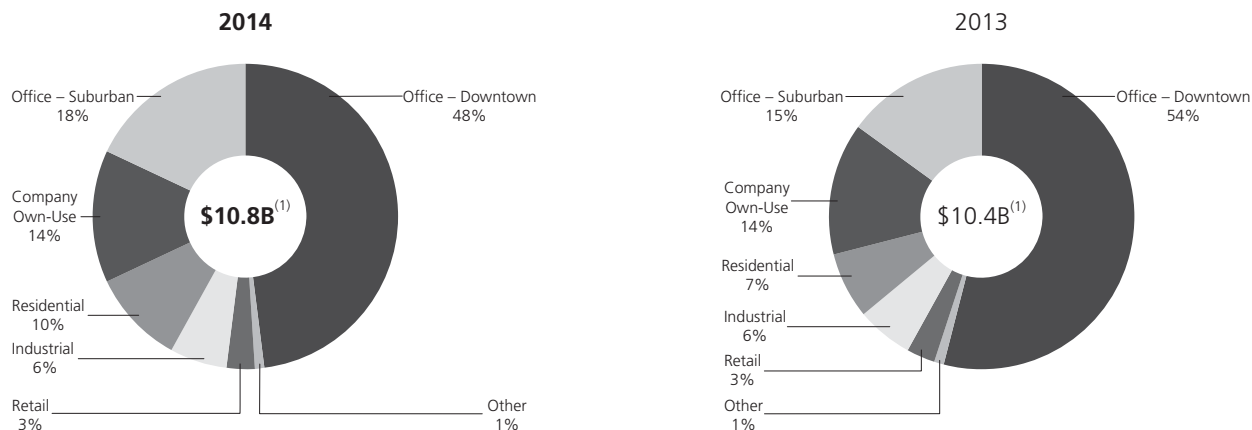
Our alternative long-duration asset portfolio is comprised of a diverse range of asset classes with varying degrees of correlations. The portfolio typically consists of private assets representing investments in varied sectors of the economy which act as a natural hedge against future inflation and serves as an alternative source of asset supply to long-term corporate bonds. In addition to being a suitable match for our long-duration liabilities, these assets provide enhanced yields and diversification relative to traditional fixed income markets. The vast majority of our alternative long-duration assets are managed in-house.

As at December 31, 2014, alternative long-duration assets of \$23.3 billion represented 9% (2013 – \$19.9 billion and 9%) of invested assets. The fair value of total ALDA was \$24.0 billion at December 31, 2014 (2013 – \$20.8 billion). The carrying value by sector and/or asset type is as follows:

As at December 31, (C\$ millions)	2014		2013	
	Carrying value	% of total carrying value	Carrying value	% of total carrying value
Real estate	\$ 10,101	44	\$ 9,708	49
Power and infrastructure	4,002	17	3,486	18
Private equity	2,758	12	2,181	11
Timberland	2,694	12	1,712	9
Oil and gas	2,161	9	1,643	8
Farmland	1,255	5	1,058	5
Other	289	1	126	–
<b>Total ALDA</b>	<b>\$ 23,260</b>	<b>100</b>	<b>\$ 19,914</b>	<b>100</b>

## Real Estate

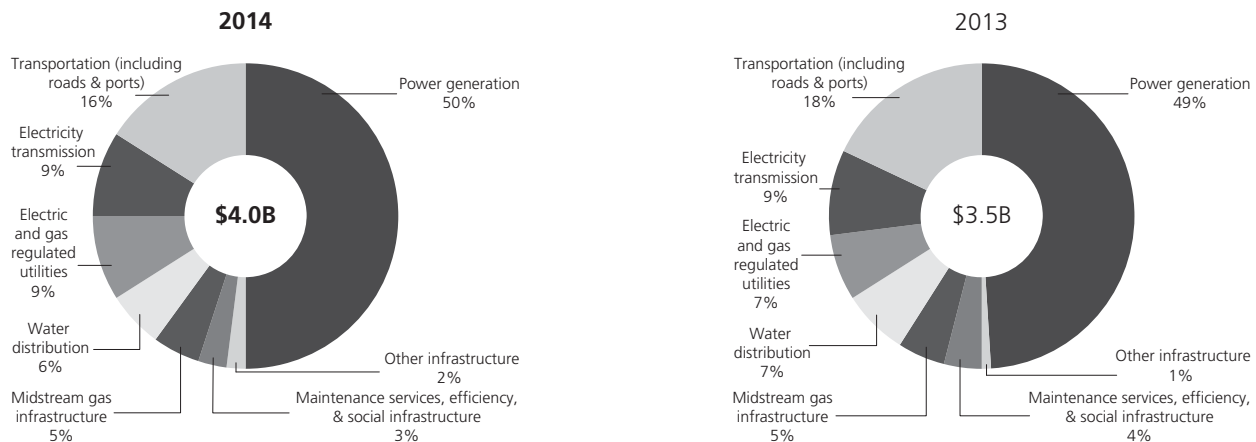
Our real estate portfolio is diversified by geographic region, with 62% located in the U.S., 35% in Canada, and 3% in Asia as at December 31, 2014 (2013 – 61%, 35%, and 4%, respectively). This high quality portfolio has virtually no leverage and is primarily invested in premium urban office towers, concentrated in cities with stable growth, and highly diverse economies in North America and Asia. The portfolio is well positioned with an average occupancy rate of 95% (2013 – 95%) and an average lease term of 6.7 years (2013 – 6.5 years). During 2014, we executed 4 acquisitions, representing \$0.5 billion market value of commercial real estate assets (2013 – 5 acquisitions and \$0.8 billion). The segment composition of our real estate portfolio based on fair value is as follows:



<sup>(1)</sup> These figures represent the fair value of the real estate portfolio. The carrying value of the portfolio was \$10.1 billion and \$9.7 billion at December 31, 2014 and December 31, 2013, respectively.

## Power & Infrastructure

We invest both directly and through funds in a variety of industry specific asset classes, listed below. The portfolio is well diversified with over 220 portfolio companies. The portfolio is predominately invested in the U.S. and Canada, but also in the United Kingdom, Europe and Australia. Our power and infrastructure holdings are as follows:



## Timberland & Farmland

Our timberland and farmland assets are managed by a proprietary entity, Hancock Natural Resources Group ("HNRG"). In addition to being the world's largest timberland investment manager for institutional investors<sup>16</sup>, with timberland properties in the U.S., New Zealand, Australia, Chile, Canada and Brazil, HNRG also manages farmland properties in the U.S., Australia and Canada. HNRG recently established a renewable energy business unit focused on investments in the bio-energy sector. The General Fund's timberland portfolio comprised 19% of HNRG's total timberland assets under management ("AUM") (2013 – 17%). The farmland portfolio includes annual (row) crops, fruit crops, wine grapes, and nut crops. The General Fund's holdings comprised 47% of HNRG's total farmland AUM (2013 – 45%).

## Private Equities

Our portfolio includes both directly held private equity and private equity funds. Both are diversified across vintage years and industry sectors.

## Oil & Gas

This category is comprised of \$1.4 billion (2013 – \$0.9 billion) in our conventional Canadian oil and gas properties managed by our subsidiary, NAL Resources, and various other oil and gas private equity interests of \$0.8 billion (2013 – \$0.7 billion). Production mix in 2014 was approximately 57% crude oil, 34% natural gas, and 9% natural gas liquids (2013 – 55%, 36%, and 9%, respectively).

## Manulife Asset Management

Manulife Asset Management ("MAM") provides comprehensive asset management solutions to institutional clients and investment funds, and investment management services to retail clients through Manulife and John Hancock product offerings.

As at December 31, 2014, MAM had \$321 billion of AUM compared with \$280 billion at the end of 2013. The following charts show the movement in AUM over the year as well as assets by asset class.

### AUM Movement

(C\$ millions)	2014	2013
MAM external AUM, beginning of year	\$ 242,808	\$ 205,422
Net institutional sales	4,834	831
Net affiliate sales	(404)	1,573
Asset transfers	838	836
Market impact	11,397	22,294
Currency impact	18,090	11,852
MAM external AUM, end of year	\$ 277,563	\$ 242,808
General Fund AUM (managed by MAM), beginning of year	\$ 37,418	\$ 34,974
net flows, market and currency impacts	5,979	2,444
General Fund AUM (managed by MAM), end of year	\$ 43,397	\$ 37,418
<b>Total MAM AUM</b>	<b>\$ 320,960</b>	<b>\$ 280,226</b>

<sup>16</sup> Based on the global timber investment management organization ranking in the *RISI International Timberland Ownership and Investment Database*.

## AUM Composition

As at December 31,  
(C\$ millions)

	2014	2013
Affiliate / Retail <sup>(1)</sup> :		
Fixed income	\$ 71,434	\$ 61,043
Balanced	15,837	11,972
Equity	77,712	64,939
Asset allocation <sup>(2)</sup>	70,799	71,865
Alternatives	236	199
	<b>\$ 236,018</b>	<b>\$ 210,018</b>
Institutional:		
Fixed income	\$ 15,189	\$ 12,823
Balanced	1,721	1,702
Equity	11,183	6,429
Asset allocation	24	19
Alternatives	13,428	11,817
	<b>\$ 41,545</b>	<b>\$ 32,790</b>
<b>MAM External AUM</b>	<b>\$ 277,563</b>	<b>\$ 242,808</b>
Fixed income	\$ 27,514	\$ 23,643
Equity	12,049	10,629
Alternative long-duration assets	3,834	3,146
<b>General Fund AUM (managed by MAM)</b>	<b>\$ 43,397</b>	<b>\$ 37,418</b>
<b>Total MAM AUM</b>	<b>\$ 320,960</b>	<b>\$ 280,226</b>

<sup>(1)</sup> Includes 49% of assets managed by Manulife TEDA Fund Management Company Ltd.

<sup>(2)</sup> Asset allocation assets exclude \$59,760 million included in other categories (2013 – \$48,098 million).

Our AUM composition has benefited from a shift in our total asset base as our clients move to higher-margin institutional products, driven by record sales, and in our retail asset base, as clients move to higher margin equity actively managed and balanced products, driven by positive market performance.

### Total MAM External AUM by Client Domicile

We operate from offices in 17 countries and territories, managing local and international investment products for our global client base.

As at December 31,  
(C\$ millions)

	2014	%	2013	%
United States	\$ 189,008	68	\$ 170,216	70
Canada	50,228	18	43,634	18
Asia & Japan	35,966	13	28,724	12
Europe	2,361	1	234	–
<b>Total MAM External AUM</b>	<b>\$ 277,563</b>	<b>100</b>	<b>\$ 242,808</b>	<b>100</b>

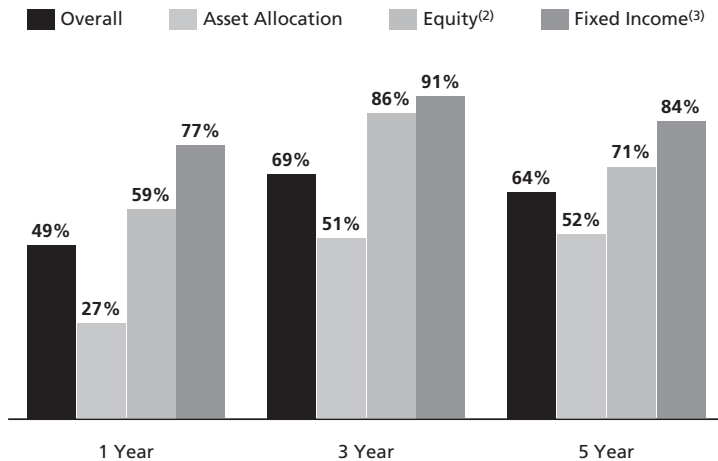
Increases in assets were driven by Europe and Asia, respectively, by a large equity mandate win from a United Kingdom-based client as well as continued expansion of sales efforts across Asia.

### Institutional Sales

In 2014, institutional sales for our public markets' investment teams were driven by a series of sizable mandates that were balanced across regions and asset classes. Our Private Markets business team won two external mandates in its inaugural year highlighting our longstanding experience in public and private markets to provide investors unique opportunities to meet their investment goals.

## Investment Performance

### % of AUM Outperforming Benchmarks<sup>(1)</sup>



As at December 31, 2014, investment performance has consistently exceeded our peers across all classes on a 3- and 5-year basis.

<sup>(1)</sup> Investment performance is based on actively managed MAM Public Markets account-based, asset-weighted performance versus their primary internal targets, which includes accounts managed by portfolio managers of MAM. Some retail accounts are evaluated net of fees versus their respective Morningstar peer group. All institutional accounts and all other retail accounts are evaluated gross of fees versus their respective index.

<sup>(2)</sup> Includes balanced funds.

<sup>(3)</sup> Includes money market funds.

At year end, MAM had 72 funds rated Four- or Five-stars by Morningstar, an increase of 2 funds since December 31, 2013, excluding money market funds. In addition to providing better than industry performance<sup>17</sup> for our Wealth Management businesses in Canada, the U.S. and Asia, we also manufactured 55 new mutual funds and segregated funds.

### Strategic Direction

The demand for multi-asset class solutions, real assets, global and emerging market equities, and public and private fixed income persists as institutional and retail investors continue to seek higher risk-adjusted returns. MAM's strategic priorities are aligned to continue to capitalize on this demand by closely aligning our global wealth and asset management business and leveraging our skills and expertise across our international operation to build long-lasting customer relationships. In May 2014, MAM was ranked as the 30<sup>th</sup> largest asset manager globally in 2013, up from 34<sup>th</sup> in 2012.<sup>18</sup>

Our **MAM public markets** business continues to grow, backed by strong investment performance. As we expand, MAM's defining characteristics remain: alpha-focused active management, a boutique environment, global footprint, and client-centric culture. In addition to our current markets, we expect to expand our business into new geographies, as we continue to increase our global distribution channels. In 3Q14, Manulife announced that it had entered into an agreement to acquire the Canadian-based operations of Standard Life plc, which include Standard Life Investments Inc. The acquisition, which closed on January 30, 2015, is expected to broaden the range of asset management products and solutions available in Canada and around the globe. In addition, we expanded our asset classes and services through the addition of a global natural resources equity team, an emerging equity markets team, along with a Head of Asia for our Portfolio Solutions Group. In 2014, we strengthened the global strategic management of our wealth and asset management businesses with the appointment of Kai Sotorp as the Global Head of Wealth and Asset Management.

**MAM Private Markets** had an excellent inaugural year and was awarded a significant commercial real estate mandate and a private commercial mortgage mandate. Private Markets is well positioned as investors have shown increased appetite for private assets to enhance yields in a low interest-rate environment. In addition to our existing timberland, farmland, and mezzanine debt offerings, Private Markets made meaningful progress in our three prioritized growth asset classes: commercial real estate equity, commercial mortgages and private placement debt, based on their market potential and ability to leverage Manulife's existing capabilities and capacity. We will continue to pursue mandates that are aligned with our core offerings, targeting institutional as well as ultra-high and high net worth investors.

In 2014, we successfully focused our product development and fundraising efforts on the prioritized key asset classes. We recruited Michael J. McNamara to be the Global Head of Real Estate Investments to lead the development and execution of the real estate investment strategy as well as a leader for marketing the investment capabilities of Manulife's private placements and commercial mortgages teams. We will continue to focus on product development and build our momentum through new long-term partnerships.

<sup>17</sup> Performance above median for all asset classes in 3- and 5-year time frames.

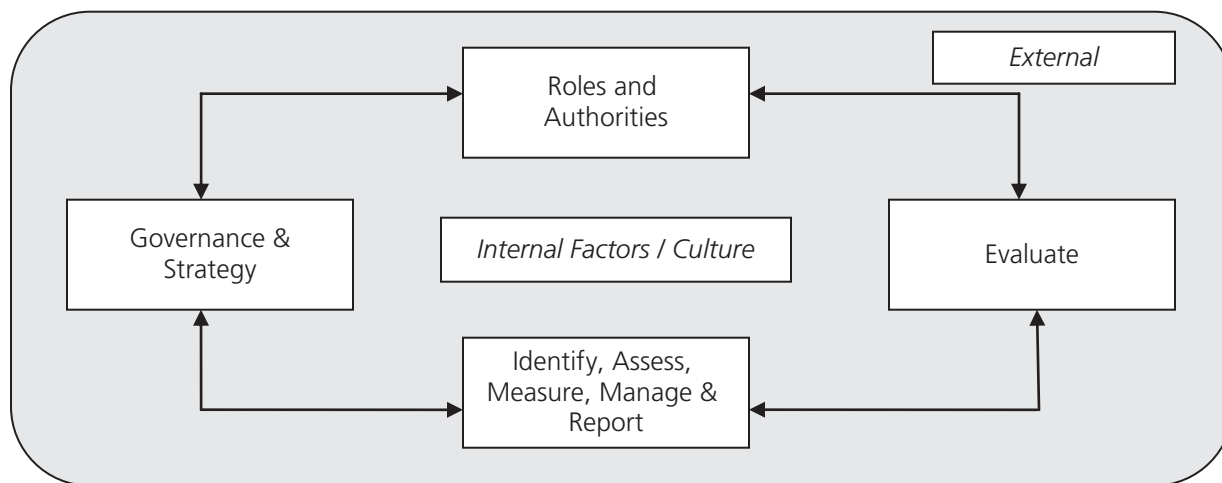
<sup>18</sup> Based on the institutional trade publication, *Pension & Investments*.

# Risk Management and Risk Factors

## Overview

Manulife is a global financial institution offering insurance, wealth and asset management products and other financial services. These businesses subject the Company to a broad range of risks. Our goal is to strategically optimize risk taking and risk management to support long-term revenue, earnings and capital growth. We seek to achieve this by capitalizing on business opportunities and strategies with appropriate risk/return profiles; establishing sufficient management expertise to effectively execute strategies, and to identify, understand and manage underlying inherent risks; pursuing strategies and activities aligned with the Company's corporate and ethical standards and operational capabilities; pursuing opportunities and risks that enhance diversification; and, making risk taking decisions with analyses of inherent risks, risk controls and mitigations, and risk/return trade-off.

## Enterprise Risk Management ("ERM") Framework



The Company's ERM Framework provides a structured approach to implementing risk taking and risk management activities at an enterprise level supporting the Company's long-term revenue, earnings and capital growth strategy. It is communicated through risk policies and standards which ensure consistent design and execution of strategies across the organization. We have a common approach to managing all risks to which the Company is exposed, and a consistent evaluation of potential returns on contemplated business activities on a risk-adjusted basis. These policies and standards of practice cover:

- Assignment of accountability and delegation of authority for risk oversight and risk management. The types and levels of risk the Company seeks given its strategic plan and risk appetite. Risk identification, measurement, assessment and mitigation which enable effective management and monitoring of risk.
- Validation, back testing and independent oversight to confirm that the Company generated the risk profile it intended and the root cause analysis of any notable variation.

Manulife's ERM practices are influenced and impacted by internal and external factors (such as economic conditions, political environments, technology, risk culture etc.) which can significantly impact the levels and types of risks the Company might face in its pursuit to strategically optimize risk taking and risk management. Our ERM Framework incorporates relevant impacts and mitigating actions as appropriate.

A strong risk culture and a common approach to risk management are integral to Manulife's risk management practices. Manulife's Board of Directors is accountable for the oversight of risk management, and delegates this authority through a governance framework that is centered on the "three lines of defense" model that includes a network of risk oversight committees, global risk officers, global risk managers and global risk policies and practices:

The Company's first line of defense includes the Chief Executive Officer ("CEO") and Business Unit General Managers. Businesses are ultimately accountable for the risks they assume and for the day to day management of the risks and related controls. They are supported by global risk managers and risk management professionals across the enterprise that are responsible for specific risk taking activities and the design and execution of risk mitigation practices that are consistent with the Company's ERM policy and individual risk management strategies.

The second line of defense is comprised of the Company's Chief Risk Officer ("CRO"), the Group Risk Management ("GRM") function, global oversight functions and divisional chief risk officers and functions. Together this group provides oversight of risk taking and risk mitigation activities across the enterprise. Enterprise-level risk oversight committees, including the Executive Risk Committee ("ERC"), also provide oversight of risk taking and risk mitigation activities.

The third line of defense is comprised of Audit Services, which provides assurance that controls are effective and appropriate relative to the risk inherent in the business, and that risk mitigation programs and risk oversight functions are effective in managing risks.

## Risk Culture

Manulife strives for a risk aware culture, where individuals and groups are encouraged, feel comfortable and are proactive in making transparent, balanced risk-return decisions that are in the long term interests of the Company. Key areas of focus pertaining to risk culture include: aligning individual and Company objectives; identifying and escalating risks before they become significant issues; promoting a collaborative approach that enables appropriate risk taking; ensuring transparency in identifying, communicating and tracking risks; and systematically acknowledging and surfacing material risks.

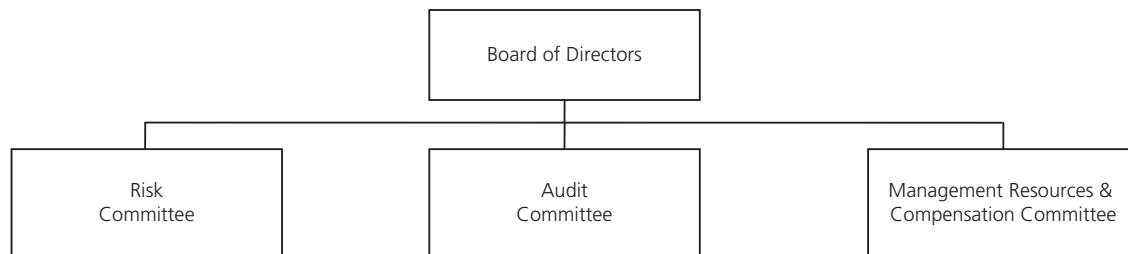
## Risk Governance

The Board of Directors oversees management's implementation of appropriate frameworks, processes and systems to identify and manage the principal risks of the Company's business and periodically reviews and approves our enterprise risk policy, our risk taking philosophy and overall risk appetite.

The CEO is directly accountable to the Board of Directors for all risk taking activities and risk management practices, and is supported by the Company's CRO as well as by the ERC. Together, they shape and promote our risk culture and guide risk taking throughout our global operations and strategically manage our overall risk profile. The ERC, along with other executive-level risk oversight committees, establishes risk policies, guides risk taking activity, monitors significant risk exposures and sponsors strategic risk management priorities throughout the organization. The Board and executive-level risk oversight committees and key elements of their mandates are presented below.

GRM, under the direction of the CRO, establishes and maintains our enterprise risk management framework and oversees the execution of individual risk management programs across the enterprise. GRM seeks to ensure a consistent enterprise-wide assessment of risk, risk-based capital and risk-adjusted returns across all operations.

## Board of Directors and Board Committees

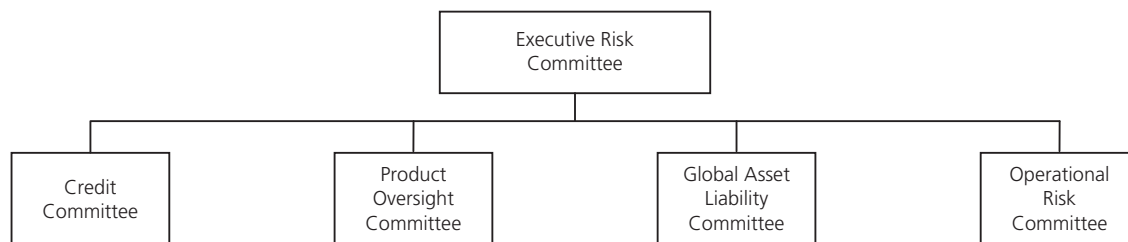


**Risk Committee** – This committee is responsible for assisting the Board in its oversight of the Company's management of its principal risks. The committee also assesses, reviews and approves policies, procedures and controls in place to manage risks and reviews the Company's compliance with risk policies.

**Audit Committee** – This committee is responsible for assisting the Board in its oversight role with respect to the quality and integrity of financial information, the effectiveness of the Company's internal controls over financial reporting and the effectiveness of the Company's compliance with legal and regulatory requirements. It also oversees activities and risks related to conflicts of interest, confidentiality of information, customer complaints and related party transactions.

**Management Resources and Compensation Committee** – This committee oversees the Company's global human resources strategy, policies, programs with a special focus on management succession, development and compensation, and risk management relating to these programs.

## Executive Committees



**Executive Risk Committee** – The ERC approves risk policies and oversees the execution of our enterprise risk management program. The committee monitors our overall risk profile, including key and emerging risks, and guides risk-taking activities. As part of these activities, the ERC monitors material risk exposures, and sponsors strategic risk management priorities including overseeing risk reduction plans. The ERC also reviews and assesses the impact of business strategies, opportunities and initiatives on our overall risk position.

**Credit Committee** – The Credit Committee establishes credit risk policies, risk management standards of practice and oversees the credit risk management program. The Credit Committee monitors our overall credit risk profile, key and emerging risk exposures, risk management activities, and ensures compliance with credit risk policies. The committee also approves large individual credits and investments, and manages credit risk jointly with the Global Asset Liability Committee.

**Global Asset Liability Committee** (“GALCO”) – The GALCO establishes market and liquidity risk policies and oversees related market and liquidity risk and asset liability management programs and practices. The committee monitors our overall market risk profile, key and emerging risk exposures and risk management activities as well as compliance with related policies. GALCO also approves target investment strategies and, as noted above, manages credit risk jointly with the Credit Committee.

**Product Oversight Committee** (“POC”) – The POC establishes product design and pricing policies and insurance risk policies, as well as risk management standards of practice with regards to risks covered by these policies. It oversees the insurance risk management program and the process for approval of new product initiatives and third party reinsurance arrangements for new business. The POC monitors product design and pricing, and insurance risk across the Company, as well as, overseeing underwriting and claims risk committee activities, including retention management and underwriting and claims risk oversight.

**Operational Risk Committee** (“ORC”) – The ORC oversees operational risk exposures and associated governance and risk processes. It oversees the maintenance and enhancement of our overall Operational Risk Management Framework, including implementation of our Operational Risk Management Program and overseeing specific operational risk management programs and practices. The ORC reviews and approves operational risk policies and monitors compliance with such policies.

### **Risk Appetite**

Risk taking activities are managed within the Company’s overall risk appetite, which defines the amount and types of risks the Company is willing to assume, and is comprised of three components: risk philosophy, risk appetite statements, and risk limits and tolerances.

Manulife is a global financial institution offering insurance, wealth and asset management products and other financial services. All of these activities involve some elements of risk taking. Our objective is to balance the Company’s level of risk with our long-term revenue, earnings and capital growth, in order to achieve consistent and sustainable performance over the long-term that benefits our customers and shareholders. When making decisions about risk taking and risk management, Manulife places the highest priority on the following risk management objectives:

- To safeguard the commitments and expectations we have established with our shareholders, customers and creditors;
- To prudently and effectively deploy the capital invested in the Company by our shareholders with appropriate risk/return profiles;
- To protect and/or enhance the Company’s reputation and brand; and
- To maintain the Company’s targeted financial strength rating.

The Company’s risk appetite defines the tolerance levels for the total Company level, and various types of risk that the Company is willing to accept. It is a key part of our strategic planning and operational execution. The following statements provide guideposts for risk taking at Manulife:

- Manulife accepts a total level of risk that provides a very high level of confidence of meeting customer obligations while targeting an acceptable overall return to shareholders over time;
- The Company targets a credit rating amongst the strongest of its global peers;
- Manulife values customer-focused innovation and encourages prudent initiatives intended to increase competitive advantage;
- Capital market risks are acceptable when they are managed within specific risk limits and tolerances;
- The Company believes a balanced investment portfolio reduces overall risk and enhances returns; therefore it accepts credit and alternative long-duration asset related risks;
- The Company pursues insurance risks that add customer and shareholder value where we have competence to assess and monitor them, and for which we receive appropriate compensation;
- Manulife accepts that operational risks are an inherent part of our business but will protect its business and customers’ assets through cost-effective operational risk mitigation; and
- Manulife expects its officers and employees to act in accordance with our values, ethics and standards; and to preserve and enhance our brand and reputation.

Risk tolerances and limits are established for risks within our risk classification framework that are inherent in our strategies in order to define the types and amount of risk the Company will assume. Risk tolerance levels are set for risks deemed to be most significant to the Company and are established in relation to economic capital, earnings at risk and regulatory capital required. The purpose of risk limits is to cascade the total Company risk appetite to a level that can be effectively managed. Manulife establishes standalone risk limits for risk categories to avoid excessive concentration in any individual risk category and manage the overall risk profile of the organization.

### **Risk Identification, Measurement and Assessment**

We have a common approach and process to identify, measure and assess the risks we assume. We evaluate all potential new business initiatives, acquisitions, product offerings, reinsurance arrangements, and investment and financing transactions on a comparable risk-adjusted basis. Divisions, business units and functional groups are responsible for identifying and assessing key and emerging risks on an ongoing basis. A standard inventory of risks is used in all aspects of risk identification, measurement and assessment, and monitoring and reporting.

Risk exposures are evaluated using a variety of risk measures, with certain measures used across all risk categories, while others apply only to some risks or a single risk type. Risk measurement includes: key risk indicators; stress tests, including sensitivity tests and scenario impact analyses; and stochastic scenario modeling. Qualitative risk assessments are performed for those risk types that cannot be reliably quantified.

We perform a variety of stress tests on earnings, regulatory capital ratios, economic capital, earnings at risk and liquidity that consider significant, but plausible events. We also perform other integrated, complex scenario tests to assess key risks and the interaction of these risks.

Economic capital measures the amount of capital required to meet obligations with a high and pre-defined confidence level. Our earnings at risk metric measures the potential variance from quarterly expected earnings at a particular confidence level. Economic capital and earnings at risk are both determined using internal models and measure enterprise-wide risks and are allocated by risk type and business. Economic capital and earnings at risk provide measures of enterprise-wide risk that can be aggregated and compared across business activities and risk types.

### **Risk Monitoring and Reporting**

Under the direction of the CRO, GRM oversees a formal process for monitoring and reporting on all significant risks at the Group level. Risk exposures are also discussed at various risk oversight committees, along with any exceptions or proposed remedial actions, as required.

On a quarterly basis, the ERC, Board Risk Committee and Board of Directors review risk reports that present an overview of our overall risk profile and exposures across our principal risks. The reports incorporate both quantitative risk exposure measures and sensitivities, and qualitative risk assessments. The reports also highlight key risk management activities and facilitate monitoring compliance with key risk policy limits.

Our Chief Actuary presents the results of the Dynamic Capital Adequacy Test to the Board of Directors annually. Our Chief Auditor reports the results of internal audits of risk controls and risk management programs to the Audit Committee semi-annually. Management reviews the implementation of key risk management strategies, and their effectiveness, with the Board Risk Committee annually.

### **Risk Control and Mitigation**

Risk control activities are in place throughout the Company to mitigate risks within established risk limits. We believe our controls, which include policies, procedures, systems and processes, are appropriate and commensurate with the key risks faced at all levels across the Company. Such controls are an integral part of day to day activity, business management and decision making.

GRM establishes and oversees formal review and approval processes, involving independent individuals, groups or risk oversight committees, for product offerings, insurance underwriting, reinsurance, investment activities and other material business activities, based on the nature, size and complexity of the risk taking activity involved. Authorities for assuming risk at the transaction level are delegated to specific individuals based on their skill, knowledge and experience.

Risk mitigation activities, such as product and investment portfolio management, hedging, reinsurance and insurance protection are used to assist in managing our aggregate risk to within our risk appetite. Internal controls within the business units and Group functions mitigate our exposure to operational risks.

The following sections describe the key risks and associated risk management strategies for each of our broad risk categories: strategic, market, liquidity, credit, insurance and operational.

### **Strategic Risk**

***Strategic risk is the risk of loss resulting from the inability to adequately plan or implement an appropriate business strategy, or to adapt to change in the external business, political or regulatory environment.***

### **Key Risk Factor Overview**

We operate in highly competitive markets and compete for customers with both insurance and non-insurance financial services companies. Customer loyalty and retention, and access to distributors, are important to the Company's success and are influenced by many factors, including our product features, service levels, prices, and our financial strength ratings and reputation. Erosion of our corporate image by adverse publicity, as a result of our business practices or those of our employees, representatives and business partners, may cause damage to our franchise value.

External business, economic, political, tax, legal and regulatory environments and changes to accounting or actuarial reserving standards can significantly impact the types, pricing and attractiveness of the products and services we offer. The economic environment may remain volatile and our regulatory environment, particularly in Canada, will continue to evolve, potentially with higher capital requirements which would materially impact our competitiveness. Further, the attractiveness of our product offerings relative to our competitors will be influenced by competitor actions, as well as our own, and the requirements of the applicable regulatory regimes. For these and other reasons, there is no certainty that we will be successful in implementing our business strategies or that these strategies will achieve the objectives we target.



## Risk Management Strategy

The CEO and Executive Committee establish and oversee execution of business strategies and have accountability to identify and manage the risks embedded in these strategies. They are supported by a number of processes:

- Strategic business, risk and capital planning that is reviewed with the Board of Directors;
- Detailed strategic and business planning that is executed by divisional management and is reviewed by the CEO, the Chief Operating Officer (“COO”), the Group Chief Financial Officer (“CFO”), the CRO, and other members of the Executive Committee;
- Quarterly operational performance and risk reviews of all key businesses with the CEO and annual reviews with the Board of Directors;
- Risk-based capital attribution and allocation designed to encourage a consistent decision-making framework across the organization; and
- Review and approval of acquisitions and divestitures by the CEO and, where appropriate, the Board of Directors.

The CEO and Executive Committee are ultimately responsible for our reputation; however, our employees and representatives are responsible for conducting their business activities in a manner that upholds our reputation. This responsibility is reinforced by:

- An enterprise-wide reputation risk policy that specifies the oversight responsibilities of the Board of Directors and the responsibilities of executive management;
- Communication to and education of all directors, officers, employees and representatives, including our Code of Business Conduct and Ethics;
- Application of a set of guiding principles in conducting all our business activities, designed to protect and enhance our reputation; and
- Reputation risk assessments considered as part of business strategy development and execution.

We regularly review and adapt our business strategies and plans in consideration of changes in the external business, economic, political, and regulatory environments in which we operate. Changes in actuarial reserving standards and changes in the cost of hedging may also cause us to review our business strategies and plans. Key elements of our business strategy include diversifying our business mix, accelerating growth of those products that have a favourable risk/return profile and better potential outcomes under a range of economic and policyholder behaviour scenarios, and reducing or withdrawing from products with unattractive risk profiles. Our strategy also incorporates a plan to continue to mitigate our in-force public equity and interest rate risks. Depending upon market conditions, these actions could result in costs which might depress income. We have designed our business plans and strategies to align with our risk appetite, capital, and financial performance objectives.

The following is a further description of key strategic risk factors.

## General Macro-Economic Risk Factors

Under the Canadian insurance accounting and regulatory capital regimes, the impact of market conditions is largely reflected in our results on a real-time or near real-time basis. Weak or worsening economic conditions could result in material charges to net income attributed to shareholders and reductions in our capital position, notwithstanding our improved risk profile and strong underlying regulatory capital position.

The current macro environment, including low interest rates and declining oil and gas prices, produces headwinds for 2015 earnings. Lower interest rates may reduce new business margins, reduce the income reported in our Corporate and Other segment and reduce the amount of provisions for adverse deviation released into earnings each period. We may incur investment-related experience charges if oil and gas prices persist at current levels or decline further.

In 2012, we set objectives of \$4 billion in core earnings and core ROE of 13% in 2016<sup>19</sup> based on our macro-economic and other assumptions.

Risk factors that may result in an inability to achieve our objectives include the following:

- Actions taken by management to bolster capital and further reduce the Company’s risk profile and strengthen capital could reduce future earnings.
- A period of flat equity markets would represent underperformance relative to our long-term valuation assumption and would negatively impact earnings. In addition, as outlined below, there can be no assurance that our dynamic hedging strategy will fully offset the risks arising from the variable annuities being hedged. The publicly traded equity performance risk measures outlined below show the potential impact on net income attributed to shareholders resulting from an immediate 10, 20 and 30% change in market values of publicly traded equities followed by a return to the expected level of growth assumed in the valuation of policy liabilities. Expected long-term annual market growth assumptions for public equities pre-dividends for key markets are based on long-term historical observed experience. In the stochastic valuations of our segregated fund guarantee business, those rates inclusive of dividends are 9.6% per annum in Canada, 9.6% per annum in the U.S., 6.2% per annum in Japan, and vary between 7.8% and 9.85% per annum for European equity funds. The calibration of the economic scenario generators that are used to value segregated fund guarantee business complies with current Canadian Actuarial Standards of Practice for the valuation of these products. Implicit margins are determined through stochastic valuation processes which results in lower net yields used to determine policy liabilities. Assumptions used for public equities backing liabilities are also developed based on historical experience but are

<sup>19</sup> See “Caution regarding forward-looking statements” above.

constrained by different Canadian Actuarial Standards of Practice and differ slightly from those used in stochastic valuation. Alternative asset return assumptions vary based on asset class but are largely consistent, after application of valuation margins and differences in taxation, with returns assumed for public equities.

- A prolonged low interest rate environment may result in charges related to lower fixed income reinvestment assumptions and an increase in new business strain until products are repositioned for the lower interest rate environment.
  - The difference between the current investable returns and the returns used in pricing new business are generally capitalized when new business is written. Lower interest rates result in higher new business strain until products are re-priced or interest rates increase.
  - Fixed income reinvestment rates other than the ultimate reinvestment rate are based on current market rates. The net income sensitivity to changes in current rates is outlined in the section "Interest Rate and Spread Risk" below.
  - A prolonged low interest rate environment may result in the Actuarial Standard Board lowering the promulgated URR.
  - Lower interest rates would also reduce expected earnings on in-force policies and thus core earnings, and may increase new business strain until products are repositioned for the lower interest rate environment.
- Other potential consequences of weak economic conditions include:
  - Low interest rates could negatively impact sales.
  - Lower sales volumes could put increased pressure on our ability to maintain operating expense levels within the levels provided for in the policy liability valuation and could result in lower future profit.
  - Lower risk free rates tend to increase the cost of hedging and as a result the offering of guarantees could become uneconomic.
  - The reinvestment of cash flows into low yielding AFS bonds could result in lower future earnings on surplus.
  - A lower interest rate environment could be correlated with other macro-economic factors including unfavourable economic growth and lower returns on other asset classes.
  - A weak or declining economic environment could increase the value of guarantees associated with variable annuities, or embedded guarantees in other annuity or insurance products, and could result in future adverse policyholder behaviour experience.
  - Lower interest rates could lead to lower mean bond parameters used for the stochastic valuation of segregated fund guarantees, resulting in higher policy liabilities.
  - Lower interest rates could contribute to potential impairments of goodwill as a result of their impact on the business as described above.

### Regulatory and Capital Risk Factors

The Company is subject to a wide variety of laws and regulations that vary by jurisdiction and are intended to protect policyholders and beneficiaries first and foremost, rather than investors. Internationally, insurance authorities and regulators are reviewing their capital requirements and implementing or considering changes aimed at strengthening risk management and the capitalization of financial institutions. Changes in regulatory capital guidelines for banks under the Basel Accord, initiatives by the International Association of Insurance Supervisors ("IAIS") to create Basic Capital Requirements, a special Higher Loss Absorbency capital surcharge on select activities, and International Capital Standards may also have implications for Canadian insurance companies. In addition, legal and regulatory capital could be impacted by changes to accounting standards being proposed by the International Accounting Standards Board ("IASB") with respect to insurance contracts, financial instruments, and hedge accounting.

The potential changes to regulatory capital and accounting standards could have a material adverse effect on the Company's Consolidated Financial Statements and regulatory capital both on transition and going forward. The impact of these changes remains uncertain but could lead to increased capital needs going forward. Changes in jurisdictional regulatory frameworks could also limit the ability of the insurance subsidiaries to pay dividends or make distributions and could have a significantly adverse effect on MFC's capital mobility, including its ability to pay dividends to shareholders, buy back its shares and service its debt. We may be required to raise additional capital, which could be dilutive to existing shareholders, or limit the new business we write, or pursue actions that would support capital needs but adversely impact our subsequent earnings potential. In addition, the timing and outcome of these initiatives could have a significantly adverse impact on our competitive position relative to that of other Canadian and international financial institutions with which we compete for business and capital. Some recent examples of regulatory and professional standard developments which could impact our earnings and/or capital position are provided below:

- The IASB issued an exposure draft of a new accounting standard for insurance contracts in June 2013. As drafted, the standard could create material unwarranted volatility in our financial results and capital position and could result in lower discount rates used for the determination of actuarial liabilities. The final standards are not expected to be effective until at least 2018 and it is not known if changes would be made to regulatory capital to adjust for the unwarranted volatility.
- The Office of the Superintendent of Financial Institutions ("OSFI") is developing a methodology for evaluating standalone capital adequacy for Canadian operating life insurance companies, such as MLI, and considering updates to its regulatory guidance and disclosures for non-operating insurance companies acting as holding companies, such as MFC. In addition, OSFI is developing a refresh of the regulatory capital framework in Canada intended to be finalized in 2016 with implementation in 2019.
- The National Association of Insurance Companies has been reviewing reserving and capital methodologies as well as the overall risk management framework. These reviews will affect U.S. life insurers, including John Hancock, and could lead to increased reserving and/or capital requirements for our business in the United States. In the fall of 2013, the IAIS committed to the completion of several capital initiatives in the next few years that will apply to select global insurance groups, including Basic Capital Requirements to be introduced in 2015, and a special Higher Loss Absorbency capital surcharge on select activities for 2016. The most relevant for MFC is the IAIS work to develop global Insurance Capital Standards which will take place in 2015 and 2016 and apply to all large internationally active insurance groups. It is not yet known how the proposals will affect capital requirements and the competitive position of the Company.

- The Company currently has reinsurance agreements, including agreements with third parties and affiliate reinsurance agreements. In 2014 regulators in the U.S. established guidelines for new affiliate transactions on a go forward basis. However, regulators in the U.S. and elsewhere continue to review and examine the use of reinsurance in general. In particular, the New York State Department of Financial Services has expressed concerns about captive reinsurance arrangements with off-shore affiliates or so-called “shadow insurance”. Class action lawsuits have been commenced in the U.S. against certain life insurance companies, with the plaintiffs claiming the defendants misrepresented their reserves and financial condition as a result of the reinsurance of risks to affiliates. The Company continues to monitor developments in this area and we cannot predict what, if any, changes may result from this scrutiny. Changes to the regulatory treatment of affiliate and third-party reinsurance arrangements could potentially have an adverse effect on the financial results, liquidity and capital position of some of our subsidiaries and result in increased collateral requirements, and/or limit our use of affiliate reinsurance companies.
- The Canadian Institute of Actuaries is reviewing the promulgation of prescribed Mortality Improvement rates referenced in the Canadian Actuarial Standards of Practice for the valuation of insurance contract liabilities. To the extent a new promulgation is published it will apply to the determination of actuarial liabilities; it may lead to an increase in actuarial liabilities and a reduction in net income attributed to shareholders.

### **The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”)**

Dodd-Frank Title VII in the U.S. establishes a new framework for regulation of over-the-counter (“OTC”) derivatives which affects activities of the Company which use derivatives for various purposes, including hedging equity market, interest rate and foreign currency exposures. Regulations promulgated by the U.S. Commodities Futures Trading Commission and the U.S. Securities and Exchange Commission under Dodd-Frank (since June 10, 2013) requires certain types of OTC derivative transactions to be executed through a centralized exchange or regulated facility and be cleared through a regulated clearinghouse. These new rules cause additional costs, including new capital and funding requirements, and additional regulation of the Company.

Derivative transactions executed through exchanges or regulated facilities attract incremental collateral requirements in the form of initial margin, and require variation margin to be cash settled on a daily basis which increases liquidity risk for the Company. The increase in margin requirements (relative to bilateral agreements), combined with a more restricted list of securities that qualify as eligible collateral, requires us to hold larger positions in cash and treasuries, which could reduce net income attributed to shareholders. Conversely, transactions executed through exchanges largely eliminate OTC counterparty credit risk but increase our exposure to the risk of an exchange or clearinghouse defaulting, and increased capital or margin requirements imposed on our OTC derivative counterparties could reduce our exposure in the event of a counterparties’ default.

In-force OTC derivative transactions are grandfathered and will migrate to being cleared through exchanges over time, or the Company may elect to accelerate the migration. As such, this does not become a significant risk for Manulife until a large portion of our derivatives have transitioned to clearing houses and market conditions adverse to liquidity (material increases in interest rates and/or equity markets) have been experienced.

Similar regulations in other jurisdictions in which we operate are expected to become effective over the next few years. We cannot predict the effect of the legislation on our hedging costs, our hedging strategy or its implementation, or whether Dodd-Frank and similar regulations in other jurisdictions will lead to an increase or decrease in, or change in, composition of the risks we hedge.

### **International Financial Reporting Standards**

The IASB issued an exposure draft on a new accounting standard for insurance contracts in June 2013. The proposal will have a material impact on our financial results if implemented in the current form. The Company’s capital position and income for accounting purposes would be highly correlated to prevailing market conditions, resulting in massive unwarranted volatility that will make it difficult for investors, regulators, and other authorities to distinguish between the performance of the underlying business and meaningless short-term market noise. This could also result in life insurers exiting the long duration contracts business and pulling out of alternative long-duration investments ultimately reducing the stability and long-term view of the insurance business.

The comment period on the exposure draft ended on October 25, 2013 and the final standard is not expected to be effective until at least 2019. We, along with other international companies in the industry, provided feedback on the significant issues we see with the IASB exposure draft. In addition, Manulife, MetLife Inc., New York Life and Prudential Financial Inc. performed comprehensive field testing of the proposal within the exposure draft response period. The results of these field tests supported the concerns raised with the IASB.

Additionally, for IFRS, other jurisdictions may not adopt the standard as issued or on the same timeline as published by the IASB, and there is a possibility that Canada will be the first to adopt the standard. Adopting the standard in Canada before it is adopted elsewhere would increase our cost of capital compared to global competitors and the banking sector in Canada.

The insurance industry in Canada has support from OSFI and the federal government with respect to the potential impact of these proposals on Canadian insurance companies. The industry is urging policymakers to ensure that any future accounting and capital proposals appropriately consider the underlying business model of a life insurance company and, in particular, the implications for long-duration guaranteed products which are much more prevalent in North America than in Europe.

### **Entities within the MFC Group are interconnected which may make separation difficult**

Linkages between MFC and its subsidiaries may make it difficult to dispose of or separate a subsidiary within the group by way of spin-off or similar transaction. See the Company’s Annual Information Form – “Risk Factors – Additional risks – Entities within the

MFC Group are interconnected which may make separation difficult.” In addition to the possible negative consequences outlined in such disclosure, other negative consequences could include a requirement for significant capital injections, and increased net income and capital sensitivities of MFC and its remaining subsidiaries to market declines.

### Ratings Risk Factors

The Company has received security ratings from approved rating organizations on certain of its long-term debt, liabilities for preferred shares and capital instruments and preferred shares qualifying as equity. In addition, the Company’s primary insurance operating subsidiaries have received financial strength/claims paying ability ratings. Our ratings could be adversely affected if, in the view of the rating organizations, there is deterioration in our financial flexibility, operating performance, or risk profile. Adverse ratings changes could have a negative impact on future financial results.

### Reputation Risk Factors

The Company’s reputation is one of our most valuable assets. Our corporate image may be eroded by adverse publicity as a result of our business practices or those of our employees, representatives, and business partners, potentially causing damage to our franchise value. A loss of reputation is often a consequence of some other risk control failure whether associated with complex financial transactions or relatively routine operational activities. As such, reputation risk cannot be managed in isolation from other risks.

### Risk Factors and IFRS 7 Disclosure

The shaded text and tables in the following sections of this MD&A represent our disclosure on market and liquidity risk in accordance with IFRS 7, “Financial Instruments – Disclosures,” and include a discussion on how we measure risk and our objectives, policies and methodologies for managing these risks. Therefore, the following shaded text and tables represent an integral part of our audited annual Consolidated Financial Statements for the years ended December 31, 2014 and December 31, 2013. The fact that certain text and tables are considered an integral part of the Consolidated Financial Statements does not imply that the disclosures are of any greater importance than the sections not part of the disclosure. Accordingly, the “Risk Management and Risk Factors” disclosure should be read in its entirety.

### Market Risk

**Market risk is the risk of loss resulting from market price volatility, interest rate change, credit and swap spread changes, and from adverse foreign currency rate movements. Market price volatility primarily relates to changes in prices of publicly traded equities and alternative long-duration assets.**

### Market Risk Management Strategy Overview

Our overall strategy to manage our market risks incorporates several component strategies, each targeted to manage one or more of the market risks arising from our businesses. At an enterprise level, these strategies are designed to manage our aggregate exposures to market risks against economic capital, regulatory required capital and earnings at risk limits.

The following table outlines our key market risks and identifies the risk management strategies which contribute to managing these risks.

Risk Management strategy	Key Market Risk			
	Publicly Traded Equity Performance Risk	Interest Rate and Spread Risk	Alternative Long-Duration Asset Performance Risk	Foreign Exchange Risk
Product design and pricing	X	X	X	X
Variable annuity guarantee dynamic hedging	X	X		X
Macro equity risk hedging	X			X
Asset liability management	X	X	X	X
Foreign exchange management				X

To reduce publicly traded equity performance risk, we primarily use a variable annuity guarantee dynamic hedging strategy which is complemented by a general macro equity risk hedging strategy. Our strategies employed for variable annuity guarantee dynamic hedging and macro equity risk hedging expose the Company to additional risks. These risks are outlined in the “Publicly Traded Equity Performance Risk” section below.

In general, to reduce interest rate risk, we lengthen the duration of our fixed income investments in both our liability and surplus segments by investing in longer duration bonds, and by executing lengthening interest rate swaps. During 2014, the sensitivity of net income attributed to shareholders to declines in interest rates decreased. The decrease in sensitivity to parallel interest rates changes was primarily attributable to the implementation of the revised Canadian Actuarial Standards of Practice related to economic reinvestment assumptions and resulting changes to the methodology used to develop the risk free interest rate scenarios used in our policy liability calculations.

Changes in the market value of fixed income assets held in our surplus segment may provide a natural economic offset to the interest rate risk arising from our product liabilities. In order for there to also be an accounting offset, the Company would need to realize a portion of the AFS fixed income unrealized gains or losses. While we have a history of being able to realize a portion of these gains or losses, it is not certain that we would crystallize any of the unrealized gains or losses available.

## Key Risk Factors

### Publicly Traded Equity Performance Risk

Publicly traded equity performance risk arises from a variety of sources, including guarantees associated with certain variable annuity and segregated fund products, asset based fees, and investments in publicly traded equities supporting both our general fund products and our surplus segment.

Our most significant source of equity risk arises from variable annuity and segregated funds with guarantees, where the guarantees are linked to the performance of the underlying funds. Guaranteed benefits are contingent and only payable upon death, maturity, permitted withdrawal or annuitization. If equity markets decline or even if they increase by an amount lower than that assumed in our actuarial valuation, additional liabilities may need to be established to cover the contingent liabilities, resulting in a reduction in shareholders' net income and regulatory capital ratios. Further, if equity markets do not recover to the amount of the guarantees, by the dates the liabilities are due, the accrued liabilities will need to be paid out in cash. In addition, a sustained flat or a decline in public equity markets would likely reduce asset based fee revenues related to variable annuities and segregated funds with guarantees and related to other wealth and insurance products.

Where publicly traded equity investments are used to support policy liabilities, the policy valuation incorporates projected investment returns on these assets. If actual returns are lower than the expected returns, the Company's policy liabilities will increase, reducing net income attributed to shareholders.

Further, for products where the investment strategy applied to future cash flows in the policy valuation includes investing a specified portion of future cash flows in publicly traded equities, a decline in the value of publicly traded equities relative to other assets could require us to change the investment mix assumed for future cash flows, which may increase policy liabilities and reduce net income attributed to shareholders. In addition, a reduction in the outlook for expected future returns for publicly traded equities, which could result from a fundamental change in future expected economic growth, would increase policy liabilities and reduce net income attributed to shareholders. Furthermore, to the extent publicly traded equities are held as AFS, other than temporary impairments that arise will reduce net income attributed to shareholders.

Expected long-term annual market growth assumptions for public equities pre-dividends for key markets are based on long-term historical observed experience. In the stochastic valuation of our segregated fund guarantee business, those rates inclusive of dividends are 9.6% per annum in Canada, 9.6% per annum in the U.S., 6.2% per annum in Japan and vary between 7.8% and 9.85% per annum for European equity funds. The calibration of the economic scenario generators that are used to value segregated fund guarantee business complies with current Canadian Actuarial Standards of Practice for the valuation of these products. Implicit margins are determined through stochastic valuation processes which results in lower net yields used to determine policy liabilities. Assumptions used for public equities backing liabilities are also developed based on historical experience but are constrained by different Canadian Actuarial Standards of Practice and differ slightly than those used in stochastic valuations. Alternative asset return assumptions vary based on asset class but are largely consistent, after application of valuation margins and differences in taxation, with returns assumed for public equities.

### Interest Rate and Spread Risk

Interest rate and spread risk arises from general fund guaranteed benefit products, general fund adjustable benefit products with minimum rate guarantees, general fund products with guaranteed surrender values, segregated fund products with minimum benefit guarantees and from surplus fixed income investments.

Interest rate and spread risk arises within the general fund primarily due to the uncertainty of future returns on investments to be made as assets mature and as recurring premiums are received and invested or reinvested to support longer dated liabilities. Interest rate risk also arises due to minimum rate guarantees and guaranteed surrender values on products where investment returns are generally passed through to policyholders.

A general decline in interest rates, without a change in corporate bond spreads and swap spreads, will reduce the assumed yield on future investments used in the valuation of policy liabilities, resulting in an increase in policy liabilities and a reduction in net income attributed to shareholders. In addition, changes in interest rates could change the reinvestment scenarios used in the calculation of our actuarial liabilities. The reinvestment scenario changes tend to amplify the negative effects of a decrease in interest rates, and dampen the positive effects of interest rate increases. A general increase in interest rates, without a change in corporate bond spreads and swap spreads, will result in a decrease in policy liabilities and an increase in net income attributed to shareholders. In addition, decreases in corporate bond spreads or increases in swap spreads will result in an increase in policy liabilities and a reduction in net income attributed to shareholders, while an increase in corporate bond spreads or a decrease in swap spreads will have the opposite impact. The impact of changes in interest rates and in spreads may be partially offset by changes to credited rates on adjustable products that pass through investment returns to policyholders.

For segregated fund and variable annuity products, a sustained increase in interest rate volatility or a decline in interest rates would also likely increase the costs of hedging the benefit guarantees provided.

### Alternative Long-Duration Asset Performance Risk

Alternative long-duration asset performance risk arises from general fund investments in commercial real estate, timber properties, agricultural properties, infrastructure, oil and gas properties, and private equities.

Where these assets are used to support policy liabilities, the policy valuation incorporates projected investment returns on these assets. Alternative long-duration asset assumptions vary by asset class and generally have a similar impact on policy liabilities as publicly traded equities would. If actual returns are lower than the expected returns, the Company's policy liabilities will increase, reducing net income attributed to shareholders. In addition, a reduction in the outlook for expected future returns for alternative long-duration assets, which could result from a fundamental change in future expected economic growth, would increase policy liabilities and reduce net income attributed to shareholders.

The value of oil and gas assets could be negatively impacted by a number of factors including, but not limited to changes in energy prices, production declines, adverse operating results, the impact of weather conditions on seasonal demand, ability to execute on capital programs, incorrect assessments of the value of acquisitions, uncertainties associated with estimating oil and natural gas reserves, and difficult economic conditions. Changes in government regulation of the oil and gas industry, including environmental regulation and changes in the royalty rates resulting from provincial royalty reviews, could also adversely affect the value of our oil and gas investments. The negative impact of changes in these factors can take time to be fully reflected in the valuations of these investments, especially if the change is large and rapid. It can take time for market participants to adjust their forecasts and better understand the potential medium to long-term impact of the changes. As a result, valuation changes in any given period may reflect the delayed impact of events that occurred in prior periods.

### **Foreign Exchange Risk**

Our financial results are reported in Canadian dollars. A substantial portion of our business is transacted in currencies other than Canadian dollars, mainly U.S. dollars, Hong Kong dollars and Japanese yen. If the Canadian dollar strengthens relative to these currencies, reported earnings would decline and our reported shareholders' equity would decline. Further, to the extent that the resultant change in available capital is not offset by a change in required capital, our regulatory capital ratios would be reduced. A weakening of the Canadian dollar against the foreign currencies in which we do business would have the opposite effect, and would increase reported Canadian dollar earnings and shareholders' equity, and would potentially increase our regulatory capital ratios.

## **Market Risk Management Strategies**

### **Product Design and Pricing Strategy**

Our policies, standards and standards of practice with respect to product design and pricing are designed with the objective of aligning our product offerings with our risk taking philosophy and risk appetite, and in particular, that incremental risk generated from new sales aligns with our strategic risk objectives and risk limits. The specific design features of our product offerings, including level of benefit guarantees, policyholder options, fund offerings and availability restrictions as well as our associated investment strategies, help to mitigate the level of underlying risk. We regularly review and modify all key features within our product offerings, including premiums and fee charges with a goal of meeting profit targets and staying within risk limits. Certain of our general fund adjustable benefit products have minimum rate guarantees. The rate guarantees for any particular policy are set at the time the policy is issued and governed by insurance regulation in each jurisdiction where the products are sold. The contractual provisions allow crediting rates to be re-set at pre-established intervals subject to the established minimum crediting rate guarantees. The Company may partially mitigate the interest rate exposure by setting new rates on new business and by adjusting rates on in-force business where permitted. In addition, the Company partially mitigates this interest rate risk through its asset liability management process, product design elements, and crediting rate strategies. New product initiatives, new business reinsurance arrangements and material insurance underwriting initiatives must be reviewed and approved by the CRO or key individuals within the global risk management group.

### **Hedging Strategies for Variable Annuity and Other Equity Risks**

The Company's exposure to movement in public equity market values primarily arises from variable annuity guarantees and to a smaller extent from asset-based fees and general fund public equity holdings.

Dynamic hedging is the primary hedging strategy for variable annuity market risks. Dynamic hedging is employed for new variable annuity guarantees business when written, or as soon as practical thereafter.

Public equity risk arising from other sources (not dynamically hedged) is managed through our macro equity risk hedging strategy. Interest rate risk arising from variable annuity business not dynamically hedged is managed within our asset liability management strategy.

### **Dynamic Hedging**

The variable annuity dynamic hedging strategy is designed to hedge the sensitivity of variable annuity guarantee policy liabilities and available capital to fund performance (both public equity and bond funds) and interest rate movements. The objective of the dynamic hedging strategy is to offset, as closely as possible, the change in the economic value of guarantees with the profit and loss from our hedge asset portfolio. The economic value of guarantees moves in close tandem, but not exactly, with our variable annuity guarantee policy liabilities, as it reflects best estimate liabilities and does not include any liability provisions for adverse deviations.

Our current hedging approach is to short exchange-traded equity index and government bond futures and execute currency futures and lengthening interest rate swaps to hedge sensitivity of policy liabilities to fund performance and interest rate movements arising from variable annuity guarantees. We dynamically rebalance these hedge instruments as market conditions change, in order to maintain the hedged position within established limits. Other derivative instruments (such as equity options) are also utilized and we may consider the use of additional hedge instruments opportunistically in the future.

Our variable annuity guarantee dynamic hedging strategy is not designed to completely offset the sensitivity of policy liabilities to all risks associated with the guarantees embedded in these products. The profit (loss) on the hedge instruments will not completely offset the underlying losses (gains) related to the guarantee liabilities hedged because:

- Policyholder behaviour and mortality experience are not hedged;
- Provisions for adverse deviation in the policy liabilities are not hedged;
- A portion of interest rate risk is not hedged;
- Credit spreads widen and actions are not taken to adjust accordingly;
- Fund performance on a small portion of the underlying funds is not hedged due to lack of availability of effective exchange-traded hedge instruments;
- Performance of the underlying funds hedged may differ from the performance of the corresponding hedge instruments;
- Correlations between interest rates and equity markets could lead to unfavourable material impacts;
- Unfavourable hedge rebalancing costs can be incurred during periods of high volatility from equity markets, bond markets and/or interest rates. The impact is magnified when these impacts occur concurrently; and
- Not all other risks are hedged.

The risks related to the variable annuity dynamic hedging strategy are described below within “Risks Related to Dynamic and Macro Hedging Strategies”.

### Macro Equity Risk Hedging

The objective of the macro equity risk hedging program is to maintain our overall earnings sensitivity to public equity market movements within our Board approved risk appetite limits. The macro hedging program thus hedges earnings sensitivity due to movements in public equity markets arising from all sources (outside of dynamically hedged exposures). Sources of equity market sensitivity addressed by the macro equity hedging include and are not limited to:

- Residual equity and currency exposure from variable annuity guarantees not dynamically hedged;
- General fund equity holdings backing non-participating liabilities;
- Variable life insurance;
- Unhedged provisions for adverse deviation related to variable annuity guarantees dynamically hedged; and
- Variable annuity fees not associated with guarantees and fees on segregated funds without guarantees, mutual funds and institutional assets managed.

We currently execute our macro equity risk hedging strategy by shorting equity futures and executing currency futures, and rolling them over at maturity. We may consider the use of alternative long-duration instruments opportunistically in the future.

### Risks Related to Dynamic and Macro Hedging Strategies

Our hedging strategies rely on the execution of derivative transactions in a timely manner. Therefore, hedging costs and the effectiveness of the strategy may be negatively impacted if markets for these instruments become illiquid. The Company is subject to the risk of increased funding and collateral demands which may become significant as equity markets increase.

The Company is also subject to counterparty risks arising from the derivative instruments and to the risk of increased funding and collateral demands which may become significant as equity markets and interest rates increase. The strategies are highly dependent on complex systems and mathematical models that are subject to error and rely on long-term forward-looking assumptions that may prove inaccurate, and which rely on sophisticated infrastructure and personnel which may fail or be unavailable at critical times. Due to the complexity of the strategies there may be additional, unidentified risks that may negatively impact our business and future financial results.

Under certain market conditions, which include a sustained increase in realized equity and interest rate volatilities, a decline in interest rates, or an increase in the correlation between equity returns and interest rate declines, the costs of hedging the benefit guarantees provided in variable annuities may increase or become uneconomic. In addition, there can be no assurance that our dynamic hedging strategy will fully offset the risks arising from the variable annuities being hedged.

Policy liabilities and MCCR required capital for variable annuity guarantees are determined using long-term forward-looking estimates of volatilities. These long-term forward-looking volatilities assumed for policy liabilities and required capital meet the Canadian Institute of Actuaries and OSFI calibration standards. To the extent that realized equity or interest rate volatilities in any quarter exceed the assumed long-term volatilities, or correlations between interest rate changes and equity returns are higher, there is a risk that rebalancing will be greater and more frequent, resulting in higher hedging costs.

The level of guarantee claims ultimately paid will be impacted by policyholder longevity and policyholder activity including the timing and amount of withdrawals, lapses and fund transfers. The sensitivity of liability values to equity market and interest rate movements that we hedge are based on long-term expectations for longevity and policyholder activity, since the impact of actual longevity and policyholder experience variances cannot be hedged using capital markets instruments.

### **Asset Liability Management Strategy**

Our asset liability management strategy is designed to help ensure that the market risks embedded in our assets and liabilities held in the Company's general fund are effectively managed and that risk exposures arising from these assets and liabilities are maintained below targeted levels. The embedded market risks include risks related to the level and movement of interest rates and credit spreads, public equity market performance, alternative long-duration asset ("ALDA") performance and foreign exchange rate movements.

General fund product liabilities are segmented into groups with similar characteristics that are supported by specific asset segments. Each segment is managed to a target investment strategy appropriate for the premium and benefit pattern, policyholder options and guarantees, and crediting rate strategies of the products they support. Similar strategies are established for assets in the Company's surplus account. The strategies are set using portfolio analysis techniques intended to optimize returns, subject to considerations related to regulatory and economic capital requirements, and risk tolerances. They are designed to achieve broad diversification across asset classes and individual investment risks while being suitably aligned with the liabilities they support. The strategies encompass asset mix, quality rating, term profile, liquidity, currency and industry concentration targets.

Products which feature guaranteed liability cash flows (i.e., where the projected net flows are not materially dependent upon economic scenarios) are combined into a single asset segment by region, and managed to a target return investment strategy. The products backed by this asset segment include:

- Accumulation annuities (other than annuities with pass-through features), which are primarily short-to-medium-term obligations and offer interest rate guarantees for specified terms on single premiums. Withdrawals may or may not have market value adjustments. Payout annuities, which have no surrender options and include predictable and very long-dated obligations.
- Insurance products, with recurring premiums extending many years in the future, and which also include a significant component of very long-dated obligations.

The assets backing these long-dated benefits are managed to achieve a target return sufficient to support the obligations over their lifetime, subject to established risk tolerances, by investing in a basket of diversified ALDA with the balance invested in fixed income. Utilizing ALDA to partially support these products is intended to enhance long-term investment returns and reduce aggregate risk through diversification. The size of the target ALDA portfolio is dependent upon the size and term of each segment's liability obligations. Fixed income assets are managed to a benchmark developed to minimize interest rate risk against the residual liabilities, and to achieve target returns/spreads required to preserve long-term interest rate investment assumptions used in liability pricing.

For insurance and annuity products where significant pass through features exist, a total return strategy approach is used, generally combining fixed income and ALDA. ALDA may be included to enhance long-term investment returns and reduce aggregate risk through diversification. Target investment strategies are established using portfolio analysis techniques to optimize long-term investment returns while considering the risks related to embedded product guarantees and policyholder withdrawal options, the impact of regulatory and economic capital requirements and management tolerances with respect to short-term income volatility and long-term tail risk exposure. Shorter duration liabilities such as fixed deferred annuities do not incorporate ALDA in their target asset mixes.

In our general fund, we limit concentration risk associated with ALDA performance by investing in a diversified basket of assets including public and private equities, commercial real estate, infrastructure, timber, agricultural real estate, and oil and gas assets. We further diversify risk by managing publicly traded equities and ALDA investments against established limits, including for industry type and corporate connection, commercial real estate type and geography, and timber and agricultural property geography and crop type.

Authorities to manage our investment portfolios are delegated to investment professionals who manage to benchmarks derived from the target investment strategies established for each segment, including interest rate risk tolerances. Interest rate risk exposure measures are monitored and communicated to portfolio managers with frequencies ranging from daily to annually, depending on the type of liability. Asset portfolio rebalancing, accomplished using cash investments or derivatives, may occur at frequencies ranging from daily to monthly, depending on our established risk tolerances and the potential for changes in the profile of the assets and liabilities.

Our asset liability management strategy incorporates a wide variety of risk measurement, risk mitigation and risk management, and hedging processes. The liabilities and risks to which the Company is exposed, however, cannot be completely matched or hedged due to both limitations on instruments available in investment markets and uncertainty of policyholder experience and consequent liability cash flows.



## Foreign Exchange Risk Management Strategy

Our foreign exchange risk management strategy is designed to hedge the sensitivity of our regulatory capital ratios to movements in foreign exchange rates. In particular, the objective of the strategy is to offset within acceptable tolerance levels, changes in required capital with changes in available capital that result from movements in foreign exchange rates. These changes occur when assets and liabilities related to business conducted in currencies other than Canadian dollars are translated to Canadian dollars at period ending exchange rates.

Our policy is to generally match the currency of our assets with the currency of the liabilities they support, and similarly, to generally match the currency of the assets in our shareholders' equity account to the currency of our required capital. Where assets and liabilities are not matched, forward contracts and currency swaps are used to stabilize our capital ratios and our capital adequacy relative to economic capital, when foreign exchange rates change.

Risk exposure limits are measured in terms of potential changes in capital ratios due to foreign exchange rate movements, determined to represent a specified likelihood of occurrence based on internal models. We utilize a Value-at-Risk ("VaR") methodology quarterly to estimate the potential impact of currency mismatches on our capital ratios.

While our risk management strategy is designed to stabilize capital adequacy ratios, the sensitivity of reported shareholders' equity and income to foreign exchange rate changes is not hedged.

## Sensitivities and Risk Exposure Measures

### Variable Annuity and Segregated Fund Guarantees

Guarantees on variable products and segregated funds may include one or more of death, maturity, income and withdrawal guarantees. Variable annuity and segregated fund guarantees are contingent and only payable upon the occurrence of the relevant event, if fund values at that time are below guaranteed values. Depending on future equity market levels, liabilities on current in-force business would be due primarily in the period from 2015 to 2038.

We seek to mitigate a portion of the risks embedded in our retained (i.e. net of reinsurance) variable annuity and segregated fund guarantee business through the combination of our dynamic and macro hedging strategies (see "Publicly Traded Equity Performance Risk" above).

The table below shows selected information regarding the Company's variable annuity and segregated fund investment-related guarantees gross and net of reinsurance.

### Variable annuity and segregated fund guarantees, net of reinsurance

As at December 31, (C\$ millions)	2014			2013		
	Guarantee value	Fund value	Amount at risk <sup>(4),(5)</sup>	Guarantee value	Fund value	Amount at risk <sup>(4),(5)</sup>
Guaranteed minimum income benefit <sup>(1)</sup>	\$ 6,014	\$ 4,846	\$ 1,203	\$ 6,194	\$ 5,161	\$ 1,109
Guaranteed minimum withdrawal benefit	66,950	64,016	4,570	66,189	63,849	4,120
Guaranteed minimum accumulation benefit	14,514	18,670	23	16,942	20,581	94
Gross living benefits <sup>(2)</sup>	\$ 87,478	\$ 87,532	\$ 5,796	\$ 89,325	\$ 89,591	\$ 5,323
Gross death benefits <sup>(3)</sup>	12,178	11,036	1,312	12,490	11,230	1,413
Total gross of reinsurance and hedging	\$ 99,656	\$ 98,568	\$ 7,108	\$ 101,815	\$ 100,821	\$ 6,736
Living benefits reinsured	\$ 5,242	\$ 4,249	\$ 1,020	\$ 5,422	\$ 4,544	\$ 942
Death benefits reinsured	3,598	3,398	560	3,601	3,465	564
Total reinsured	\$ 8,840	\$ 7,647	\$ 1,580	\$ 9,023	\$ 8,009	\$ 1,506
<b>Total, net of reinsurance</b>	<b>\$ 90,816</b>	<b>\$ 90,921</b>	<b>\$ 5,528</b>	<b>\$ 92,792</b>	<b>\$ 92,812</b>	<b>\$ 5,230</b>

<sup>(1)</sup> Contracts with guaranteed long-term care benefits are included in this category.

<sup>(2)</sup> Where a policy includes both living and death benefits, the guarantee in excess of the living benefit is included in the death benefit category.

<sup>(3)</sup> Death benefits include stand-alone guarantees and guarantees in excess of living benefit guarantees where both death and living benefits are provided on a policy.

<sup>(4)</sup> Amount at risk (in-the-money amount) is the excess of guarantee values over fund values on all policies where the guarantee value exceeds the fund value. This amount is not currently payable. For guaranteed minimum death benefit, the amount at risk is defined as the current guaranteed minimum death benefit in excess of the current account balance. For guaranteed minimum income benefit, the amount at risk is defined as the excess of the current annuitization income base over the current account value. For all guarantees, the amount at risk is floored at zero at the single contract level.

<sup>(5)</sup> The amount at risk net of reinsurance at December 31, 2014 was \$5,528 million (December 31, 2013 – \$5,230 million) of which: US\$3,616 million (December 31, 2013 – US\$3,124 million) was on our U.S. business, \$912 million (December 31, 2013 – \$1,248 million) was on our Canadian business, US\$99 million (December 31, 2013 – US\$335 million) was on our Japan business and US\$264 million (December 31, 2013 – US\$285 million) was related to Asia (other than Japan) and our run-off reinsurance business.

The policy liabilities established for variable annuity and segregated fund guarantees were \$4,862 million at December 31, 2014 (December 31, 2013 – \$1,197 million). For non-dynamically hedged business, policy liabilities increased from \$589 million at December 31, 2013 to \$684 million at December 31, 2014. For the dynamically hedged business, the policy liabilities increased from \$608 million at December 31, 2013 to \$4,178 million at December 31, 2014.

The increase in the total policy liabilities for variable annuity and segregated fund guarantees since December 31, 2013 is mainly due to the decline in yield curves and, in the case of dynamically hedged business, is also due to the decrease in swap rates in North America.

### Investment categories for variable contracts with guarantees

Variable contracts with guarantees are invested, at the policyholder's discretion subject to contract limitations, in various fund types within the segregated fund accounts and other investments. The account balances by investment category are set out below.

As at December 31,  
(C\$ millions)

Investment category	2014	2013
Equity funds	\$ 38,595	\$ 37,968
Balanced funds	57,778	59,198
Bond funds	10,674	10,418
Money market funds	1,957	2,255
Other fixed interest rate investments	1,770	1,601
<b>Total</b>	<b>\$ 110,774</b>	<b>\$ 111,440</b>

### Caution Related to Sensitivities

In the sections that follow, we provide sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rate levels projected using internal models as at a specific date, and are measured relative to a starting level reflecting the Company's assets and liabilities at that date and the actuarial factors, investment activity and investment returns assumed in the determination of policy liabilities. The risk exposures measure the impact of changing one factor at a time and assume that all other factors remain unchanged. Actual results can differ significantly from these estimates for a variety of reasons including the interaction among these factors when more than one changes; changes in actuarial and investment return and future investment activity assumptions; actual experience differing from the assumptions, changes in business mix, effective tax rates and other market factors; and the general limitations of our internal models. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined below. Given the nature of these calculations, we cannot provide assurance that the actual impact on net income attributed to shareholders or on MLI's MCCSR ratio will be as indicated.

### Publicly Traded Equity Performance Risk

As outlined above, the macro hedging strategy is designed to mitigate public equity risk arising from variable annuity guarantees not dynamically hedged and from other products and fees. In addition, our variable annuity guarantee dynamic hedging strategy is not designed to completely offset the sensitivity of policy liabilities to all risks associated with the guarantees embedded in these products.

The tables below show the potential impact on net income attributed to shareholders resulting from an immediate 10, 20 and 30% change in market values of publicly traded equities followed by a return to the expected level of growth assumed in the valuation of policy liabilities, including embedded derivatives. The potential impact is shown after taking into account the impact of the change in markets on the hedge assets. While we cannot reliably estimate the amount of the change in dynamically hedged variable annuity guarantee liabilities that will not be offset by the profit or loss on the dynamic hedge assets, we make certain assumptions for the purposes of estimating the impact on shareholders' net income.

This estimate assumes that the performance of the dynamic hedging program would not completely offset the gain/loss from the dynamically hedged variable annuity guarantee liabilities. It assumes that the hedge assets are based on the actual position at the period end, and that equity hedges in the dynamic program are rebalanced at 5% intervals. In addition, we assume that the macro hedge assets are rebalanced in line with market changes.

It is also important to note that these estimates are illustrative, and that the hedging program may underperform these estimates, particularly during periods of high realized volatility and/or periods where both interest rates and equity market movements are unfavourable.

This disclosure has been simplified in 2014 to exclude the impact of assuming that the change in the value of dynamic hedge assets completely offsets the change in dynamically hedged variable annuity guarantees, and now shows the impact of macro and dynamic hedge assets in aggregate.

## Potential impact on net income attributed to shareholders arising from changes to public equity returns<sup>(1)</sup>

As at December 31, 2014 (C\$ millions)	-30%	-20%	-10%	10%	20%	30%
<b>Underlying sensitivity to net income attributed to shareholders<sup>(2)</sup></b>						
Variable annuity guarantees	\$ (4,480)	\$ (2,570)	\$ (1,100)	\$ 740	\$ 1,210	\$ 1,510
Asset based fees	(360)	(240)	(120)	120	240	360
General fund equity investments <sup>(3)</sup>	(650)	(440)	(210)	220	450	680
Total underlying sensitivity before hedging	\$ (5,490)	\$ (3,250)	\$ (1,430)	\$ 1,080	\$ 1,900	\$ 2,550
Impact of macro and dynamic hedge assets <sup>(4)</sup>	\$ 3,770	\$ 2,150	\$ 950	\$ (850)	\$ (1,460)	\$ (1,940)
<b>Net potential impact on net income after impact of hedging</b>	<b>\$ (1,720)</b>	<b>\$ (1,100)</b>	<b>\$ (480)</b>	<b>\$ 230</b>	<b>\$ 440</b>	<b>\$ 610</b>
<b>As at December 31, 2013 (C\$ millions)</b>						
	-30%	-20%	-10%	10%	20%	30%
<b>Underlying sensitivity to net income attributed to shareholders<sup>(2)</sup></b>						
Variable annuity guarantees	\$ (4,120)	\$ (2,310)	\$ (960)	\$ 610	\$ 1,060	\$ 1,380
Asset based fees	(310)	(210)	(110)	110	210	310
General fund equity investments <sup>(3)</sup>	(420)	(280)	(130)	140	280	430
Total underlying sensitivity before hedging	\$ (4,850)	\$ (2,800)	\$ (1,200)	\$ 860	\$ 1,550	\$ 2,120
Impact of macro and dynamic hedge assets <sup>(4)</sup>	\$ 3,510	\$ 1,880	\$ 770	\$ (680)	\$ (1,160)	\$ (1,510)
<b>Net potential impact on net income after impact of hedging</b>	<b>\$ (1,340)</b>	<b>\$ (920)</b>	<b>\$ (430)</b>	<b>\$ 180</b>	<b>\$ 390</b>	<b>\$ 610</b>

<sup>(1)</sup> See "Caution Related to Sensitivities" above.

<sup>(2)</sup> Defined as earnings sensitivity to a change in public equity markets including settlements on reinsurance contracts, but before the offset of hedge assets or other risk mitigants.

<sup>(3)</sup> This impact for general fund equities is calculated as at a point-in-time and does not include: (i) any potential impact on public equity weightings; (ii) any gains or losses on AFS public equities held in the Corporate and Other segment; or (iii) any gains or losses on public equity investments held in Manulife Bank. The participating policy funds are largely self-supporting and generate no material impact on net income attributed to shareholders as a result of changes in equity markets.

<sup>(4)</sup> Includes the impact of rebalancing equity hedges in the macro and dynamic hedging program. The impact of dynamic hedge rebalancing represents the impact of rebalancing equity hedges for dynamically hedged variable annuity guarantee best estimate liabilities at 5% intervals, but does not include any impact in respect of other sources of hedge ineffectiveness e.g., fund tracking, realized volatility and equity, interest rate correlations different from expected among other factors.

Changes in equity markets impact our available and required components of the MCCR ratio. The following table shows the potential impact to MLI's MCCR ratio resulting from changes in public equity market values, assuming that the change in the value of the hedge assets does not completely offset the change of the related variable annuity guarantee liabilities.

## Potential impact on MLI's MCCR ratio arising from public equity returns different than the expected return for policy liability valuation<sup>(1),(2)</sup>

Percentage points	Impact on MLI's MCCR ratio					
	-30%	-20%	-10%	10%	20%	30%
<b>December 31, 2014</b>	<b>(20)</b>	<b>(10)</b>	<b>(4)</b>	<b>1</b>	<b>7</b>	<b>11</b>
December 31, 2013	(14)	(8)	(4)	13	25	25

<sup>(1)</sup> See "Caution Related to Sensitivities" above. In addition, estimates exclude changes to the net actuarial gains/losses with respect to the Company's pension obligations as a result of changes in equity markets, as the impact on the quoted sensitivities is not considered to be material.

<sup>(2)</sup> The potential impact is shown assuming that the change in value of the hedge assets does not completely offset the change in the dynamically hedged variable annuity guarantee liabilities. The estimated amount that would not be completely offset relates to our practices of not hedging the provisions for adverse deviation and of rebalancing equity hedges for dynamically hedged variable annuity liabilities at 5% intervals.

The impact on the capital ratio at December 31, 2014 to positive equity markets has declined from the prior year due to the fact that required capital on segregated funds is no longer at the level at which additional gains can be immediately reflected in the ratio.

The following table shows the notional value of shorted equity futures contracts utilized for our variable annuity guarantee dynamic hedging and our macro equity risk hedging strategies.

## Notional value of shorted equity futures contracts

As at December 31, (C\$ millions)	2014	2013
For variable annuity guarantee dynamic hedging strategy <sup>(1)</sup>	\$ 10,700	\$ 7,500
For macro equity risk hedging strategy	3,000	2,000
<b>Total</b>	<b>\$ 13,700</b>	<b>\$ 9,500</b>

<sup>(1)</sup> Reflects net short and long positions for exposures to similar indices.

The equity futures notional amount required for the dynamic hedging programs increased by \$3.2 billion and for the macro hedging program increased by \$1.0 billion during 2014. The increase related to market movements and to normal rebalancing to maintain our desired equity market risk position.

## Interest Rate and Spread Risk

Effective December 31, 2014, as a result of decreases in interest rates we changed our disclosure on the potential impact of a parallel change in interest rates from a change of 100 basis points to a change of 50 basis points. At December 31, 2014, we estimated the sensitivity of our net income attributed to shareholders to a 50 basis point parallel decline in interest rates to be a charge of \$100 million, and to a 50 basis point increase in interest rates to be a benefit of \$100 million. The \$100 million decrease in sensitivity to a 50 basis point decline in interest rates from December 31, 2013 was primarily attributable to the implementation of the revised Canadian Actuarial Standards of Practice related to economic reinvestment assumptions and resulting changes to the methodology used to develop the risk free interest rate scenarios used in our policy liability calculations and to normal rebalancing as part of our interest rate risk hedging program.

The 50 basis point parallel change includes a change of 50 basis points in current government, swap and corporate rates for all maturities across all markets with no change in credit spreads between government, swap and corporate rates, and with a floor of zero on government rates, relative to the rates assumed in the valuation of policy liabilities, including embedded derivatives. For variable annuity guarantee liabilities that are dynamically hedged, it is assumed that interest rate hedges are rebalanced at 20 basis point intervals.

As the sensitivity to a 50 basis point change in interest rates includes any associated change in reinvestment scenarios used to calculate our actuarial liabilities, the impact of changes to interest rates for less than, or more than 50 basis points is unlikely to be linear. The reinvestment scenario changes tend to amplify the negative effects of a decrease in interest rates, and dampen the positive effects of interest rate increases. Furthermore, the actual impact on net income attributed to shareholders of non-parallel interest rate movements may differ from the estimated impact of parallel movements because our exposure to interest rate movements is not uniform across all durations.

The potential impact on annual net income attributed to shareholders does not allow for any future potential changes to the URR assumptions or other potential impacts of lower interest rate levels, for example, increased strain on the sale of new business or lower interest earned on our surplus assets. It also does not reflect any impact arising from the sale of fixed income assets held in our surplus segment. Changes in the market value of these assets may provide a natural economic offset to the interest rate risk arising from our product liabilities. In order for there to also be an accounting offset, the Company would need to realize a portion of the AFS fixed income asset unrealized gains or losses. It is not certain we would crystallize any of the unrealized gains or losses available. As at December 31, 2014, the AFS fixed income assets held in the surplus segment were in a net after-tax unrealized gain position of \$312 million (gross after-tax unrealized gains were \$413 million and gross after-tax unrealized losses were \$101 million).

The following table shows the potential impact on net income attributed to shareholders including the change in the market value of fixed income assets held in our surplus segment, which could be realized through the sale of these assets.

### Potential impact on net income attributed to shareholders and MLI's MCCR ratio of an immediate parallel change in interest rates relative to rates assumed in the valuation of policy liabilities<sup>(1),(2),(3),(4),(5)</sup>

As at December 31,	2014		2013	
	-50bp	+50bp	-50bp	+50bp
<b>Net income attributed to shareholders</b> (C\$ millions)				
Excluding change in market value of AFS fixed income assets held in the surplus segment	\$ (100)	\$ 100	\$ (200)	\$ 100
From fair value changes in AFS fixed income assets held in surplus, if realized	500	(400)	300	(300)
<b>MLI's MCCR ratio</b> (Percentage points)				
Before impact of change in market value of AFS fixed income assets held in the surplus segment <sup>(5)</sup>	(7)	5	(7)	8
From fair value changes in AFS fixed income assets held in surplus, if realized	3	(3)	2	(2)

<sup>(1)</sup> See "Caution Related to Sensitivities" above. In addition, estimates exclude changes to the net actuarial gains/losses with respect to the Company's pension obligations as a result of changes in interest rates, as the impact on the quoted sensitivities is not considered to be material.

<sup>(2)</sup> Includes guaranteed insurance and annuity products, including variable annuity contracts as well as adjustable benefit products where benefits are generally adjusted as interest rates and investment returns change, a portion of which have minimum credited rate guarantees. For adjustable benefit products subject to minimum rate guarantees, the sensitivities are based on the assumption that credited rates will be floored at the minimum.

<sup>(3)</sup> The amount of gain or loss that can be realized on AFS fixed income assets held in the surplus segment will depend on the aggregate amount of unrealized gain or loss.

<sup>(4)</sup> Sensitivities are based on projected asset and liability cash flows at the beginning of the quarter adjusted for the estimated impact of new business, investment markets and asset trading during the quarter. Any true-up to these estimates, as a result of the final asset and liability cash flows to be used in the next quarter's projection, are reflected in the next quarter's sensitivities. Impact of realizing fair value changes in AFS fixed income is as of the end of the quarter.

<sup>(5)</sup> The impact on MLI's MCCR ratio includes both the impact of lower earnings on available capital as well as the increase in required capital that results from a decline in interest rates. The potential increase in required capital accounted for 6 of the 7 points impact of a 50 basis point decline in interest rates on MLI's MCCR ratio in the fourth quarter of 2014.

The following tables show the potential impact on net income attributed to shareholders resulting from a change in corporate spreads and swap spreads over government bond rates for all maturities across all markets with a floor of zero on the total interest rate, relative to the spreads assumed in the valuation of policy liabilities.

#### Potential impact on net income attributed to shareholders arising from changes to corporate spreads<sup>(1),(2),(3),(4)</sup>

As at December 31, (C\$ millions)	2014		2013	
	-50bp	+50bp	-50bp	+50bp
<b>Corporate spreads</b>	<b>\$ (500)</b>	<b>\$ 500</b>	<b>\$ (400)</b>	<b>\$ 400</b>

(1) See "Caution Related to Sensitivities" above.

(2) The impact on net income attributed to shareholders assumes no gains or losses are realized on our AFS fixed income assets held in the surplus segment and excludes the impact arising from changes in off-balance sheet bond fund value arising from changes in credit spreads. The participating policy funds are largely self-supporting and generate no material impact on net income attributed to shareholders as a result of changes in corporate spreads.

(3) Sensitivities are based on projected asset and liability cash flows at the beginning of the fourth quarter adjusted for the estimated impact of new business, investment markets and asset trading during the quarter. Any true-up to these estimates, as a result of the final asset and liability cash flows to be used in the next quarter's projection, are reflected in the next quarter's sensitivities.

(4) Corporate spreads are assumed to grade to the long-term average over 5 years.

As the sensitivity to a 50 basis point decline in corporate spreads includes the impact of a change in prescribed reinvestment scenarios where applicable, the impact of changes to corporate spreads for less than, or more than, the amounts indicated are unlikely to be linear.

The potential earnings impact of a 50 basis point decline in corporate spreads related to the impact of the scenario change was not substantial at December 31, 2014. The \$100 million increase in sensitivity to corporate spreads was primarily attributable to the interest rate and corporate spread movements during 2014 and the impact of the revised Canadian Actuarial Standards of Practice related to economic reinvestment assumptions.

#### Potential impact on net income attributed to shareholders arising from changes to swap spreads<sup>(1),(2),(3)</sup>

As at December 31, (C\$ millions)	2014		2013	
	-20bp	+20bp	-20bp	+20bp
<b>Swap spreads<sup>(2)</sup></b>	<b>\$ 500</b>	<b>\$ (500)</b>	<b>\$ 400</b>	<b>\$ (400)</b>

(1) See "Caution Related to Sensitivities" above.

(2) The impact on net income attributed to shareholders assumes no gains or losses are realized on our AFS fixed income assets held in the surplus segment and excludes the impact arising from changes in off-balance sheet bond fund value arising from changes in credit spreads. The participating policy funds are largely self-supporting and generate no material impact on net income attributed to shareholders as a result of changes in swap spreads.

(3) Sensitivities are based on projected asset and liability cash flows at the beginning of the fourth quarter adjusted for the estimated impact of new business, investment markets and asset trading during the quarter. Any true-up to these estimates, as a result of the final asset and liability cash flows to be used in the next quarter's projection, are reflected in the next quarter's sensitivities.

The \$100 million increase in sensitivity to swap spreads was primarily attributable to the interest rate and swap spread movements during 2014 and to normal rebalancing as part of our interest rate risk hedging program.

#### Alternative Long-Duration Asset ("ALDA") Performance Risk

The following table shows the potential impact on net income attributed to shareholders resulting from changes in market values of ALDA different than the expected levels assumed in the valuation of policy liabilities.

#### Potential impact on net income attributed to shareholders arising from changes in ALDA returns<sup>(1),(2),(3),(4)</sup>

As at December 31, (C\$ millions)	2014		2013	
	-10%	10%	-10%	10%
Real estate, agriculture and timber assets	<b>\$ (1,000)</b>	<b>\$ 1,000</b>	\$ (1,000)	\$ 1,000
Private equities and other alternative long-duration assets	<b>(1,000)</b>	<b>900</b>	(900)	800
<b>Alternative long-duration assets</b>	<b>\$ (2,000)</b>	<b>\$ 1,900</b>	<b>\$ (1,900)</b>	<b>\$ 1,800</b>

(1) See "Caution Related to Sensitivities" above.

(2) This impact is calculated as at a point-in-time impact and does not include: (i) any potential impact on ALDA weightings; (ii) any gains or losses on ALDA held in the Corporate and Other segment; or (iii) any gains or losses on ALDA held in Manulife Bank.

(3) The participating policy funds are largely self-supporting and generate no material impact on net income attributed to shareholders as a result of changes in ALDA returns.

(4) Net income impact does not consider any impact of the market correction on assumed future return assumptions.

The increased sensitivity from December 31, 2013 to December 31, 2014 is primarily due to the decrease in risk free rates in some jurisdictions during the period, decreasing the rate at which funds can be reinvested, as well as the increase in market value of the ALDA, due to investment activities. This was partially offset by the implementation of the revised Canadian Actuarial Standards of Practice related to economic reinvestment assumptions and the resulting introduction of a new margin for adverse deviation where policy liabilities are supported by ALDA or public equities.

## Foreign Exchange Risk

The Company generally matches the currency of its assets with the currency of the insurance and investment contract liabilities they support, with the objective of mitigating risk of loss arising from currency exchange rate changes. As at December 31, 2014, the Company did not have a material unmatched currency exposure.

The following table shows the impact on core earnings of a 10% change in the Canadian dollar relative to our key operating currencies.

### Potential impact on core earnings<sup>(1),(2)</sup>

As at December 31, (C\$ millions)	2014		2013	
	+10% strengthening	-10% weakening	+10% strengthening	-10% weakening
10% change in the Canadian dollar relative to the U.S. dollar and the Hong Kong dollar	\$ (195)	\$ 195	\$ (190)	\$ 190
10% change in the Canadian dollar relative to the Japanese yen	(30)	30	(10)	10

<sup>(1)</sup> This item is a non-GAAP measure. See "Performance and Non-GAAP Measures" below.

<sup>(2)</sup> See "Caution Related to Sensitivities" above.

## Liquidity Risk

**Liquidity risk is the risk of not having access to sufficient funds or liquid assets to meet both expected and unexpected cash and collateral demands.**

### Key Risk Factors

Manulife is exposed to liquidity risk in each of our operating companies and in our holding company. In the operating companies, expected cash and collateral demands arise day-to-day to fund anticipated policyholder benefits, withdrawals of customer deposit balances, reinsurance settlements, derivative instrument settlements/collateral pledging, expenses, investment and hedging activities. Under stressed conditions, unexpected cash and collateral demands could arise primarily from a change in the level of policyholders either terminating policies with large cash surrender values or not renewing them when they mature, withdrawals of customer deposit balances, borrowers renewing or extending their loans when they mature, derivative settlements or collateral demands, and reinsurance settlements or collateral demands.

With the implementation of the Dodd-Frank bill in the United States, clearing of certain derivatives is now mandatory. The execution of derivative transactions through clearing houses or regulated facilities requires incremental liquidity requirements in the form of upfront collateral. Additionally, changes in derivative values are required to be settled in cash on a daily basis instead of pledging collateral. However, this will not become significant for Manulife until a large portion of our derivatives have transitioned to exchanges and market conditions adverse to liquidity (material increases in interest rates and/or equity markets) have been experienced. Other jurisdictions in which Manulife entities operate in are expected to enact similar regulations within the next few years.

The ability of our holding company to fund its cash requirements depends upon it receiving dividends, distributions and other payments from our operating subsidiaries. These subsidiaries are generally required to maintain solvency and capital standards imposed by their local regulators and, as a result, may have restrictions on payments which they may make to MFC.

In the normal course of business, third party banks issue letters of credit on our behalf. In lieu of posting collateral, our businesses utilize letters of credit for which third parties are the beneficiaries, as well as for affiliate reinsurance transactions between subsidiaries of MFC. Letters of credit and letters of credit facilities must be renewed periodically. At time of renewal, the Company is exposed to repricing risk and under adverse conditions increases in costs will be realized. In the most extreme scenarios, letters of credit capacity could become constrained due to non-renewals which would restrict our flexibility to manage capital at the operating company level. This could negatively impact our ability to meet local capital requirements or our sales of products in jurisdictions in which our operating companies have been affected. Although the Company did not experience any material change in aggregate capacity during the recent global financial crisis, changes in prices and conditions were adverse during the market turbulence. There were no assets pledged against these outstanding letters of credit as at December 31, 2014.

## Risk Management Strategy

Global liquidity management policies and procedures are designed to provide adequate liquidity to cover cash and collateral obligations as they come due, and to sustain and grow operations in both normal and stressed conditions. They take into account any legal, regulatory, tax, operational or economic impediments to inter-entity funding.

We seek to reduce liquidity risk by diversifying our business across different products, markets, geographical regions and policyholders. We design insurance products to encourage policyholders to maintain their policies in-force, to help generate a diversified and stable flow of recurring premium income. We design the policyholder termination features of our wealth management products and related investment strategies with the goal of mitigating the financial exposure and liquidity risk related to unexpected policyholder terminations. We establish and implement investment strategies intended to match the term profile of the assets to the liabilities they support, taking into account the potential for unexpected policyholder terminations and resulting liquidity needs. Liquid assets represent a large portion of our total assets. We aim to reduce liquidity risk in our deposit funded businesses by diversifying our funding sources and appropriately managing the term structure of our funding. We forecast and monitor daily operating liquidity and cash movements in various individual entities and operations as well as centrally, aiming to ensure liquidity is available and cash is employed optimally.

We also maintain centralized cash pools and access to other sources of liquidity such as repurchase funding agreements. Our centralized cash pool consists of cash or near-cash, high quality short-term investments that are continually monitored for their credit quality and market liquidity.

Through the normal course of business, pledging of assets is required to comply with jurisdictional regulatory and other requirements including collateral pledged to mitigate derivative counterparty credit risk, assets pledged to exchanges as initial margin and assets held as collateral for repurchase funding agreements. Total unencumbered assets were \$318.4 billion as at December 31, 2014 (2013 – \$269.2 billion).

We manage the asset mix of our balance sheet taking into account the need to hold adequate unencumbered and appropriate liquid assets to satisfy the potential additional requirements arising under stressed scenarios and to allow our liquidity ratios to remain strong.

The following table outlines the maturity of the Company's significant financial liabilities.

### Maturity of financial liabilities<sup>(1),(2)</sup>

As at December 31, 2014	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Long-term debt	\$ 2,145	\$ 164	\$ 998	\$ 578	\$ 3,885
Capital instruments	–	–	–	5,426	5,426
Liabilities for subscription receipts <sup>(3)</sup>	2,220	–	–	–	2,220
Derivatives	99	302	413	10,469	11,283
Deposits from bank clients <sup>(4)</sup>	14,046	3,299	1,039	–	18,384
Lease obligations	149	147	64	443	803

<sup>(1)</sup> The amounts shown above are net of the related unamortized deferred issue costs.

<sup>(2)</sup> Class A preferred shares, Series 1 are redeemable by the Company by payment of cash or issuance of MFC common shares and are convertible at the option of the holder into MFC common shares on or after December 15, 2015. These shares have not been included in the above table.

<sup>(3)</sup> On January 30, 2015, upon the closing of the acquisition of the Canadian-based operations of Standard Life Plc, the issued and outstanding subscription receipts were exchanged for MFC common shares. Therefore, this liability has been extinguished.

<sup>(4)</sup> Carrying value and fair value of deposits from bank clients as at December 31, 2014 was \$18,384 million and \$18,494 million, respectively (2013 – \$19,869 million and \$19,953 million, respectively). Fair value is determined by discounting contractual cash flows, using market interest rates currently offered for deposits with similar terms and conditions. All deposits from bank clients were categorized in Level 2 of the fair value hierarchy (2013 – Level 2).

## Risk Exposure Measures

Consolidated group operating and strategic liquidity levels are managed against established minimums. We set minimum operating liquidity above the level of the highest one month's operating cash outflows projected over the next 12 months. We measure strategic liquidity under both immediate (within one month) and ongoing (within one year) stress scenarios. Our policy is to maintain the ratio of adjusted liquid assets to adjusted policy liabilities at or above a pre-established limit. Adjusted liquid assets include unencumbered cash and short-term investments, and marketable bonds and stocks that are discounted to reflect convertibility to cash, net of maturing debt obligations. Policy liabilities are adjusted to reflect their potential for withdrawal.

In addition to managing the consolidated liquidity levels, each entity maintains sufficient liquidity to meet its standalone demands.

Our strategic liquidity ratios are provided in the following table.

As at December 31, (C\$ millions, unless otherwise stated)	2014		2013	
	Immediate Scenario	Ongoing Scenario	Immediate Scenario	Ongoing Scenario
Adjusted liquid assets	\$ 141,385	\$ 144,179	\$ 118,358	\$ 117,350
Adjusted policy liabilities	31,044	39,780	26,550	34,250
Liquidity ratio	455%	362%	446%	343%

Additionally, the market value of our derivative portfolio is periodically stress tested based on market shocks to assess the potential collateral and cash settlement requirements under stressed conditions. Increased use of derivatives for hedging purposes has necessitated greater emphasis on measurement and management of contingent liquidity risk. Comprehensive liquidity stress testing measures, on an integrated basis, the impact of market shocks on derivative collateral and margin requirements, reserve requirements, reinsurance settlements, policyholder behaviour and the market value of eligible liquid assets. Stressed liquidity ratios are measured against established limits.

Manulife Bank has a standalone liquidity risk management policy framework. The framework includes stress testing, cash flow modeling, a funding plan and a contingency plan. The bank has an established securitization infrastructure which enables the bank to access a range of funding and liquidity sources.

## **Credit Risk**

***Credit risk is the risk of loss due to the inability or unwillingness of a borrower or counterparty to fulfill its payment obligations.***

### **Key Risk Factors**

Worsening regional and global economic conditions could result in borrower or counterparty defaults or downgrades, and could lead to increased provisions or impairments related to our general fund invested assets and off-balance sheet derivative financial instruments, and an increase in provisions for future credit impairments to be included in our policy liabilities. Any of our reinsurance providers being unable or unwilling to fulfill their contractual obligations related to the liabilities we cede to them could lead to an increase in policy liabilities.

### **Risk Management Strategy**

The Company has established objectives for overall quality and diversification of our general fund investment portfolio and criteria for the selection of counterparties, including derivative counterparties, reinsurers and insurance providers. Our policies establish exposure limits by borrower, corporate connection, quality rating, industry, and geographic region, and govern the usage of credit derivatives. Corporate connection limits vary according to risk rating. Our general fund fixed income investments are primarily public and private investment grade bonds and commercial mortgages. We have a program for selling Credit Default Swaps ("CDS") that employs a highly selective, diversified and conservative approach. All CDS decisions follow the same underwriting standards as our cash bond portfolio and the addition of this asset class will allow us to better diversify our overall credit portfolio.

Our credit granting units follow a defined evaluation process that provides an objective assessment of credit proposals. We assign each investment a risk rating based on a detailed examination of the borrower that includes a review of business strategy, market competitiveness, industry trends, financial strength, access to funds, and other risks facing the organization. We assess and update risk ratings regularly, based on a standardized 22-point scale consistent with those of external rating agencies. For additional input to the process, we also assess credit risks using a variety of industry standard market-based tools and metrics. We map our risk ratings to pre-established probabilities of default and loss given defaults, based on historical industry and Company experience, and to resulting default costs.

We establish delegated credit approval authorities and make credit decisions on a case-by-case basis at a management level appropriate to the size and risk level of the transaction, based on the delegated authorities that vary according to risk rating. Major credit decisions are referred to the Transaction and Portfolio Review Committee and the largest credit decisions are referred to the CEO for approval and, in certain cases, to the Board of Directors for approval.

We limit the types of authorized derivatives and applications and require pre-approval of all derivative application strategies and regular monitoring of the effectiveness of derivative strategies. Derivative counterparty exposure limits are established based on a minimum acceptable counterparty credit rating (generally A- from internationally recognized rating agencies). We measure derivative counterparty exposure as net potential credit exposure, which takes into consideration mark-to-market values of all transactions with each counterparty, net of any collateral held, and an allowance to reflect future potential exposure. Reinsurance counterparty exposure is measured reflecting the level of ceded liabilities. We require all reinsurance counterparties and insurance providers to meet minimum risk rating criteria.

Regular reviews of the credits within the various portfolios are undertaken with the goal of identifying changes to credit quality, and where appropriate, taking corrective action. Prompt identification of problem credits is a key objective. Credit Risk Management provides independent credit risk oversight by reviewing assigned risk ratings, and monitoring problem and potential problem credits.

We establish an allowance for losses on a loan when it becomes impaired as a result of deterioration in credit quality, to the extent there is no longer assurance of timely realization of the carrying value of the loan and related investment income. We reduce the carrying value of an impaired loan to its estimated net realizable value when we establish the allowance. We establish an allowance for losses on reinsurance contracts when a reinsurance counterparty becomes unable or unwilling to fulfill its contractual obligations. We base the allowance for loss on current recoverables and ceded policy liabilities. There is no assurance that the allowance for losses will be adequate to cover future potential losses or that additional allowances or asset write-downs will not be required.

Policy liabilities include general provisions for credit losses from future asset impairments. We set these conservatively, taking into account average historical levels and future expectations, with a provision for adverse deviations. Fluctuations in credit default rates and deterioration in credit ratings of borrowers may result in losses if actual rates exceed expected rates.



Throughout recent periods of challenging credit conditions, our credit policies, procedures and investment strategies have remained fundamentally unchanged. Credit exposure in our investment portfolio is actively managed to reduce risk and mitigate losses, and derivative counterparty exposure is managed proactively. Defaults and downgrade charges were generally below our historical average in 2014, however, we still expect volatility on a quarterly basis and losses could potentially rise above long-term expected levels.

### Risk Exposure Measures

As at December 31, 2014 and December 31, 2013, for every 50% that credit defaults over the next year exceed the rates provided for in policy liabilities, net income attributed to shareholders would be reduced by \$49 million in each year. Downgrades could also be higher than assumed in policy liabilities resulting in policy liability increases and a reduction in net income attributed to shareholders.

The table below shows net impaired assets and allowances for loan losses.

### Net Impaired Assets and Loan Losses

As at December 31, (C\$ millions, unless otherwise stated)	2014	2013
Net impaired fixed income assets	<b>\$ 223</b>	\$ 307
Net impaired fixed income assets as a % of total invested assets	<b>0.083%</b>	0.130%
Allowance for loan losses	<b>\$ 109</b>	\$ 106

### Insurance Risk

Insurance risk is the risk of loss due to actual experience emerging differently than assumed when a product was designed and priced with respect to mortality and morbidity claims, policyholder behaviour and expenses.

### Key Risk Factors

We make a variety of assumptions related to the future level of claims, policyholder behaviour, expenses and sales levels when we design and price products, and when we establish policy liabilities. Assumptions for future claims are generally based on both Company and industry experience, and assumptions for future policyholder behaviour are generally based on Company experience. Assumptions for future policyholder behaviour include assumptions related to the retention rates for insurance and wealth products. Losses may result should actual experience be materially different than that assumed in the valuation of policy liabilities. Such losses could have a significant adverse effect on our results of operations and financial condition. In addition, we periodically review the assumptions we make in determining our policy liabilities and the review may result in an increase in policy liabilities and a decrease in net income attributed to shareholders. Such assumptions require significant professional judgment, and actual experience may be materially different than the assumptions we make.

Life and health insurance claims may be impacted by the unusual onset of disease or illness, natural disasters, large-scale man-made disasters and acts of terrorism. The cost of health insurance benefits may also be impacted by unforeseen trends in the incidence, termination and severity rates of claims. The ultimate level of lifetime benefits paid to policyholders may be impacted by unexpected changes in life expectancy. Policyholder behaviour including premium payment patterns, policy renewals, lapse rates and withdrawal and surrender activity are influenced by many factors including market and general economic conditions, and the availability and relative attractiveness of other products in the marketplace. For example, a weak or declining economic environment could increase the value of guarantees associated with variable annuities or other embedded guarantees and contribute to adverse policyholder behaviour experience. As well, adverse claims experience could result from systematic anti-selection, which could arise from the development of investor owned and secondary markets for life insurance policies, anti-selective lapse behaviour underwriting process failures, or other factors.

We purchase reinsurance protection on certain risks underwritten by our various business segments. External market conditions determine the availability, terms and cost of the reinsurance protection for new business and, in certain circumstances, the cost of reinsurance for business already reinsured. Accordingly, we may be forced to incur additional costs for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business or result in the assumption of more risk with respect to those policies we issue.

### Risk Management Strategy

We have established a broad framework for managing insurance risk under our Product Design and Pricing Policy, Underwriting and Claims Management Policy and Reinsurance Risk Management Policy, as well as supporting global product design and pricing standards and guidelines, and reinsurance guidelines, aimed to help ensure our product offerings align with our risk taking philosophy and risk limits, and achieve acceptable profit margins. These cover:

- product design features
- use of reinsurance
- pricing models and software
- internal risk-based capital allocations
- target profit objectives
- pricing methods and assumption setting
- stochastic and stress scenario testing
- required documentation
- review and approval processes
- experience monitoring programs

In each business unit, we designate individual pricing officers who are accountable for all pricing activities and chief underwriters who are accountable for underwriting activities. Both the pricing officer and the general manager of each business unit approve the design and pricing of each product, including key claims, policyholder behaviour, investment return and expense assumptions, in accordance with corporate policies and standards. Divisional and Group risk management provides additional oversight and review of all product and pricing initiatives, as well as reinsurance treaties related to new business. In addition, Group Finance Actuarial approves all significant policy liability valuation methods, assumptions and in-force reinsurance treaties. We perform annual risk and compliance self-assessments of the product development, pricing, underwriting and claims activities of all businesses. We also facilitate knowledge transfer between staff working with similar businesses in different geographies in order to leverage best practices.

We utilize a global underwriting manual intended to ensure insurance underwriting practices for direct written life business are consistent across the organization while reflecting local conditions. Each business unit establishes underwriting policies and procedures, including criteria for approval of risks and claims adjudication policies and procedures.

We apply retention limits per insured life that are intended to reduce our exposure to individual large claims which are monitored in each business unit. These retention limits vary by market and jurisdiction. We reinsure exposure in excess of these limits with other companies. Our current global retention limit is US\$30 million for a single life (US\$35 million for survivorship life policies) and is shared across businesses. We apply lower limits in some markets and jurisdictions. We aim to further reduce exposure to claims concentrations by applying geographical aggregate retention limits for certain covers. Enterprise-wide, we aim to reduce the likelihood of high aggregate claims by operating internationally and insuring a wide range of unrelated risk events.

The Company's aggregate exposure to each of policyholder behaviour risk and claims risk are managed against enterprise-wide economic capital and earnings at risk limits. Policyholder behaviour risk limits cover the combined risk arising from policy lapses and surrenders, withdrawals and other policyholder driven activity. The claims risk limits cover the combined risk arising from mortality, longevity and morbidity.

Internal experience studies, as well as trends in our experience and that of the industry, are monitored to update current and projected claims and policyholder behaviour assumptions, resulting in updates to policy liabilities as appropriate.

We continue to seek state regulatory approvals for price increases on existing long-term care business in the U.S. We cannot be certain whether or when each approval will be granted. Our policy liabilities reflect our estimates of the impact of these price increases, but should we be less successful than anticipated in obtaining them, then policy liabilities would increase accordingly.

### **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, risk management policies and procedures, systems failures, human performance failures or from external events.

### **Key Risk Factors**

Operational risk is naturally present in all of our business activities and encompasses a broad range of risks, including regulatory compliance failures, legal disputes, technology failures, business interruption, information security and privacy breaches, human resource management failures, processing errors, modelling errors, business integration, theft and fraud, and damage to physical assets. Exposures can take the form of financial losses, regulatory sanctions, loss of competitive positioning, or damage to our reputation. Operational risk is also embedded in all the practices we use to manage other risks; therefore, if not managed effectively, operational risk can impact our ability to manage other key risks such as credit risk, market risk, liquidity risk and insurance risk. While operational risk can never be fully eliminated, it can be managed to reduce exposure to financial loss, reputational harm or regulatory sanctions.

### **Risk Management Strategy**

Our corporate governance practices, corporate values, and integrated enterprise-wide approach to managing risk set the foundation for mitigating operational risks. This base is further strengthened by internal controls and systems, compensation programs, and seeking to hire and retain trained and competent people throughout the organization. We align compensation programs with business strategy, long-term shareholder value and good governance practices, and we benchmark these compensation practices against peer companies.

We have an enterprise operational risk management framework that sets out the processes we use to identify, assess, manage, mitigate and report on significant operational risk exposures. Execution of our operational risk management strategy focuses on change management and working to achieve a cultural shift toward greater awareness and understanding of operational risk. We have an Operational Risk Committee ("ORC"), a sub-committee of the ERC, which is the main decision-making committee for all operational risk matters with oversight responsibility for operational risk strategy, management and governance. We have enterprise-wide risk management programs for specific operational risks that could materially impact our ability to do business or impact our reputation.

Through our corporate insurance program, we transfer a portion of our operational risk exposure by purchasing global and local insurance coverage that provides some protection against unexpected material losses resulting from events such as criminal activity, property loss or damage, and liability exposures. We also purchase certain insurance to satisfy legal requirements and/or contractual obligations. We determine the nature and amount of insurance coverage we purchase centrally, considering our enterprise-wide exposures and risk tolerances.

The following is a further description of key operational risk factors with associated management strategies.

### **Legal and Regulatory Risk**

In addition to the regulatory and capital requirements described under Strategic Risk, the Company is subject to extensive regulatory oversight by insurance and financial services regulators in the jurisdictions in which we conduct business. While many of these laws and regulations are intended to protect policyholders, beneficiaries, depositors and investors in our products and services, others also set standards and requirements for the governance of our operations. Failure to comply with applicable laws or regulations could result in financial penalties or sanctions, and damage our reputation. We are also regularly involved in litigation, both as a plaintiff or defendant, which could result in an unfavourable resolution.

Global Compliance oversees our regulatory compliance program and function, supported by designated Chief Compliance Officers in every Division. The program is designed to promote compliance with regulatory obligations worldwide and to assist in making the Company aware of the laws and regulations that affect us, and the risks associated with failing to comply. Divisional compliance groups monitor emerging legal and regulatory issues and changes, and prepare us to address new requirements. Global Compliance also independently assesses and monitors the effectiveness of a broad range of regulatory compliance processes and business practices against potential legal, regulatory, fraud and reputation risks, and helps to ensure significant issues are escalated and proactively mitigated. Among these processes and business practices are: privacy (i.e. handling of personal and other confidential information), sales and marketing practices, sales compensation practices, asset management practices, fiduciary responsibilities, employment practices, underwriting and claims processing, product design, and regulatory filings. In addition, we have policies, processes and controls in place to help protect the Company, our customers and other related third parties from acts of fraud and from risks associated with money laundering and terrorist financing. Audit Services, Global Compliance and divisional compliance personnel periodically assess the effectiveness of the control environment. For further discussion of government regulation and legal proceedings, refer to "Government Regulation" and "Legal Proceedings" in our most recent Annual Information Form.

### **Technology, Information Security and Business Continuity Risks**

Technology is used in virtually all aspects of our business and operations. Our technology infrastructure, information services and applications are governed and managed according to standards for operational integrity, resiliency, data integrity, confidentiality and information security policies, standards and controls. Disruption due to system failure, security breach (including cyber-attacks), privacy breaches, human errors, natural disasters, man-made disasters, criminal activity, fraud or global crisis may occur and have adverse consequences for our business.

We have an enterprise-wide business continuity and disaster recovery program which is overseen by the Chief Information Security Officer. This includes policies, plans and procedures to minimize the impact of natural or man-made disasters, and is designed to ensure that key business functions can continue normal operations in the event of a major disruption. Each business unit is accountable for preparing and maintaining detailed business continuity plans and processes. The global program incorporates periodic scenario analysis designed to validate the assessment of both critical and non-critical units, as well as the establishment and testing of appropriate business continuity plans for all critical functions. The business continuity team establishes and regularly tests crisis management plans and global crisis communications protocols. We maintain off-site backup facilities and failover capability designed to minimize downtime and accelerate system recovery.

Information security breaches could occur and may result in inappropriate disclosure or use of personal and confidential information. To mitigate this risk, we have an enterprise-wide information security program which is overseen by the Chief Information Security Officer. This program establishes the information security framework for the Company, including governance, policies and standards, and appropriate controls to protect information and computer systems. We also have annual security awareness training sessions for all employees.

Privacy breaches could occur and may result in the unauthorized disclosure or use of private and confidential information. Many jurisdictions in which we operate are implementing more stringent privacy legislation. To manage this risk, we have a global privacy program which is overseen by the Chief Privacy Officer. This program includes policies and standards, ongoing monitoring of emerging privacy legislation, and a network of privacy officers. Processes have been established to provide guidance on handling personal information and for reporting privacy incidents and issues to appropriate management for response and resolution.

### **Human Resource Risks**

We compete with other insurance companies and financial institutions for qualified executives, employees and agents. Competition for the best people is intense and an inability to recruit qualified individuals may negatively impact our ability to execute on business strategies or to conduct our operations. We have a number of human resource policies, practices and programs in place to manage these risks, including recruiting programs at every level of the organization, training and development programs, and competitive compensation programs that are designed to attract, motivate and retain high-performing and high potential employees.

### **Model Risk**

Our reliance on highly complex models for pricing, valuation and risk measurement, and for input to decision making, is increasing. Consequently, the risk of inappropriate use or interpretation of our models or their output, or the use of deficient models, data or assumptions is growing. Our model risk oversight program includes processes intended to ensure that our critical business models are conceptually sound, used as intended, and to assess the appropriateness of the calculations and outputs.

### **Third Party Risk**

The Company relies on third parties to provide many different types of services. Should these third parties fail to deliver services in compliance with contractual or other service arrangements, our business may be adversely impacted. Our governance framework to address third party risk includes appropriate policies (such as our Outsourcing Policy), standards and procedures, and monitoring of ongoing results and contractual compliance of third party arrangements.

### **Project Risk**

To ensure that key projects are successfully implemented and monitored by management, we have a Global Project Management Centre of Expertise, which is responsible for establishing policies and standards for project management. Our policies, standards and practices are regularly benchmarked against leading practices.

### **Environmental Risk**

Our Environmental Policy reflects the Company's commitment to conducting all business activities in a manner that recognizes the need to preserve the quality of the natural environment. Environmental Procedures have been designed to manage environmental risk and to achieve compliance with all applicable environmental laws and regulations for business units, affiliates and subsidiaries. Environmental risk may originate from investment properties that are subject to natural or man-made environmental risk. The environmental risk may result from on-site or off-site (adjacent) due to migration of regulated pollutants or contaminants with financial or reputational environmental risk and liability consequences by virtue of strict liability. Real estate assets may be owned, leased and/or managed, as well as mortgaged by Manulife who might enter into the chain of liability due to foreclosure ownership when in default. Environmental risk could also arise from natural disasters (e.g., weather, fire, earthquake, floods, pests) or human activities (use of chemicals, pesticides) conducted within the site or when impacted from adjacent sites. To mitigate environmental risk, protocols and due diligence standards within the business units identify environmental issues in advance of acquisition. Historical and background investigation and subsequent soil and ground water subsurface testing may be conducted as required to assess manageable environmental risk. Regular property inspections and limitations on permitted activities further manage environmental liability or financial risk. Other potentially significant financial risks for individual assets, such as fire and earthquake, have generally been insured where practicable.

### **Additional Risk Factors That May Affect Future Results**

Medical advances and legislation related to genetic testing could adversely impact our underwriting abilities. Current or future global legislation in jurisdictions where Manulife operates may restrict its right to underwrite based on access to genetic test results. Without the obligation of disclosure, the asymmetry of information shared between applicant and insurer could increase anti-selection in both new business and in-force policyholder behaviour. The impact of restricting insurers' access to this information and the associated problems of anti-selection becomes more acute where genetic technology leads to advancements in diagnosis of life threatening conditions that are not matched by improvements in treatment. We cannot predict the potential financial impact that this would have on the Company or the industry as a whole. In addition, there may be further unforeseen implications as genetic testing continues to evolve and becomes more established in mainstream medical practice.

The Canadian Accounting Standards Board makes changes to the financial accounting and reporting standards that govern the preparation of our Consolidated Financial Statements. These changes may be difficult to anticipate and may materially impact how we record and present our financial condition and results of operations. As discussed under "Critical Accounting and Actuarial Policies" above, the preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the financial statements and accompanying notes. These estimates and assumptions may require revision and actual results may differ materially from these estimates. As well, as noted under "Caution regarding forward-looking statements" below, forward-looking statements involve risks and uncertainties and actual results may differ materially from those expressed or implied in such statements. Key risk factors and their management have been described above, summarized by major risk category.

Other factors that may affect future results include changes in government trade policy; monetary policy; fiscal policy; political conditions and developments in or affecting the countries in which we operate; technological changes; public infrastructure disruptions; climate change; changes in consumer spending and saving habits; the possible impact on local, national or global economies from public health emergencies, such as an influenza pandemic, and international conflicts and other developments including those relating to terrorist activities. Although we take steps to anticipate and minimize risks in general, unforeseen future events may have a negative impact on our business, financial condition and results of operations.

We caution that the preceding discussion of risks that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to our Company, investors and others should carefully consider the foregoing risks, as well as other uncertainties and potential events, and other external and Company specific risks that may adversely affect the future business, financial condition or results of operations of our Company.

# Capital Management Framework

Manulife seeks to manage its capital with the objectives of:

- Operating with sufficient capital to be able to honour commitments to its policyholders and creditors with a high degree of confidence;
- Securing the stability and flexibility to pursue the Company's business objectives by ensuring best access to capital markets and through maintaining target credit ratings and of retaining the ongoing confidence of regulators, policyholders, rating agencies, investors and other creditors; and,
- Optimizing return on capital to meet shareholders' expectations subject to constraints and considerations of adequate levels of capital established to meet the first two objectives.

Capital is managed and monitored in accordance with the Capital Management Policy. The Policy is reviewed and approved by the Board of Directors annually and is integrated with the Company's risk and financial management frameworks. It establishes guidelines regarding the quantity and quality of capital, internal capital mobility, and proactive management of ongoing and future capital requirements.

Our capital management framework takes into account the requirements of the Company as a whole as well as the needs of each of our subsidiaries. Our capital adequacy assessment considers expectations of key external stakeholders such as regulators and rating agencies, results of sensitivity testing as well as a comparison to our peers. We set our internal capital targets above regulatory requirements, monitor against these internal targets and initiate actions appropriate to achieving our business objectives.

We also periodically assess the strength of our capital position under various stress scenarios. The annual Dynamic Capital Adequacy Testing ("DCAT") typically quantifies the financial impact of economic events arising from shocks in public equity and other markets, interest rates and credit, amongst others. Our 2014 DCAT results demonstrate that we would have sufficient assets, under the various adverse scenarios tested, to discharge our policy liabilities. This conclusion is also supported by a variety of other stress tests conducted by the Company.

We integrate capital management into our product planning and performance management. Capital is generally allocated to business lines based on the higher of the internal risk-based capital and the regulatory capital levels applicable to each jurisdiction.

In order to mitigate the impact of currency movements on the consolidated capital ratios, the currency mix of assets supporting capital is managed in relation to the Company's global capital requirements. As a result, both available and required capital increase (decrease) when the Canadian dollar weakens (strengthens).

The composition of capital between equity and other capital instruments impacts the Company's financial strength ratings and therefore is an important consideration in determining the appropriate amount of leverage. The Company monitors and rebalances its capital mix through capital issuances and redemptions.

## MFC Consolidated Capital

The following measure of capital serves as the foundation of our capital management activities at the MFC level.

As at December 31, (C\$ millions)	2014	2013	2012
Non-controlling interests	\$ 464	\$ 376	\$ 301
Participating policyholders' equity	156	134	146
Preferred shares	2,693	2,693	2,497
Common shareholders' equity	30,613	25,830	22,215
Total equity <sup>(1)</sup>	\$ 33,926	\$ 29,033	\$ 25,159
Less accumulated other comprehensive loss on cash flow hedges	(211)	(84)	(185)
Total equity less accumulated other comprehensive loss on cash flow hedges	\$ 34,137	\$ 29,117	\$ 25,344
Liabilities for preferred shares and qualifying capital instruments	5,426	4,385	3,903
<b>Total capital</b>	<b>\$ 39,563</b>	<b>\$ 33,502</b>	<b>\$ 29,247</b>

<sup>(1)</sup> Total equity includes unrealized gains and losses on AFS debt securities and AFS equities, net of taxes. The unrealized gain or loss on AFS debt securities are excluded from the OSFI definition of regulatory capital. As at December 31, 2014, the unrealized gain on AFS debt securities, net of taxes, was \$405 million (2013 – \$58 million unrealized loss).

Total capital was \$39.6 billion as at December 31, 2014 compared with \$33.5 billion as at December 31, 2013, an increase of \$6.1 billion. The increase included net income attributed to shareholders of \$3.5 billion, currency impacts of \$1.9 billion and net capital issued of \$1 billion (excludes \$1 billion redemption of senior debt as it is not in the definition of capital), partially offset by cash dividends of \$0.9 billion over the period.

The "Total capital" above does not include \$3.9 billion (2013 – \$4.8 billion, 2012 – \$5.0 billion) of senior indebtedness issued by MFC because this form of financing does not meet OSFI's definition of regulatory capital at the MFC level. The Company has down-streamed the proceeds from this financing into operating entities in the form that qualifies as regulatory capital at the subsidiary level.

## Capital and Funding Activities

During 2014 we raised \$1.8 billion of capital and \$1.8 billion of securities matured or were redeemed, including \$1 billion of senior debt. As senior debt is not included in our definition of capital, the net result was a \$1 billion increase in capital.

- We issued a total of \$1 billion of MLI subordinated debentures during the year: \$500 million (2.811%) on February 21, 2014 and \$500 million (2.64%) on December 1, 2014.
- We issued a total of \$800 million of MFC preferred shares throughout the year: \$200 million (3.90%) on February 25, 2014, \$350 million (3.90%) on August 15, 2014 and \$250 million (3.80%) on December 3, 2014.
- We redeemed a total of \$800 million of MFC preferred shares throughout the year: \$450 million (6.60%) on June 19, 2014 and \$350 million (5.60%) on September 19, 2014.
- On June 2, 2014, \$1 billion (4.896%) of MFC senior debt matured.

On September 15, 2014, as part of the financing for the acquisition of the Canadian-based operations of Standard Life plc, the Company issued 105,647,334 subscription receipts through a public offering and a concurrent private placement to the Caisse de dépôt et placement du Québec. The public offering price was \$21.50 per subscription receipt and the private offering price was the public offering price less a \$0.48 private placement fee per subscription receipt for total gross proceeds of approximately \$2.26 billion. At December 31, 2014 the subscription receipts were not included in capital as the conditions for the exchange of the subscription receipts to common shares remained outstanding until January 30, 2015. On January 30, 2015, the Company completed its purchase of the Canadian-based operations of Standard Life plc for cash consideration of \$4.0 billion and the Company's outstanding subscription receipts were automatically exchanged on a one-for-one basis for 105,647,334 MFC common shares with a stated value of approximately \$2.2 billion. In addition, pursuant to the terms of the subscription receipts, a dividend equivalent payment of \$0.155 per subscription receipt (approximately \$16 million in the aggregate) was also paid to holders of subscription receipts, which is an amount equal to the cash dividends declared on MFC common shares from September 15, 2014 to January 29, 2015.

Senior and medium term notes totaling \$2.1 billion will mature in 2015.

## Financial Leverage Ratio

Our financial leverage ratio ended 2014 at 27.8% compared with 31.0% at the end of 2013. The improvement in the financial leverage ratio was primarily due to strong earnings in 2014 and the favourable impact on equity of a stronger U.S. dollar.

## Common Shareholder Dividends

The declaration and payment of shareholder dividends and the amount thereof are at the discretion of the Board of Directors and depend upon the results of operations, financial conditions, cash requirements and future prospects of the Company, taking into account regulatory restrictions on the payment of shareholder dividends as well as other factors deemed relevant by the Board of Directors.

The Company offers a Dividend Reinvestment Program ("DRIP") whereby shareholders may elect to automatically reinvest dividends in the form of MFC common shares instead of receiving cash. The offering of the program and its terms of execution are subject to the Board of Directors' discretion. In 2014, we issued 13 million common shares (2013 – 19 million) from treasury for a total consideration of \$273 million (2013 – \$325 million) under this program. On February 12, 2015, the Company announced that in respect of the Company's March 19, 2015 common share dividend payment date and in connection with the reinvestment of dividends and optional share purchases, the Board of Directors' approved that the required common shares be purchased on the open market. The purchase price will be based on the average of the actual cost with no discounts. There are no applicable discounts because the common shares are being purchased on the open market and are not being issued from treasury.

## Regulatory Capital Position<sup>20</sup>

MFC monitors and manages its consolidated capital in compliance with the OSFI Guideline A2 – Capital Regime for Regulated Insurance Holding Companies and Non-Operating Life Companies. Under this regime our consolidated available capital is measured against a required amount of risk capital determined in accordance with the guideline. MFC's capital position remains in excess of our internal targets.

MFC's operating activities are mostly conducted within MLI or its subsidiaries. MLI is regulated by OSFI and is subject to consolidated risk based capital requirements using the OSFI MCCR framework. Some affiliate reinsurance business is undertaken outside the MLI consolidated framework.

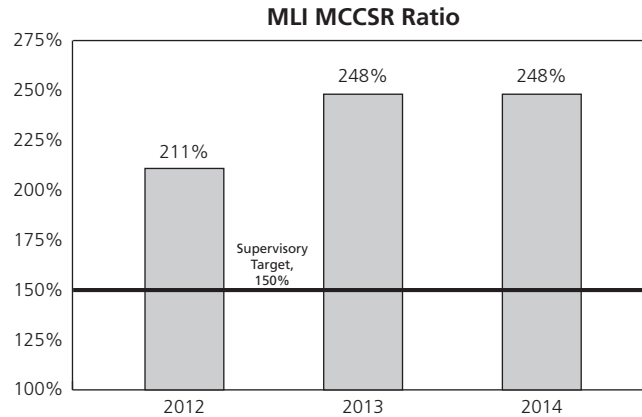
Our MCCR ratio for MLI ended the year at 248%, the same ratio as at the end of 2013. Reported earnings were offset by funding MFC shareholder dividends and funding costs, as well as increases in required capital.

We consider MLI's MCCR ratio to be strong in view of our materially reduced risk sensitivities and the lack of explicit capital credit for the hedging of our variable annuity liabilities.

The 2015 MCCR Guideline took effect on January 1, 2015 and includes two notable changes, one of which is a 50% reversal of morbidity improvements, transitioned over three years. The other relates to changes in required capital for certain participating products. Overall, we expect an improvement in MLI's regulatory capital ratio resulting from the changes to the 2015 MCCR Guideline.

<sup>20</sup> The "Risk Management and Risk Factors" section of the MD&A outlines a number of regulatory capital risks.

As at December 31, 2014, MLI's non-consolidated operations and subsidiaries all maintained capital levels in excess of local requirements.



Actual MLI ratios as at December 31.  
OSFI regulatory minimum is 120%, with 150% supervisory target.

### Remittability of Capital

As part of its capital management, Manulife promotes internal capital mobility so that MFC's parent company has access to funds to meet its obligations and to optimize the use of excess capital. Cash remittance is one of the key performance indicators used by management to evaluate our financial flexibility.

The total company cash remittance in 2014 was \$2.4 billion (2013 – \$2.5 billion).

## Credit Ratings

Manulife's insurance operating companies have strong ratings from credit rating agencies with respect to financial strength and claims paying ability. Maintaining strong ratings on debt and capital instruments issued by MFC and its subsidiaries allows us to access capital markets at competitive pricing levels. Should these credit ratings decrease materially, our cost of financing may increase and our access to funding and capital through capital markets could be reduced.

During 2014, S&P, Moody's, DBRS, Fitch and A.M. Best maintained their assigned ratings of MFC and its primary insurance operation companies. The following table summarizes the financial strength and claims paying ability ratings of MLI and certain of its subsidiaries as at February 13, 2015.

### Financial Strength/Claims Paying Ability Ratings

	S&P	Moody's	DBRS	Fitch	A.M. Best
The Manufacturers Life Insurance Company	<b>AA-</b>	<b>A1</b>	<b>IC-1</b>	<b>AA-</b>	<b>A+</b>
John Hancock Life Insurance Company (U.S.A.)	<b>AA-</b>	<b>A1</b>	<b>Not Rated</b>	<b>AA-</b>	<b>A+</b>
Manulife (International) Limited	<b>AA-</b>	<b>Not Rated</b>	<b>Not Rated</b>	<b>Not Rated</b>	<b>Not Rated</b>
Manulife Life Insurance Company (Japan)	<b>AA-</b>	<b>Not Rated</b>	<b>Not Rated</b>	<b>Not Rated</b>	<b>Not Rated</b>

As at February 13, 2015, S&P, Moody's, DBRS, Fitch, and A.M. Best had a stable outlook on these ratings.

# Critical Accounting and Actuarial Policies

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the Consolidated Financial Statements and accompanying notes. These estimates and assumptions are based on historical experience, management's assessment of current events and conditions and activities that the Company may undertake in the future as well as possible future economic events. Actual results could differ from these estimates. The estimates and assumptions described in this section depend upon subjective or complex judgments about matters that may be uncertain and changes in these estimates and assumptions could materially impact the Consolidated Financial Statements.

Our significant accounting policies are described in note 1 to the Consolidated Financial Statements. Significant estimation processes relate to the determination of insurance and investment contract liabilities, assessment of relationships with other entities for consolidation, fair value of certain financial instruments, derivatives and hedge accounting, provisioning for asset impairment, determination of pension and other post-employment benefit obligations and expenses, income taxes and uncertain tax positions, valuation and impairment of goodwill and intangible assets and the measurement and disclosure of contingent liabilities as described below. In addition, in the determination of the fair values of invested assets, where observable market data is not available, management applies judgment in the selection of valuation models.

## **Policy Liabilities (Insurance and Investment Contract Liabilities)**

Policy liabilities for IFRS are valued under standards established by the Actuarial Standards Board. These standards are designed to ensure we establish an appropriate liability on the Consolidated Statements of Financial Position to cover future obligations to all our policyholders. Under IFRS, the assumptions underlying the valuation of policy liabilities are required to be reviewed and updated on an ongoing basis to reflect recent and emerging trends in experience and changes in risk profile of the business. In conjunction with prudent business practices to manage both product and asset related risks, the selection and monitoring of appropriate valuation assumptions is designed to minimize our exposure to measurement uncertainty related to policy liabilities.

## **Determination of Policy Liabilities**

Policy liabilities have two major components: a best estimate amount and a provision for adverse deviation. The best estimate amount represents the estimated value of future policyholder benefits and settlement obligations to be paid over the term remaining on in-force policies, including the costs of servicing the policies. The best estimate amount is reduced by the future expected policy revenues and future expected investment income on assets supporting the policies, before any consideration for reinsurance ceded. To determine the best estimate amount, assumptions must be made for a number of key factors, including future mortality and morbidity rates, investment returns, rates of policy termination, operating expenses, certain taxes (other than income taxes) and foreign currency. Reinsurance is used to transfer part or all of a policy liability to another insurance company at terms negotiated with that insurance company. A separate asset for reinsurance ceded is calculated based on the terms of the reinsurance treaties that are in force, with deductions taken for the credit standing of the reinsurance counterparties where appropriate.

To recognize the uncertainty involved in determining the best estimate actuarial liability assumptions, a provision for adverse deviation ("PfAD") is established. The PfAD is determined by including a margin of conservatism for each assumption to allow for possible mis-estimation of, or deterioration in, future experience in order to provide greater comfort that the policy liabilities will be sufficient to pay future benefits. The Canadian Institute of Actuaries establishes suggested ranges for the level of margins for adverse deviation based on the risk profile of the business. Our margins are set taking into account the risk profile of our business. The effect of these margins is to increase policy liabilities over the best estimate assumptions. The margins for adverse deviation decrease the income that is recognized at the time a new policy is sold and increase the income recognized in later periods as the margins release as the remaining policy risks reduce.

## **Best Estimate Assumptions**

We follow established processes to determine the assumptions used in the valuation of our policy liabilities. The nature of each risk factor and the process for setting the assumptions used in the valuation are discussed below.

## **Mortality**

Mortality relates to the occurrence of death. Mortality assumptions are based on our internal as well as industry past and emerging experience and are differentiated by sex, underwriting class, policy type and geographic market. We make assumptions about future mortality improvements using historical experience derived from population data. Reinsurance is used to offset some of our direct mortality exposure on in-force life insurance policies with the impact of the reinsurance directly reflected in our policy valuation. Actual mortality experience is monitored against these assumptions separately for each business. Where mortality rates are lower than assumed for life insurance, the result is favourable, and where mortality rates are higher than assumed for payout annuities, mortality results are favourable. Overall 2014 experience was favourable when compared with our assumptions. Changes to future expected mortality assumptions in the policy liabilities in 2014 resulted in a decrease in net policy liabilities.

## **Morbidity**

Morbidity relates to the occurrence of accidents and sickness for the insured risks. Morbidity assumptions are based on our internal as well as industry past and emerging experience and are established for each type of morbidity risk and geographic market. For our Long-Term Care business we make assumptions about future morbidity improvements. Actual morbidity experience is monitored



against these assumptions separately for each business. Our morbidity risk exposure relates to future expected claims costs for long-term care insurance, as well as for group benefits and certain individual health insurance products we offer. Overall 2014 experience was unfavourable when compared with our assumptions. Changes to future expected morbidity assumptions in the policy liabilities in 2014 resulted in a decrease in net policy liabilities.

### **Property and Casualty**

Our Property and Casualty Reinsurance business insures against losses from natural and human disasters and accidental events. Policy liabilities are held for incurred claims not yet reported, for claims reported but not yet paid and for expected future claims related to premiums paid to date. Both our 2013 and 2014 claims loss experience was favourable with respect to the provisions that were established.

### **Policy Termination and Premium Persistency**

Policy termination includes lapses and surrenders, where lapses represent the termination of policies due to non-payment of premiums and surrenders represent the voluntary termination of policies by policyholders. Premium persistency represents the level of ongoing deposits on contracts where there is policyholder discretion as to the amount and timing of deposits. Policy termination and premium persistency assumptions are primarily based on our recent experience adjusted for expected future conditions. Assumptions reflect differences by type of contract within each geographic market and actual experience is monitored against these assumptions separately for each business. Overall 2014 experience was unfavourable when compared with our assumptions. Changes to future expected policy termination assumptions in the policy liabilities in 2014 resulted in an increase in net policy liabilities.

### **Expenses and Taxes**

Operating expense assumptions reflect the projected costs of maintaining and servicing in-force policies, including associated overhead expenses. The expenses are derived from internal cost studies and are projected into the future with an allowance for inflation. For some developing businesses, there is an expectation that unit costs will decline as these businesses mature. Actual expenses are monitored against assumptions separately for each business. Overall maintenance expenses for 2014 were unfavourable when compared with our assumptions. Taxes reflect assumptions for future premium taxes and other non-income related taxes. For income taxes, policy liabilities are adjusted only for temporary tax timing and permanent tax rate differences on the cash flows available to satisfy policy obligations.

### **Investment Returns**

We segment assets to support liabilities by business segment and geographic market and establish investment strategies for each liability segment. The projected cash flows from these assets are combined with projected cash flows from future asset purchases/sales to determine expected rates of return for future years. The investment strategies for future asset purchases and sales are based on our target investment policies for each segment and the re-investment returns are derived from current and projected market rates for fixed interest investments and our projected outlook for non-fixed interest assets. Credit losses are projected based on our own and industry experience, as well as specific reviews of the current investment portfolio. Investment return assumptions for each asset class also incorporate expected investment management expenses that are derived from internal cost studies. In 2014, actual investment returns were favourable (2013 – favourable) when compared with our assumptions. The impact of investment experience, excluding variable annuities, on reserves exceeded valuation expectations (2013 – exceeded) primarily due to the impact of changes in interest rates, including increases in corporate spreads and decreases in swap spreads, gains from asset trading including origination, favourable private equity returns, and favourable credit experience, partially offset by unfavourable oil and gas and real estate returns.

### **Segregated Funds**

We offer segregated funds to policyholders that offer certain guarantees, including guaranteed returns of principal on maturity or death, as well as guarantees of minimum withdrawal amounts or income benefits. The on-balance sheet liability for these benefits is the expected cost of these guarantees including appropriate valuation margins for the various contingencies including mortality and lapse. The most dominant assumption is the return on the underlying funds in which the policyholders invest. This risk is mitigated through a dynamic hedging strategy. In 2014, pre-tax experience on assets underlying segregated fund business which has guarantees due to changes in market value of assets under management was unfavourable for both the business that is hedged and the business that is not hedged. The latter excludes the experience on the macro equity hedges. Note that an unchanged market or an increase of less than our expected returns will still result in an earnings loss, since actual returns would not meet the expected returns in the valuation models.

### **Foreign Currency**

Foreign currency risk results from a mismatch of the currency of the policy liabilities and the currency of the assets designated to support these obligations. We generally match the currency of our assets with the currency of the liabilities they support, with the objective of mitigating the risk of loss arising from movements in currency exchange rates. Where a currency mismatch exists, the assumed rate of return on the assets supporting the liabilities is reduced to reflect the potential for adverse movements in exchange rates.

## Experience Adjusted Products

Where policies have features that allow the impact of changes in experience to be passed on to policyholders through policy dividends, experience rating refunds, credited rates or other adjustable features, the projected policyholder benefits are adjusted to reflect the projected experience. Minimum contractual guarantees and other market considerations are taken into account in determining the policy adjustments.

## Provision for Adverse Deviation

The aggregate provision for adverse deviation is the sum of the provisions for adverse deviation for each risk factor. Margins for adverse deviation are established by product type and geographic market for each assumption or factor used in the determination of the best estimate actuarial liability. The margins are established based on the risk characteristics of the business being valued.

Margins for interest rate risk are included by testing a number of scenarios of future interest rates. The margin can be established by testing a limited number of scenarios, some of which are prescribed by Canadian Actuarial Standards of Practice, and determining the liability based on the worst outcome. Alternatively the margin can be set by testing many scenarios, which are developed according to actuarial guidance. Under this approach the liability would be the average of the outcomes above a percentile in the range prescribed by the Canadian Actuarial Standards of Practice.

In addition to the explicit margin for adverse deviation, the valuation basis for segregated fund liabilities explicitly limits the future revenue recognition in the valuation basis to the amount necessary to offset acquisition expenses, after allowing for the cost of any guarantee features. The fees that are in excess of this limitation are reported as an additional margin and are shown in segregated fund non-capitalized margins.

The provision for adverse deviation and the future revenue deferred in the valuation due to the limitations on recognition of future revenue in the valuation of segregated fund liabilities are shown in the table below.

As at December 31, (C\$ millions)	2014	2013
<b>Best estimate actuarial liability</b>	<b>\$ 160,990</b>	<b>\$ 133,463</b>
<b>Provision for adverse deviation</b>		
Insurance risks (mortality/morbidity)	\$ 12,234	\$ 11,000
Policyholder behaviour (lapse/surrender/premium persistency)	3,619	3,107
Expenses	1,981	1,651
Investment risks (non-credit)	22,430	17,861
Investment risks (credit)	1,315	1,323
Segregated funds guarantees	2,106	1,586
Other	–	11
<b>Total provision for adverse deviation ("PfAD")<sup>(1)</sup></b>	<b>\$ 43,685</b>	<b>\$ 36,539</b>
<b>Segregated funds – additional margins</b>	<b>7,877</b>	<b>8,160</b>
<b>Total of PfAD and additional segregated fund margins</b>	<b>\$ 51,562</b>	<b>\$ 44,699</b>

<sup>(1)</sup> Reported actuarial liabilities as at December 31, 2014 of \$204,675 million (2013 – \$170,002 million) are composed of \$160,990 million (2013 – \$133,463 million) of best estimate actuarial liability and \$43,685 million (2013 – \$36,539 million) of PfAD.

The change in the PfAD from period to period is impacted by changes in liability and asset composition, by movements in currency and movements in interest rates and by material changes in valuation assumptions. The overall increase in PfAD was for insurance risks and policyholder behaviour was primarily due to the appreciation of the U.S. dollar relative to the Canadian dollar, our review of valuation assumptions and methods, and the decline in interest rate during the year. The overall increase in PfAD for non-credit investment risks was primarily due to the implementation of the revised Canadian Actuarial Standards of Practice related to economic reinvestment assumptions, the decline in interest rates during the year, and the appreciation of the U.S. dollar relative to the Canadian dollar.

## Sensitivity of Earnings to Changes in Assumptions

When the assumptions underlying our determination of policy liabilities are updated to reflect recent and emerging experience or change in outlook, the result is a change in the value of policy liabilities which in turn affects net income attributed to shareholders. The sensitivity of net income attributed to shareholders to changes in non-economic and certain asset related assumptions underlying policy liabilities is shown below, and assumes that there is a simultaneous change in the assumptions across all business units.

For changes in asset related assumptions, the sensitivity is shown net of the corresponding impact on income of the change in the value of the assets supporting liabilities. In practice, experience for each assumption will frequently vary by geographic market and business, and assumption updates are made on a business/geographic specific basis. Actual results can differ materially from these estimates for a variety of reasons including the interaction among these factors when more than one changes, changes in actuarial and investment return and future investment activity assumptions, actual experience differing from the assumptions, changes in business mix, effective tax rates and other market factors, and the general limitations of our internal models.

## Potential impact on net income attributed to shareholders arising from changes to non-economic assumptions<sup>(1)</sup>

As at December 31, (C\$ millions)	Decrease in net income attributable to shareholders	
	2014	2013
<b>Policy related assumptions</b>		
2% adverse change in future mortality rates <sup>(2),(4)</sup>		
Products where an increase in rates increases insurance contract liabilities	\$ (300)	\$ (300)
Products where a decrease in rates increases insurance contract liabilities	(400)	(300)
5% adverse change in future morbidity rates <sup>(3),(4),(5)</sup>	(2,400)	(2,000)
10% adverse change in future termination rates <sup>(4)</sup>	(1,500)	(1,300)
5% increase in future expense levels	(400)	(300)

<sup>(1)</sup> The participating policy funds are largely self-supporting and generate no material impact on net income attributed to shareholders as a result of changes in non-economic assumptions.

<sup>(2)</sup> An increase in mortality rates will generally increase policy liabilities for life insurance contracts whereas a decrease in mortality rates will generally increase policy liabilities for policies with longevity risk such as payout annuities.

<sup>(3)</sup> No amounts related to morbidity risk are included for policies where the policy liability provides only for claims costs expected over a short period, generally less than one year, such as Group Life and Health.

<sup>(4)</sup> The impacts of the sensitivities on LTC for morbidity, mortality and lapse are assumed to be moderated by partial offsets from the Company's ability to contractually raise premium rates in such events, subject to state regulatory approval.

<sup>(5)</sup> The increase in morbidity sensitivity between December 31, 2013 and December 31, 2014 is largely due to modeling refinements and the strengthening of the U.S. dollar compared to the Canadian dollar during 2014. This sensitivity is shown in Canadian dollars and most of our morbidity sensitivity arises from U.S. dollar denominated liabilities.

## Potential impact on net income attributed to shareholders arising from changes to asset related assumptions supporting actuarial liabilities

As at (C\$ millions)	Increase (decrease) in after-tax income			
	December 31, 2014		December 31, 2013	
	Increase	Decrease	Increase	Decrease
<b>Asset related assumptions updated periodically in valuation basis changes</b>				
100 basis point change in future annual returns for public equities <sup>(1)</sup>	\$ 300	\$ (300)	\$ 400	\$ (400)
100 basis point change in future annual returns for ALDA <sup>(2)</sup>	2,500	(3,100)	3,800	(3,700)
100 basis point change in equity volatility assumption for stochastic segregated fund modelling <sup>(3)</sup>	(200)	200	(200)	200

<sup>(1)</sup> The sensitivity to public equity returns above includes the impact on both segregated fund guarantee reserves and on other policy liabilities. For a 100 basis point increase in expected growth rates, the impact from segregated fund guarantee reserves is a \$100 million increase (December 31, 2013 – \$200 million increase). For a 100 basis point decrease in expected growth rates, the impact from segregated fund guarantee reserves is a \$100 million decrease (December 31, 2013 – \$200 million decrease). Expected long-term annual market growth assumptions for public equities pre-dividends for key markets are based on long-term historical observed experience and compliance with actuarial standards. The pre-dividend growth rates for returns in the major markets used in the stochastic valuation models for valuing segregated fund guarantees are 7.6% per annum in Canada, 7.6% per annum in the U.S. and 5.2% per annum in Japan. Growth assumptions for European equity funds are market-specific and vary between 5.8% and 7.85%.

<sup>(2)</sup> Alternative long-duration assets include commercial real estate, timber and agricultural real estate, oil and gas, and private equities. The reduction of \$600 million in sensitivity to a decrease from December 31, 2013 to December 31, 2014 is primarily related to updates to actuarial standards related to economic reinvestment assumptions.

<sup>(3)</sup> Volatility assumptions for public equities are based on long-term historical observed experience and compliance with actuarial standards. The resulting volatility assumptions are 17.15% per annum in Canada and 17.15% per annum in the U.S. for large cap public equities, and 19% per annum in Japan. For European equity funds, the volatility varies between 16.25% and 18.4%.

## Review of Actuarial Methods and Assumptions

A comprehensive review of actuarial methods and assumptions is performed annually. The review is designed to reduce the Company's exposure to uncertainty by ensuring assumptions for both asset related and liability related risks remain appropriate. This is accomplished by monitoring experience and selecting assumptions which represent a current best estimate view of expected future experience, and margins that are appropriate for the risks assumed. While the assumptions selected represent the Company's current best estimates and assessment of risk, the ongoing monitoring of experience and changes in the economic environment are likely to result in future changes to the valuation assumptions, which could be material.

The 2014 full year review of actuarial methods and assumptions resulted in an increase in insurance and investment contract liabilities of \$258 million, net of reinsurance. Net of the income attributed to participating policyholders and non-controlling interests, net income attributed to shareholders decreased by \$198 million.

For the year ended December 31, 2014  
(C\$ millions)

Assumption	Change in:	Gross insurance and investment contract liabilities	Net insurance and investment contract liabilities	Net income attributed to shareholders
Mortality and morbidity updates		\$ (127)	\$ (74)	\$ 73
Lapses and policyholder behaviour		455	405	(314)
Updates to actuarial standards				
Segregated fund bond calibration		219	217	(157)
Economic reinvestment assumptions		(530)	(75)	65
Other updates		(384)	(215)	135
<b>Net impact</b>		<b>\$ (367)</b>	<b>\$ 258</b>	<b>\$ (198)</b>

### Updates to mortality and morbidity

Mortality assumptions were updated across several business units to reflect recent experience. Updates to the Canadian Retail Insurance mortality led to a \$248 million increase in net income attributed to shareholders. Other mortality and morbidity updates led to a \$135 million increase in net income attributed to shareholders, and were primarily from the U.S. Annuity business where in aggregate the Company benefited from updates to mortality assumptions. These were partially offset by updates in U.S. Life insurance, primarily for policies issued at older ages, which led to a \$310 million decrease in net income attributed to shareholders.

### Updates to lapses and policyholder behaviour

Lapse rates for several of the Canadian Retail Insurance non-participating whole life and universal life products were updated to reflect recent experience which led to a \$214 million decrease in net income attributed to shareholders.

Other updates to lapse and policyholder behaviour assumptions were made across several business units including Indonesia, and Canadian and U.S. variable annuities to reflect updated experience results which led to a \$100 million decrease in net income attributed to shareholders.

### Updates to actuarial standards

Updates to actuarial standards related to bond parameter calibration for stochastic models used to value segregated fund liabilities resulted in a \$157 million decrease in net income attributed to shareholders.

Updates to actuarial standards related to economic reinvestment assumptions resulted in a \$65 million increase in net income attributed to shareholders. The impact of the introduction of a new margin for adverse deviation where policy liabilities are supported by ALDA or public equities, was offset by the benefit from changes to the methodology used to develop the risk free interest rate scenarios used in our policy liability calculations and the removal of the restriction on usage of credit spread assets.

### Other updates

The Company performed an in depth review of the modelling of future tax cash flows for its U.S. Insurance business and this review resulted in improvements to the modeling resulting in an increase in net income attributed to shareholders of \$473 million.

The Company made a number of model refinements related to the projection of both asset and liability cash flows across several business units which led to a \$338 million decrease in net income attributed to shareholders.

### Change in net insurance contract liabilities

The change in net insurance contract liabilities can be attributed to several sources: new business, acquisitions, in-force movement and currency impact. Changes in net insurance contract liabilities are substantially offset in the financial statements by premiums, investment income, policy benefits and other policy related cash flows. The changes in net insurance contract liabilities by business segment are shown below:

### 2014 Net Insurance Contract Liability Movement Analysis

For the year ended December 31, 2014 (C\$ millions)	Asia Division	Canadian Division	U.S. Division	Corporate and Other	Total
Balance, January 1	\$ 27,447	\$ 49,103	\$ 99,342	\$ (93)	\$ 175,799
New business <sup>(1)</sup>	134	(43)	716	–	807
In-force movement <sup>(1)</sup>	5,329	5,610	12,905	(256)	23,588
Changes in methods and assumptions <sup>(1)</sup>	(85)	(188)	511	20	258
Currency impact	837	6	9,715	(22)	10,536
<b>Balance, December 31</b>	<b>\$ 33,662</b>	<b>\$ 54,488</b>	<b>\$ 123,189</b>	<b>\$ (351)</b>	<b>\$ 210,988</b>

<sup>(1)</sup> In 2014, the \$24,691 million increase reported as the change in insurance contract liabilities, and change in reinsurance assets on the Consolidated Statements of Income primarily consists of changes due to normal in-force movement, new policies and changes in methods and assumptions. These three items in the net insurance contract liabilities column of this table net to an increase of \$24,653 million, of which \$24,426 million is included in the income statement increase in insurance contract liabilities and change in reinsurance asset, and \$227 million is included in net claims and benefits. The income statement change in insurance contract liabilities also includes the change in embedded derivatives associated with insurance contract.

For new business, the segments with large positive general account premium revenue at contract inception show increases in policy liabilities. For segments where new business deposits are primarily into segregated funds, the increase in policy liabilities related to new business is small since the increase measures only general account liabilities. New business policy liability impact is negative when estimated future premiums, together with future investment income, are expected to be more than sufficient to pay estimated future benefits, policyholder dividends and refunds, taxes (excluding income taxes) and expenses on new policies issued.

The net in-force movement over the year was an increase of \$23,588 million. A material part of the in-force movement increase was due to the decrease in interest rates and the resulting impact on the fair value of assets which back those policy liabilities.

The increase of \$258 million from changes in methods and assumptions resulted in a decrease in pre-tax earnings.

Of the \$24,395 million net increase in insurance contract liabilities related to new business and in-force movement, \$24,186 million was an increase in actuarial liabilities. The remaining amount was an increase of \$209 million in other insurance contract liabilities.

The increase in policy liabilities from currency impact reflects the depreciation of the Canadian dollar relative to the U.S. dollar and Hong Kong dollar, partially offset by the appreciation of the Canadian dollar relative to the Japanese yen. To the extent assets are currency matched to liabilities, the increase in insurance contract liabilities due to currency impact is offset by a corresponding increase from currency impact in the value of assets supporting those liabilities.

### 2013 Net Insurance Contract Liability Movement Analysis

#### For the year ended December 31, 2013

(C\$ millions)	Asia Division	Canadian Division	U.S. Division	Corporate and Other	Total
Balance, January 1	\$ 27,971	\$ 50,609	\$ 101,300	\$ (166)	\$ 179,714
New business <sup>(1)</sup>	150	(73)	1,104	–	1,181
In-force movement <sup>(1)</sup>	1,167	(1,788)	(10,329)	(64)	(11,014)
Impact of sale of Taiwan Business	(1,535)	–	–	–	(1,535)
Changes in methods and assumptions <sup>(1)</sup>	(36)	352	488	147	951
Currency impact	(270)	3	6,779	(10)	6,502
Balance, December 31	\$ 27,447	\$ 49,103	\$ 99,342	\$ (93)	\$ 175,799

<sup>(1)</sup> In 2013 the \$8,604 million decrease reported as the change in insurance contract liabilities and change in reinsurance assets on the Consolidated Statements of Income primarily consists of changes due to normal in-force movement, new policies and changes in methods and assumptions. These three items in the net insurance contract liabilities column of this table net to a decrease of \$8,882 million, of which \$8,661 million is included in the income statement increase in insurance contract liabilities and change in reinsurance assets, and \$221 million is included in net claims and benefits. The Consolidated Statements of Income change in insurance contract liabilities also includes the change in embedded derivatives associated with insurance contracts.

For new business, the segments with large positive general account premium revenue at contract inception show increases in policy liabilities. For segments where new business deposits are primarily into segregated funds, the increase in policy liabilities related to new business is small since the increase measures only general account liabilities. New business policy liability impact is negative when estimated future premiums, together with future investment income, are expected to be more than sufficient to pay estimated future benefits, policyholder dividends and refunds, taxes (excluding income taxes) and expenses on new policies issued.

The net in-force movement over the year was a decrease of \$11,014 million. A material part of the in-force movement decrease was due to a decrease in guarantees associated with policyholder liabilities for segregated fund products due to the increase in equity markets, and the increase in interest rates and the resulting impact on the fair value of assets which back those policy liabilities.

The increase of \$951 million from changes in methods and assumptions resulted in a decrease in pre-tax earnings.

Of the \$9,833 million net decrease in insurance contract liabilities related to new business and in-force movement, \$9,784 million was a decrease in actuarial liabilities. The remaining amount was a decrease of \$49 million in other insurance contract liabilities.

The increase in policy liabilities from currency impact reflects the depreciation of the Canadian dollar relative to the U.S. dollar, partially offset by the appreciation of the Canadian dollar relative to the Japanese yen. To the extent assets are currency matched to liabilities, the increase in insurance contract liabilities due to currency impact is offset by a corresponding increase from currency impact in the value of assets supporting those liabilities.

### Consolidation

The Company is required to consolidate the financial position and results of entities it controls. Control exists when the Company:

- 1) has the power to govern the financial and operating policies of the entity,
- 2) is exposed to a significant portion of the entity's variable returns, and
- 3) is able to use its power to influence variable returns from the entity.

The Company uses the same principles to assess control over any entity it is involved with. In evaluating control, potential factors assessed include the effects of:

- 1) substantive potential voting rights that are currently exercisable or convertible,
- 2) contractual management relationships with the entity,
- 3) rights and obligations resulting from policyholders to manage investments on their behalf, and
- 4) the effect of any legal or contractual restraints on the Company from using its power to affect its variable returns from the entity.

An assessment of control is based on arrangements in place and the assessed risk exposures at inception. Initial evaluations are reconsidered at a later date if:

- 1) the Company acquires additional interests in the entity or its interests in an entity are diluted,
- 2) the contractual arrangements of the entity are amended such that the Company's involvement with the entity changes, or
- 3) the Company's ability to use its power to affect its variable returns from the entity changes.

Subsidiaries are consolidated from the date on which control is obtained by the Company and cease to be consolidated from the date that control ceases.

### **Fair Value of Invested Assets**

A large portion of the Company's invested assets are recorded at fair value. Refer to note 1 to the 2014 Consolidated Financial Statements for a description of the methods used in determining fair values. When quoted prices in active markets are not available for a particular investment, significant judgment is required to determine an estimated fair value based on market standard valuation methodologies including discounted cash flow methodologies, matrix pricing, consensus pricing services, or other similar techniques. The inputs to these market standard valuation methodologies include, but are not limited to: current interest rates or yields for similar instruments, credit rating of the issuer or counterparty, industry sector of the issuer, coupon rate, call provisions, sinking fund requirements, tenor (or expected tenor) of the instrument, management's assumptions regarding liquidity, volatilities and estimated future cash flows. Accordingly, the estimated fair values are based on available market information and management's judgments about the key market factors impacting these financial instruments. Financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity. The Company's ability to sell assets, or the price ultimately realized for these assets, depends upon the demand and liquidity in the market and increases the use of judgment in determining the estimated fair value of certain assets.

### **Evaluation of Invested Asset Impairment**

AFS fixed income and equity securities are carried at fair market value, with changes in fair value recorded in Other Comprehensive Income ("OCI") with the exception of unrealized gains and losses on foreign currency translation of AFS fixed income securities which are included in net income attributed to shareholders. Securities are reviewed on a regular basis and any fair value decrement is transferred out of Accumulated Other Comprehensive Income ("AOCI") and recorded in net income attributed to shareholders when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of a fixed income security or when fair value of an equity security has declined significantly below cost or for a prolonged period of time.

Provisions for impairments of mortgage loans and private placement loans are recorded with losses reported in earnings when there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest.

Significant judgment is required in assessing whether an impairment has occurred and in assessing fair values and recoverable values. Key matters considered include economic factors, company and industry specific developments, and specific issues with respect to single issuers and borrowers.

Changes in circumstances may cause future assessments of asset impairment to be materially different from current assessments, which could require additional provisions for impairment. Additional information on the process and methodology for determining the allowance for credit losses is included in the discussion of credit risk in note 10 to the 2014 Consolidated Financial Statements.

### **Derivative Financial Instruments**

The Company uses derivative financial instruments ("derivatives") including swaps, forwards and futures agreements, and options to manage current and anticipated exposures to changes in interest rates, foreign exchange rates, commodity prices and equity market prices, and to replicate permissible investments. Refer to note 5 to the 2014 Consolidated Financial Statements for a description of the methods used to determine the fair value of derivatives.

The accounting for derivatives is complex and interpretations of the primary accounting guidance continue to evolve in practice. Judgment is applied in determining the availability and application of hedge accounting designations and the appropriate accounting treatment under such accounting guidance. Differences in judgment as to the availability and application of hedge accounting designations and the appropriate accounting treatment may result in a differing impact on the Consolidated Financial Statements of the Company from that previously reported. Assessments of hedge effectiveness and measurements of ineffectiveness of hedging relationships are also subject to interpretations and estimations. If it was determined that hedge accounting designations were not appropriately applied, reported net income attributed to shareholders could be materially affected.

### **Employee Future Benefits**

The Company maintains a number of plans providing pension (defined benefit and defined contribution) and other post-employment benefits to eligible employees and agents after employment. The largest of these – the defined benefit pension and retiree welfare plans in the U.S. and Canada – are the material plans that are discussed herein and are the subject of the disclosures in note 17 to the 2014 Consolidated Financial Statements.

Due to the long-term nature of defined benefit pension and retiree welfare plans, the calculation of the defined benefit obligation and net benefit cost depends on various assumptions such as discount rates, salary increase rates, cash balance interest crediting rates, health care cost trend rates and rates of mortality. These assumptions are determined by management and are reviewed annually.

Changes in assumptions and differences between actual and expected experience give rise to actuarial gains and losses that affect the amount of the defined benefit obligation and OCI. During 2014, the actual experience resulted in a loss of \$62 million (2013 – gain of \$274 million) for the defined benefit pension plans and a loss of \$5 million (2013 – gain of \$69 million) for the retiree welfare plans. The aggregate loss of \$67 million (2013 – gain of \$343 million) was fully recognized in OCI in 2014. The key assumptions, as well as the sensitivity of the defined benefit obligation to these assumptions, are presented in note 17 to the 2014 Consolidated Financial Statements.

Contributions to the broad based defined benefit pension plans are made in accordance with the regulations in the countries in which the plans are offered. During 2014, the Company contributed \$17 million (2013 – \$21 million) to these plans. As at December 31, 2014, the difference between the fair value of assets and the defined benefit obligation for these plans was a surplus of \$156 million (2013 – \$137 million). For 2015, the contributions to the plans are expected to be approximately \$34 million.<sup>21</sup>

The Company's supplemental pension plans for executives are not funded; benefits under these plans are paid as they become due. During 2014, the Company paid benefits of \$60 million (2013 – \$61 million) under these plans. As at December 31, 2014, the defined benefit obligation amounted to \$803 million (2013 – \$713 million).

The Company's retiree welfare plans are partially funded, although there are no regulations or laws governing or requiring the funding of these plans. As at December 31, 2014, the difference between the fair value of plan assets and the defined benefit obligation was a deficit of \$110 million (2013 – \$133 million).

For further details on the defined benefit obligation and net benefit cost for these plans, refer to note 17 to the 2014 Consolidated Financial Statements.

### **Income Taxes**

The Company is subject to income tax laws in various jurisdictions. Tax laws are complex and potentially subject to different interpretations by the taxpayer and the relevant tax authority. The provision for income taxes represents management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the period. A deferred tax asset or liability results from temporary differences between carrying values of the assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are recorded based on expected future tax rates and management's assumptions regarding the expected timing of the reversal of such temporary differences. The realization of deferred tax assets depends upon the existence of sufficient taxable income within the carryback or carry forward periods under the tax law in the applicable tax jurisdiction. A deferred tax asset is recognized to the extent that future realization of the tax benefit is probable. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the tax benefit will be realized. Factors in management's determination include, among other things, the following:

- a) future taxable income exclusive of reversing temporary differences and carry forwards;
- b) future reversals of existing taxable temporary differences;
- c) taxable income in prior carryback years; and
- d) tax planning strategies.

The Company may be required to change its provision for income taxes if the ultimate deductibility of certain items is successfully challenged by taxing authorities or if estimates used in determining the amount of deferred tax assets to recognize change significantly, or when receipt of new information indicates the need for adjustment in the recognition of deferred tax assets. Additionally, future events, such as changes in tax laws, tax regulations, or interpretations of such laws or regulations, could have an impact on the provision for income tax, deferred tax balances and the effective tax rate. Any such changes could significantly affect the amounts reported in the Consolidated Financial Statements in the year these changes occur.

The Company is an investor in a number of leasing transactions and had established provisions for disallowance of the tax treatment and for interest on past due taxes. On August 5, 2013, the U.S. Tax Court issued an opinion effectively ruling in the government's favour in the litigation between John Hancock and the Internal Revenue Service involving the tax treatment of leveraged leases. The Company was fully reserved for this result, and the case had no material impact on the Company's 2014 financial results.

### **Goodwill and Intangible Assets**

Under IFRS, goodwill is tested at the cash generating unit level ("CGU") or group of CGUs level. A CGU comprises the smallest group of assets that are capable of generating largely independent cash flows and is either a business segment or a level below. The tests performed in 2014 demonstrated that there was no impairment of goodwill or intangible assets with indefinite lives. Change in the discount rates and cash flow projections used in the determination of embedded values or reductions in market-based earnings multiples may result in impairment charges in the future, which could be material.

Impairment charges could occur in the future as a result of changes in economic conditions. The goodwill testing for 2015 will be updated based on the conditions that exist in 2015 and may result in impairment charges, which could be material.<sup>21</sup>

### **Future Accounting and Reporting Changes**

There are a number of new accounting and reporting changes issued under IFRS including those still under development by the International Accounting Standards Board ("IASB") that will impact the Company beginning in 2015 and subsequently. Summaries of each of the most recently issued key accounting standards are presented below.

<sup>21</sup> See "Caution regarding forward-looking statements" above.

**(i) Amendments to IAS 19 “Employee Benefits”**

The amendments to IAS 19 “Employee Benefits” were issued in November 2013 and are effective for years beginning on or after January 1, 2015, to be applied retrospectively. The amendments clarify the accounting for contributions by employees or third parties to defined benefit plans. Adoption of these amendments is not expected to have a significant impact on the Company’s Consolidated Financial Statements.

**(ii) Annual Improvements 2010 – 2012 and 2011 – 2013 Cycles**

Annual Improvements 2010-2012 and 2011-2013 Cycles were issued in December 2013 and are effective for years beginning on or after January 1, 2015. The IASB issued 10 minor amendments to different standards as part of the Annual Improvements process, with some amendments to be applied prospectively and others to be applied retrospectively. Adoption of the amendments which are applicable for the Company is not expected to have a significant impact on the Company’s Consolidated Financial Statements.

**(iii) Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”**

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” were issued in May 2014 and are effective for years beginning on or after January 1, 2016, to be applied prospectively. The amendments clarify that the depreciation or amortization of assets accounted for under these two standards should reflect a pattern of consumption of the assets rather than reflect economic benefits expected to be generated from the assets. The Company is assessing the impact of these amendments.

**(iv) Amendments to IFRS 11 “Joint Arrangements”**

Amendments to IFRS 11 “Joint Arrangements” were issued in May 2014 and are effective for years beginning on or after January 1, 2016, to be applied prospectively. The amendments clarify that an acquisition of a joint interest in a joint operation that is a business should be accounted for and disclosed as a business combination in accordance with IFRS 3 “Business Combinations”. Adoption of these amendments is not expected to have a significant impact on the Company’s Consolidated Financial Statements.

**(v) Amendments to IAS 41 “Agriculture” and IAS 16 “Property, Plant and Equipment”**

Amendments to IAS 41 “Agriculture” and IAS 16 “Property, Plant and Equipment” were issued in June 2014 and are effective for years beginning on or after January 1, 2016, to be applied retrospectively. These amendments require that bearer plants should be considered as property, plant and equipment in the scope of IAS 16 and should be measured either at cost or revalued amount with changes recognized in OCI. Currently these plants are in the scope of IAS 41 and are measured at fair value less cost to sell. A bearer plant is used in the production of agricultural produce and is not intended to be sold as a living plant except for incidental scrap sales. These amendments only apply to the accounting requirements of a bearer plant and not agricultural land properties. Adoption of these amendments is not expected to have a significant impact on the Company’s Consolidated Financial Statements.

**(vi) Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”**

Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” were issued in September 2014 and are effective for years beginning on or after January 1, 2016, to be applied prospectively. The amendments require that upon loss of control of a subsidiary during its transfer to an associate or joint venture, full gain recognition on the transfer is appropriate only if the subsidiary meets the definition of a business in IFRS 3 Business Combinations. Otherwise, gain recognition is appropriate only to the extent of third party ownership of the associate or joint venture. Adoption of these amendments is not expected to have significant impact on the Company’s Consolidated Financial Statements.

Additional amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” were issued in December 2014 and are effective for years beginning on or after January 1, 2016, to be applied retrospectively. The amendments clarify the requirements when accounting for investment entities. Adoption of these amendments is not expected to have a significant impact on the Company’s Consolidated Financial Statements.

**(vii) Annual Improvements 2012 – 2014 Cycle**

Annual Improvements 2012 – 2014 Cycle was issued in September 2014 and is effective for years beginning on or after January 1, 2016. The IASB issued five minor amendments to different standards as part of the Annual Improvements process, with some amendments to be applied prospectively and others to be applied retrospectively. Adoption of these amendments is not expected to have a significant impact on the Company’s Consolidated Financial Statements.

**(viii) IFRS 15 “Revenue from Contracts with Customers”**

IFRS 15 “Revenue from Contracts with Customers” was issued in May 2014 and is effective for years beginning on or after January 1, 2017, to be applied retrospectively or on a modified retrospective basis. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognizing revenue and cash flows arising from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 does not apply to insurance contracts, financial instruments and lease contracts. Accordingly, the adoption of IFRS 15 may impact the revenue recognition related to the Company’s asset management and service contracts and will result in additional financial statement disclosure. The Company is assessing the impact of this standard.



### **(ix) IFRS 9 “Financial Instruments”**

IFRS 9 “Financial Instruments” was issued in November 2009 and amended in October 2010, November 2013 and July 2014, and is effective for years beginning on or after January 1, 2018, to be applied retrospectively, or on a modified retrospective basis. It is intended to replace IAS 39 “Financial Instruments: Recognition and Measurement”. The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9’s current classification and measurement methodology provides that financial assets are measured at either amortized cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remains generally unchanged; however, revisions have been made in the accounting for changes in fair value of a financial liability attributable to changes in the credit risk of that liability. Gains or losses caused by changes in an entity’s own credit risk on such liabilities are no longer recognized in profit or loss but instead are reflected in OCI.

Revisions to hedge accounting were issued in November 2013 as part of the overall IFRS 9 project. The amendment introduces a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

Revisions issued in July 2014 replace the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. Changes were also made to the existing classification and measurement model designed primarily to address specific application issues raised by early adopters of the standard. They also address the income statement accounting mismatches and short-term volatility issues which have been identified as a result of the insurance contracts project. The Company is assessing the impact of these amendments.

### **(x) Amendments to IAS 1 “Presentation of Financial Statements”**

Amendments to IAS 1 “Presentation of Financial Statements” were issued in December 2014 and are effective for years beginning on or after January 1, 2016. The amendments clarify existing requirements relating to materiality and aggregation, along with presentation of subtotals in the financial statements. Adoption of these amendments is not expected to have a significant impact on the Company’s Consolidated Financial Statements.

### **Differences between IFRS and Hong Kong Financial Reporting Standards**

The Consolidated Financial Statements of MFC are presented in accordance with IFRS. IFRS differs in certain respects from Hong Kong Financial Reporting Standards (“HKFRS”).

The primary difference between IFRS and HKFRS is the determination of policy liabilities. In certain interest rate environments, policy liabilities determined in accordance with HKFRS may be higher than those computed in accordance with current IFRS.

### **IFRS and Hong Kong Regulatory Requirements**

Insurers in Hong Kong are required by the Office of the Commissioner of Insurance to meet minimum solvency requirements. As at December 31, 2014, the Company has sufficient assets to meet the minimum solvency requirements under both Hong Kong regulatory requirements and IFRS.

# Controls and Procedures

## Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized, and reported accurately and completely and within the time periods specified under Canadian and U.S. securities laws. Our process includes controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure.

As of December 31, 2014, management evaluated the effectiveness of its disclosure controls and procedures as defined under the rules adopted by the U.S. Securities and Exchange Commission and the Canadian securities regulatory authorities. This evaluation was performed under the supervision of the Audit Committee, the CEO and CFO. Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as at December 31, 2014.

MFC's Audit Committee has reviewed this MD&A and the 2014 Consolidated Financial Statements and MFC's Board of Directors approved these reports prior to their release.

## Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations due to manual controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. Management also takes steps to ensure that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework in Internal Control – Integrated Framework. Based on this assessment, management believes that, as of December 31, 2014, the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by Ernst & Young LLP, the Company's independent registered public accounting firm that also audited the Consolidated Financial Statements of the Company for the year ended December 31, 2014. Their report expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2014.

## Changes in Internal Control over Financial Reporting

No changes were made in our internal control over financial reporting during the year ended December 31, 2014 that have significantly affected, or are reasonably likely to significantly affect, our internal control over financial reporting.

# Performance and Non-GAAP Measures

We use a number of non-GAAP financial measures to measure overall performance and to assess each of our businesses. A financial measure is considered a non-GAAP measure for Canadian securities law purposes if it is presented other than in accordance with generally accepted accounting principles used for the Company's audited financial statements. Non-GAAP measures include: Core Earnings; Core ROE; Diluted Core Earnings per Common Share; Constant Currency Basis; EPS; Mutual Funds Assets under Management ("MF AUM"); Assets under Administration ("AUA"); Premiums and Deposits; Assets under Management ("AUM"); Capital; Embedded Value and Sales. Non-GAAP financial measures are not defined terms under GAAP and, therefore, are unlikely to be comparable to similar terms used by other issuers. Therefore, they should not be considered in isolation or as a substitute for any other financial information prepared in accordance with GAAP.

As disclosed in 3Q14, we no longer disclose U.S. GAAP measures. In the past, we elected to report consolidated U.S. GAAP information because of our large U.S. domiciled investor base and for comparison purposes with our U.S. peers. In the aftermath of the financial crisis, presenting U.S. GAAP measures highlighted the significant impact of fair value accounting on our financial statements under IFRS. In 2012, we introduced a core earnings metric which also highlights such impact. This metric has gained acceptance with our stakeholders and, therefore, we discontinued the use of consolidated U.S. GAAP information starting in 4Q14.

**Core earnings (loss)** is a non-GAAP measure which we use to better understand the long-term earnings capacity and valuation of the business. Core earnings excludes the direct impact of equity markets and interest rates as well as a number of other items, outlined below, that are considered material and exceptional in nature. While this metric is relevant to how we manage our business and offers a consistent methodology, it is not insulated from macro-economic factors which can have a significant impact.

Since we introduced this measure in 2012, we have included up to \$200 million of favourable investment-related experience in core earnings per year. Recent investment-related experience has trended higher than the amount currently included in core earnings and, accordingly, we intend to increase the maximum annual amount included in core earnings to \$400 million per year beginning in 2015. Any other future changes to the core earnings definition referred to below, will be disclosed.

**Items that are included in core earnings are:**

1. Expected earnings on in-force policies, including expected release of provisions for adverse deviation, fee income, margins on group business and spread business such as Manulife Bank and asset fund management.
2. Macro hedging costs based on expected market returns.
3. New business strain.
4. Policyholder experience gains or losses.
5. Acquisition and operating expenses compared with expense assumptions used in the measurement of policy liabilities.
6. Up to \$200 million (\$400 million beginning in 2015) of favourable investment-related experience reported in a single year, which are referred to as "core investment gains".
7. Earnings on surplus other than mark-to-market items. Gains on available-for-sale ("AFS") equities and seed money investments are included in core earnings.
8. Routine or non-material legal settlements.
9. All other items not specifically excluded.
10. Tax on the above items.
11. All tax related items except the impact of enacted or substantially enacted income tax rate changes.

**Items excluded from core earnings are:**

1. The direct impact of equity markets and interest rates and variable annuity guarantee liabilities, consisting of:
  - The earnings impact of the difference between the net increase (decrease) in variable annuity liabilities that are dynamically hedged and the performance of the related hedge assets. Our variable annuity dynamic hedging strategy is not designed to completely offset the sensitivity of insurance and investment contract liabilities to all risks or measurements associated with the guarantees embedded in these products for a number of reasons, including: provisions for adverse deviation, fund performance, the portion of the interest rate risk that is not dynamically hedged, realized equity and interest rate volatilities and changes to policyholder behaviour.
  - Gains (charges) on variable annuity guarantee liabilities not dynamically hedged.
  - Gains (charges) on general fund equity investments supporting policy liabilities and on fee income.
  - Gains (charges) on macro equity hedges relative to expected costs. The expected cost of macro hedges is calculated using the equity assumptions used in the valuation of insurance and investment contract liabilities.
  - Gains (charges) on higher (lower) fixed income reinvestment rates assumed in the valuation of insurance and investment contract liabilities, including the impact on the fixed income ultimate reinvestment rate ("URR").
  - Gains (charges) on sale of AFS bonds and open derivatives not in hedging relationships in the Corporate and Other segment.
2. Net favourable investment-related experience in excess of \$200 million (\$400 million beginning in 2015) per annum or net unfavourable investment-related experience on a year-to-date basis. Investment-related experience relates to fixed income trading, alternative long-duration asset returns, credit experience and asset mix changes. This favourable and unfavourable investment-related experience is a combination of reported investment experience as well as the impact of investing activities on the measurement of our policy liabilities.
3. Mark-to-market gains or losses on assets held in the Corporate and Other segment other than gains on AFS equities and seed money investments in new segregated or mutual funds.
4. Changes in actuarial methods and assumptions, excluding URR.
5. The impact on the measurement of policy liabilities of changes in product features or new reinsurance transactions, if material.
6. Goodwill impairment charges.
7. Gains or losses on disposition of a business.
8. Material one-time only adjustments, including highly unusual/extraordinary and material legal settlements or other items that are material and exceptional in nature.
9. Tax on the above items.
10. Impact of enacted or substantially enacted income tax rate changes.

**Core return on common shareholders' equity ("Core ROE")** is a non-GAAP profitability measure that presents core earnings available to common shareholders as a percentage of the capital deployed to earn the core earnings. The Company calculates Core ROE using average common shareholders' equity.

**Diluted core earnings per common share** is core earnings available to common shareholders expressed per diluted weighted average common share outstanding.

The Company also uses financial performance measures that are prepared on a **constant currency basis**, which exclude the impact of currency fluctuations and which are non-GAAP measures. Amounts stated on a constant currency basis in this report are calculated, as appropriate, using the income statement and balance sheet exchange rates effective for the fourth quarter of 2014.

**Earnings per share ("EPS") excluding transition and integration costs** is a non-GAAP measure of the Company's profitability. It shows what the earnings per common share would be excluding transition and integration costs which are one-time costs.

**Mutual Funds' assets under management ("MF AUM")** is a non-GAAP measure of the size of the Company's Canadian mutual fund business. It represents the assets managed by the Company, on behalf of mutual fund clients, on a discretionary basis for which the Company earns investment management fees.

**Assets under administration ("AUA")** is a non-GAAP measure of the size of the Company's Canadian group pension business. It represents the asset base on which the Company provides administrative services such as recordkeeping, custodial and customer reporting services.

**Premiums and deposits** is a non-GAAP measure of top line growth. The Company calculates premiums and deposits as the aggregate of (i) general fund premiums, net of reinsurance, reported as premiums on the Consolidated Statements of Income and investment contract deposits, (ii) segregated fund deposits, excluding seed money, ("deposits from policyholders"), (iii) mutual fund deposits, (iv) deposits into institutional advisory accounts, (v) premium equivalents for "administration services only" group benefit contracts ("ASO premium equivalents"), (vi) premiums in the Canadian Group Benefits reinsurance ceded agreement, and (vii) other deposits in other managed funds.

Premiums and deposits (C\$ millions)	Quarterly		Full Year Results	
	4Q 2014	4Q 2013	2014	2013
Net premium income and investment contract deposits	\$ 4,948	\$ 4,563	\$ 18,022	\$ 17,569
Deposits from policyholders	6,240	5,756	24,112	23,059
Mutual fund deposits	10,120	8,400	40,066	35,890
Institutional advisory account deposits	2,276	957	8,148	3,974
ASO premium equivalents	773	746	3,048	2,935
Group Benefits ceded premiums	1,023	1,000	4,130	4,404
Other fund deposits	132	114	475	419
<b>Total premiums and deposits</b>	<b>\$ 25,512</b>	<b>\$ 21,536</b>	<b>\$ 98,001</b>	<b>\$ 88,250</b>
Currency impact	-	1,179	1,667	5,781
<b>Constant currency premiums and deposits</b>	<b>\$ 25,512</b>	<b>\$ 22,715</b>	<b>\$ 99,668</b>	<b>\$ 94,031</b>

**Assets under management** is a non-GAAP measure of the size of the Company. It represents the total of the invested asset base that the Company and its customers invest in.

#### Assets under management

As at December 31, (C\$ millions)	2014	2013
Total invested assets	\$ 269,310	\$ 232,709
Segregated funds net assets	256,532	239,871
<b>Assets under management per financial statements</b>	<b>\$ 525,842</b>	<b>\$ 472,580</b>
Mutual funds	119,593	91,118
Institutional advisory accounts (excluding segregated funds)	38,864	30,284
Other funds	6,830	4,951
<b>Assets under management</b>	<b>\$ 691,129</b>	<b>\$ 598,933</b>
Currency impact	-	34,523
<b>Constant currency assets under management</b>	<b>\$ 691,129</b>	<b>\$ 633,456</b>

**Capital** The definition we use for capital, a non-GAAP measure, serves as a foundation of our capital management activities at the MFC level. For regulatory reporting purposes, the numbers are further adjusted for various additions or deductions to capital as mandated by the guidelines used by OSFI. Capital is calculated as the sum of: (i) total equity excluding AOCI on cash flow hedges; and (ii) liabilities for preferred shares and capital instruments.

#### Capital

As at December 31,  
(C\$ millions)

	2014	2013
<b>Total equity</b>	<b>\$ 33,926</b>	\$ 29,033
Add AOCI loss on cash flow hedges	<b>211</b>	84
Add liabilities for preferred shares and capital instruments	<b>5,426</b>	4,385
<b>Total capital</b>	<b>\$ 39,563</b>	\$ 33,502

**Embedded value** is a measure of shareholders' economic value in the current Consolidated Statements of Financial Position of the Company, excluding any value associated with future new business. Manulife's embedded value is defined as adjusted IFRS common shareholders' equity, with adjustments to reflect the fair value of surplus assets and to exclude goodwill and post-tax intangibles, plus the value of future earnings expected from current in-force business. The latter item is calculated net of the cost of capital, using future mortality, morbidity, policyholder behaviour, expense and investment assumptions that are consistent with the assumptions used in the valuation of our policy liabilities.

**Sales** are measured according to product type:

- For individual insurance, sales include 100% of new annualized premiums and 10% of both excess and single premiums. For individual insurance, new annualized premiums reflect the annualized premium expected in the first year of a policy that requires premium payments for more than one year. Single premium is the lump sum premium from the sale of a single premium product, e.g. travel insurance. Sales are reported gross before the impact of reinsurance.
- For group insurance, sales include new annualized premiums and ASO premium equivalents on new cases, as well as the addition of new coverages and amendments to contracts, excluding rate increases.
- For individual wealth management contracts, all new deposits are reported as sales. This includes individual annuities, both fixed and variable; mutual funds; and, college savings 529 plans. Sales also include bank loans and mortgages authorized in the period. As we discontinued sales of new VA contracts in the U.S., beginning in the first quarter of 2013, subsequent deposits into existing U.S. VA contracts are not reported as sales.
- For group pensions/retirement savings, sales of new regular premiums and deposits reflect an estimate of expected deposits in the first year of the plan with the Company. Single premium sales reflect the assets transferred from the previous plan provider. Total sales include both new regular and single premiums and deposits. Sales include the impact of the addition of a new division or of a new product to an existing client.

# Additional Disclosures

## Contractual Obligations

In the normal course of business, the Company enters into contracts that give rise to obligations fixed by agreement as to the timing and dollar amount of payment.

As at December 31, 2014, the Company's contractual obligations and commitments are as follows:

Payments due by period (C\$ millions)	Total	Less than			After 5 years
		1 year	1 to 3 years	3 to 5 years	
Long-term debt <sup>(1)</sup>	\$ 4,435	\$ 2,324	\$ 365	\$ 1,138	\$ 608
Liabilities for capital instruments <sup>(1),(2)</sup>	12,610	214	436	430	11,530
Liabilities for subscriptions receipts <sup>(3)</sup>	2,220	2,220	–	–	–
Investment commitments	5,663	2,456	1,989	719	499
Operating leases	803	149	147	64	443
Insurance contract liabilities <sup>(4)</sup>	554,684	8,701	9,512	13,229	523,242
Investment contract liabilities <sup>(1)</sup>	4,310	564	395	368	2,983
Deposits from bank clients	18,384	14,046	3,299	1,039	–
Other	3,546	1,371	443	199	1,533
<b>Total contractual obligations</b>	<b>\$ 606,655</b>	<b>\$ 32,045</b>	<b>\$ 16,586</b>	<b>\$ 17,186</b>	<b>\$ 540,838</b>

<sup>(1)</sup> The contractual payments include principal, interest and distributions. The contractual payments reflect the amounts payable from January 1, 2015 up to and including the final contractual maturity date. In the case of floating rate obligations, the floating rate index is based on the interest rates as at December 31, 2014 and is assumed to remain constant to the final contractual maturity date. The Company may have the contractual right to redeem or repay obligations prior to maturity and if such right is exercised, total contractual obligations paid and the timing of payment could vary significantly from the amounts and timing included in the table.

<sup>(2)</sup> Liabilities for preferred shares – Class A, Series 1 are not included in the contractual obligation table. These preferred shares are redeemable by the Company by payment of cash or issuance of MFC common shares and are convertible at the option of the holder into MFC common shares on or after December 19, 2015.

<sup>(3)</sup> On January 30, 2015, upon the closing of the acquisition of the Canadian-based operations of Standard Life plc, the issued and outstanding subscription receipts were exchanged for MFC common shares. Therefore, this liability has been extinguished.

<sup>(4)</sup> Insurance contract liabilities cash flows include estimates related to the timing and payment of death and disability claims, policy surrenders, policy maturities, annuity payments, minimum guarantees on segregated fund products, policyholder dividends, commissions and premium taxes offset by contractual future premiums on in-force contracts. These estimated cash flows are based on the best estimate assumptions used in the determination of insurance contract liabilities. These amounts are undiscounted and reflect recoveries from reinsurance agreements. Due to the use of assumptions, actual cash flows may differ from these estimates (see "Policy Liabilities"). Cash flows include embedded derivatives measured separately at fair value.

## Legal and Regulatory Proceedings

The Company is regularly involved in legal actions, both as a defendant and as a plaintiff. The legal actions naming the Company as a defendant ordinarily involve its activities as a provider of insurance protection and wealth management products, as well as an investment adviser, employer and taxpayer. In addition, government and regulatory bodies in Canada, the United States, Asia and other jurisdictions where the Company conducts business regularly make inquiries and, from time to time, require the production of information or conduct examinations concerning the Company's compliance with, among other things, insurance laws, securities laws, and laws governing the activities of broker-dealers.

Two class actions against the Company have been certified and are pending in Quebec (on behalf of Quebec residents only) and Ontario (on behalf of investors in Canada, other than Quebec). The actions in Ontario and Quebec are based on allegations that the Company failed to meet its disclosure obligations related to its exposure to market price risk in its segregated funds and variable annuity guaranteed products. The decisions to grant leave and certification have been of a procedural nature only and there has been no determination on the merits of either claim to date. The Company believes that its disclosure satisfied applicable disclosure requirements and intends to vigorously defend itself against any claims based on these allegations.

Plaintiffs in class action and other lawsuits against the Company may seek very large or indeterminate amounts, including punitive and treble damages, and the damages claimed and the amount of any probable and estimable liability, if any, may remain unknown for substantial periods of time. A substantial legal liability or a significant regulatory action could have a significant adverse effect on the Company's business, results of operations, financial condition and capital position and adversely affect its reputation. Even if the Company ultimately prevails in the litigation, regulatory action or investigation, it could suffer reputational harm, which could have an adverse effect on its business, results of operations, financial condition and capital position, including its ability to attract new customers, retain current customers and recruit and retain employees.

## Key Planning Assumptions and Uncertainties

Manulife's 2016 management objectives<sup>22</sup> do not constitute guidance and are based on certain key planning assumptions, including: current accounting and regulatory capital standards; no acquisitions; equity market and interest rate assumptions consistent with our long-term assumptions, and favourable investment experience included in core earnings.

<sup>22</sup> See "Caution regarding forward-looking statements" above.

## Quarterly Financial Information

The following table provides summary information related to our eight most recently completed quarters:

As at and for the three months ended (C\$ millions, except per share amounts or otherwise stated, unaudited)	2014				2013			
	Dec 31,	Sept 30,	Jun 30,	Mar 31,	Dec 31,	Sept 30,	Jun 30,	Mar 31,
<b>Revenue</b>								
Premium income								
Life and health insurance	\$ 4,305	\$ 4,072	\$ 3,786	\$ 3,696	\$ 3,956	\$ 3,879	\$ 3,681	\$ 3,837
Annuities and pensions	544	569	446	465	592	490	495	580
Net premium income	\$ 4,849	\$ 4,641	\$ 4,232	\$ 4,161	\$ 4,548	\$ 4,369	\$ 4,176	\$ 4,417
Investment income	2,681	2,618	2,825	2,684	2,637	2,483	2,345	2,405
Realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities <sup>(1)</sup>	6,182	1,561	4,093	5,256	(2,788)	(2,513)	(9,355)	(2,961)
Other revenue	2,301	2,207	2,108	2,123	2,633	1,958	2,318	1,967
<b>Total revenue</b>	<b>\$ 16,013</b>	<b>\$ 11,027</b>	<b>\$ 13,258</b>	<b>\$ 14,224</b>	<b>\$ 7,030</b>	<b>\$ 6,297</b>	<b>\$ (516)</b>	<b>\$ 5,828</b>
Income (loss) before income taxes	\$ 724	\$ 1,392	\$ 1,211	\$ 937	\$ 1,854	\$ 1,118	\$ 205	\$ 570
Income tax (expense) recovery	(17)	(287)	(234)	(133)	(497)	(172)	103	(15)
<b>Net income</b>	<b>\$ 707</b>	<b>\$ 1,105</b>	<b>\$ 977</b>	<b>\$ 804</b>	<b>\$ 1,357</b>	<b>\$ 946</b>	<b>\$ 308</b>	<b>\$ 555</b>
<b>Net income attributed to shareholders</b>	<b>\$ 640</b>	<b>\$ 1,100</b>	<b>\$ 943</b>	<b>\$ 818</b>	<b>\$ 1,297</b>	<b>\$ 1,034</b>	<b>\$ 259</b>	<b>\$ 540</b>
<b>Reconciliation of core earnings to net income attributed to shareholders</b>								
Total core earnings <sup>(2)</sup>	\$ 713	\$ 755	\$ 701	\$ 719	\$ 685	\$ 704	\$ 609	\$ 619
Other items to reconcile net income attributed to shareholders core earnings <sup>(3)</sup> :								
Investment-related experience in excess of amounts included in core earnings	(403)	320	217	225	215	491	(97)	97
Direct impact of equity markets, interest rates and variable annuity guarantee liabilities	377	70	55	(90)	(81)	94	(242)	(107)
Impact of major reinsurance transactions, in-force product changes and recapture of reinsurance treaties	–	24	–	–	261	–	–	–
Change in actuarial methods and assumptions	(59)	(69)	(30)	(40)	(133)	(252)	(35)	(69)
Net impact of acquisitions and divestitures	12	–	–	–	350	–	–	–
Tax items and restructuring charge related to organizational design	–	–	–	4	–	(3)	24	–
<b>Net income attributed to shareholders</b>	<b>\$ 640</b>	<b>\$ 1,100</b>	<b>\$ 943</b>	<b>\$ 818</b>	<b>\$ 1,297</b>	<b>\$ 1,034</b>	<b>\$ 259</b>	<b>\$ 540</b>
<b>Basic earnings per common share</b>	<b>\$ 0.33</b>	<b>\$ 0.58</b>	<b>\$ 0.49</b>	<b>\$ 0.42</b>	<b>\$ 0.69</b>	<b>\$ 0.54</b>	<b>\$ 0.12</b>	<b>\$ 0.28</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.33</b>	<b>\$ 0.57</b>	<b>\$ 0.49</b>	<b>\$ 0.42</b>	<b>\$ 0.68</b>	<b>\$ 0.54</b>	<b>\$ 0.12</b>	<b>\$ 0.28</b>
<b>Segregated funds deposits</b>	<b>\$ 6,240</b>	<b>\$ 5,509</b>	<b>\$ 5,587</b>	<b>\$ 6,776</b>	<b>\$ 5,756</b>	<b>\$ 5,321</b>	<b>\$ 5,516</b>	<b>\$ 6,466</b>
<b>Total assets (in billions)</b>	<b>\$ 579</b>	<b>\$ 555</b>	<b>\$ 536</b>	<b>\$ 539</b>	<b>\$ 514</b>	<b>\$ 498</b>	<b>\$ 498</b>	<b>\$ 498</b>
<b>Weighted average common shares (in millions)</b>	<b>1,864</b>	<b>1,859</b>	<b>1,854</b>	<b>1,849</b>	<b>1,844</b>	<b>1,839</b>	<b>1,834</b>	<b>1,828</b>
<b>Diluted weighted average common shares (in millions)</b>	<b>1,887</b>	<b>1,883</b>	<b>1,878</b>	<b>1,874</b>	<b>1,869</b>	<b>1,864</b>	<b>1,860</b>	<b>1,856</b>
<b>Dividends per common share</b>	<b>\$ 0.155</b>	<b>\$ 0.155</b>	<b>\$ 0.13</b>	<b>\$ 0.13</b>	<b>\$ 0.13</b>	<b>\$ 0.13</b>	<b>\$ 0.13</b>	<b>\$ 0.13</b>
<b>CDN\$ to US\$1 – Statement of Financial Position</b>	<b>1.1601</b>	<b>1.1208</b>	<b>1.0676</b>	<b>1.1053</b>	<b>1.0636</b>	<b>1.0285</b>	<b>1.0512</b>	<b>1.0156</b>
<b>CDN\$ to US\$1 – Statement of Income</b>	<b>1.1356</b>	<b>1.0890</b>	<b>1.0905</b>	<b>1.1031</b>	<b>1.0494</b>	<b>1.0386</b>	<b>1.0230</b>	<b>1.0083</b>

<sup>(1)</sup> For fixed income assets supporting insurance and investment contract liabilities and for equities supporting pass-through products and derivatives related to variable hedging programs, the impact of realized and unrealized gains (losses) on the assets is largely offset in the change in insurance and investment contract liabilities.

<sup>(2)</sup> Core earnings is a non-GAAP measure. See "Performance and Non-GAAP Measures" above.

## Selected Annual Financial Information

As at and for the years ended December 31,  
(C\$ millions, except per share amounts)

	2014	2013	2012
<b>Revenue</b>			
Asia Division	\$ 11,958	\$ 8,898	\$ 9,955
Canadian Division	13,773	6,060	10,229
U.S. Division	28,867	5,739	9,691
Corporate and Other	(76)	(2,058)	(775)
<b>Total revenue</b>	<b>\$ 54,522</b>	<b>\$ 18,639</b>	<b>\$ 29,100</b>
<b>Total assets</b>	<b>\$ 579,406</b>	<b>\$ 513,628</b>	<b>\$ 484,998</b>
<b>Long-term financial liabilities</b>			
Long-term debt	\$ 3,885	\$ 4,775	\$ 5,046
Liabilities for preferred shares and capital instruments	5,426	4,385	3,903
<b>Total</b>	<b>\$ 9,311</b>	<b>\$ 9,160</b>	<b>\$ 8,949</b>
Dividend per common share	\$ 0.57	\$ 0.52	\$ 0.52
Cash dividend per Class A Share, Series 1	1.025	1.025	1.025
Cash dividend per Class A Share, Series 2	1.16252	1.16252	1.16252
Cash dividend per Class A Share, Series 3	1.125	1.125	1.125
Cash dividend per Class A Share, Series 4	0.825	1.65	1.65
Cash dividend per Class 1 Share, Series 1	1.05	1.40	1.40
Cash dividend per Class 1 Share, Series 3	1.05	1.05	1.05
Cash dividend per Class 1 Share, Series 5	1.10	1.10	1.10
Cash dividend per Class 1 Share, Series 7	1.15	1.15	0.94678
Cash dividend per Class 1 Share, Series 9	1.10	1.10	0.63062
Cash dividend per Class 1 Share, Series 11	1.00	1.03767	–
Cash dividend per Class 1 Share, Series 13	0.95	0.47175	–
Cash dividend per Class 1 Share, Series 15	0.792021	–	–
Cash dividend per Class 1 Share, Series 17	0.336575	–	–

## Additional Information Available

Additional information relating to Manulife, including MFC's Annual Information Form, is available on the Company's website at [www.manulife.com](http://www.manulife.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

## Outstanding Shares – Selected Information

### Class A Shares Series 1

As at February 12, 2015, MFC had 14 million Class A Shares Series 1 ("Series 1 Preferred Shares") outstanding at a price of \$25.00 per share, for an aggregate amount of \$350 million. The Series 1 Preferred Shares are non-voting and are entitled to non-cumulative preferential cash dividends payable quarterly, if and when declared, at a per annum rate of 4.10%. With regulatory approval, the Series 1 Preferred Shares may be redeemed by MFC, in whole or in part, at declining premiums that range from \$1.25 to nil per Series 1 Preferred Share, by either payment of cash or the issuance of MFC common shares. On or after December 19, 2015, the Series 1 Preferred Shares will be convertible at the option of the holder into MFC common shares, the number of which is determined by a prescribed formula, and is subject to the right of MFC prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares. The prescribed formula is the face amount of the Series 1 Preferred Shares divided by the greater of \$2.00 and 95% of the then market price of MFC common shares.

### Common Shares

As at February 12, 2015, MFC had 1,969,906,989 common shares outstanding.



## Responsibility for Financial Reporting

The accompanying consolidated financial statements of Manulife Financial Corporation are the responsibility of management and have been approved by the Board of Directors. It is also the responsibility of management to ensure that all information in the annual report to shareholders is consistent with these consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada. When alternative accounting methods exist, or when estimates and judgment are required, management has selected those amounts that present the Company's financial position and results of operations in a manner most appropriate to the circumstances.

Appropriate systems of internal control, policies and procedures have been maintained to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by management and 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 policy liabilities are appropriate to the circumstances and that reserves will be adequate to meet the Company's future obligations under insurance and annuity contracts.

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

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 Audit Committee reviews the consolidated financial statements prepared by management and then recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Ernst & Young LLP has full and free access to management and the Audit Committee.



Donald A. Guloien  
President and Chief Executive Officer



Steve B. Roder  
Senior Executive Vice President and Chief Financial Officer

Toronto, Canada

February 19, 2015

## Appointed Actuary's Report to the Shareholders

I have valued the policy liabilities of Manulife Financial Corporation for its Consolidated Statements of Financial Position as at December 31, 2014 and 2013 and their change in the Consolidated Statements of Income for the years then ended in accordance with actuarial practice generally accepted in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.



Cindy Forbes, F.C.I.A.  
Executive Vice President and Appointed Actuary

Toronto, Canada

February 19, 2015

# Independent Auditors' Report of Registered Public Accounting Firm

## To the Shareholders of Manulife Financial Corporation

We have audited the accompanying consolidated financial statements of Manulife Financial Corporation, which comprise the Consolidated Statements of Financial Position as at December 31, 2014 and 2013, and the Consolidated Statements of Income, Comprehensive Income, Changes in Equity and Cash Flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

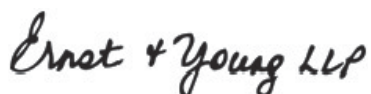
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manulife Financial Corporation as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Manulife Financial Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 19, 2015 expressed an unqualified opinion on Manulife Financial Corporation's internal control over financial reporting.

The logo for Ernst & Young LLP is written in a black, cursive script font.

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada,

February 19, 2015.

# Independent Auditors' Report on Internal Control Under Standards of The Public Company Accounting Oversight Board (United States)

## To the Shareholders of Manulife Financial Corporation

We have audited Manulife Financial Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Manulife Financial Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the Management's Report on Internal Control Over Financial Reporting contained in the Management's Discussion and Analysis. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

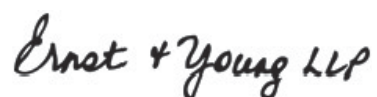
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Manulife Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Statements of Financial Position as at December 31, 2014 and 2013, and the Consolidated Statements of Income, Comprehensive Income, Changes in Equity and Cash Flows for the years then ended of Manulife Financial Corporation, and our report dated February 19, 2015, expressed an unqualified opinion thereon.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada,  
February 19, 2015.

# Consolidated Statements of Financial Position

As at December 31,

(Canadian \$ in millions)

	2014	2013
<b>Assets</b>		
Cash and short-term securities	\$ 21,079	\$ 13,630
Debt securities	134,446	114,957
Public equities	14,543	13,075
Mortgages	39,458	37,558
Private placements	23,284	21,015
Policy loans	7,876	7,370
Loans to bank clients	1,772	1,901
Real estate	10,101	9,708
Other invested assets	16,751	13,495
<b>Total invested assets</b> (note 4)	<b>\$ 269,310</b>	<b>\$ 232,709</b>
<b>Other assets</b>		
Accrued investment income	\$ 2,003	\$ 1,813
Outstanding premiums	737	734
Derivatives (note 5)	19,315	9,673
Reinsurance assets (note 8)	18,525	17,443
Deferred tax assets (note 6)	3,329	2,763
Goodwill and intangible assets (note 7)	5,461	5,298
Miscellaneous	4,194	3,324
<b>Total other assets</b>	<b>\$ 53,564</b>	<b>\$ 41,048</b>
<b>Segregated funds net assets</b> (note 23)	<b>\$ 256,532</b>	<b>\$ 239,871</b>
<b>Total assets</b>	<b>\$ 579,406</b>	<b>\$ 513,628</b>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Insurance contract liabilities (note 8)	\$ 229,513	\$ 193,242
Investment contract liabilities (note 9)	2,644	2,524
Deposits from bank clients	18,384	19,869
Derivatives (note 5)	11,283	8,929
Deferred tax liabilities (note 6)	1,228	617
Other liabilities	14,365	10,383
	<b>\$ 277,417</b>	<b>\$ 235,564</b>
Long-term debt (note 11)	3,885	4,775
Liabilities for preferred shares and capital instruments (note 12)	5,426	4,385
Liabilities for subscription receipts (note 13)	2,220	-
<b>Segregated funds net liabilities</b> (note 23)	<b>256,532</b>	<b>239,871</b>
<b>Total liabilities</b>	<b>\$ 545,480</b>	<b>\$ 484,595</b>
<b>Equity</b>		
Preferred shares (note 14)	\$ 2,693	\$ 2,693
Common shares (note 14)	20,556	20,234
Contributed surplus	267	256
Shareholders' retained earnings	7,624	5,294
Shareholders' accumulated other comprehensive income (loss):		
Pension and other post-employment plans	(529)	(452)
Available-for-sale securities	794	324
Cash flow hedges	(211)	(84)
Translation of foreign operations	2,112	258
Total shareholders' equity	\$ 33,306	\$ 28,523
Participating policyholders' equity	156	134
Non-controlling interests	464	376
<b>Total equity</b>	<b>\$ 33,926</b>	<b>\$ 29,033</b>
<b>Total liabilities and equity</b>	<b>\$ 579,406</b>	<b>\$ 513,628</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.



Donald A. Guloiu  
President and Chief Executive Officer



Richard B. DeWolfe  
Chairman of the Board of Directors

# Consolidated Statements of Income

For the years ended December 31,

(Canadian \$ in millions except per share amounts)

	2014	2013
<b>Revenue</b>		
Premium income		
Gross premiums	\$ 25,226	\$ 24,892
Premiums ceded to reinsurers	(7,343)	(7,382)
Net premiums	\$ 17,883	\$ 17,510
Investment income (note 4)		
Investment income	\$ 10,808	\$ 9,860
Realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities and on the macro hedge program	17,092	(17,607)
Net investment income (loss)	\$ 27,900	\$ (7,747)
Other revenue	\$ 8,739	\$ 8,876
<b>Total revenue</b>	<b>\$ 54,522</b>	<b>\$ 18,639</b>
<b>Contract benefits and expenses</b>		
To contract holders and beneficiaries		
Gross claims and benefits (note 8)	\$ 20,452	\$ 18,671
Change in insurance contract liabilities	24,185	(10,130)
Change in investment contract liabilities	65	162
Benefits and expenses ceded to reinsurers	(6,709)	(6,376)
Change in reinsurance assets	506	1,526
<b>Net benefits and claims</b>	<b>\$ 38,499</b>	<b>\$ 3,853</b>
General expenses	4,772	4,618
Investment expenses (note 4)	1,319	1,154
Commissions	4,250	3,911
Interest expense	1,131	1,045
Net premium taxes	287	311
<b>Total contract benefits and expenses</b>	<b>\$ 50,258</b>	<b>\$ 14,892</b>
<b>Income before income taxes</b>	<b>\$ 4,264</b>	<b>\$ 3,747</b>
Income tax expense (note 6)	(671)	(581)
<b>Net income</b>	<b>\$ 3,593</b>	<b>\$ 3,166</b>
<b>Net income (loss) attributed to:</b>		
Non-controlling interests	\$ 71	\$ 48
Participating policyholders	21	(12)
Shareholders	3,501	3,130
	<b>\$ 3,593</b>	<b>\$ 3,166</b>
Net income attributed to shareholders	\$ 3,501	\$ 3,130
Preferred share dividends	(126)	(131)
<b>Common shareholders' net income</b>	<b>\$ 3,375</b>	<b>\$ 2,999</b>
<b>Earnings per share</b>		
Basic earnings per common share (note 14)	\$ 1.82	\$ 1.63
Diluted earnings per common share (note 14)	1.80	1.62
<b>Dividends per common share</b>	<b>0.57</b>	<b>0.52</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

# Consolidated Statements of Comprehensive Income

For the years ended December 31,  
(Canadian \$ in millions)

	2014	2013
<b>Net income</b>	<b>\$ 3,593</b>	<b>\$ 3,166</b>
<b>Other comprehensive income (loss) ("OCI"), net of tax</b>		
<b>Items that will not be reclassified to net income:</b>		
Change in pension and other post-employment plans	\$ (77)	\$ 201
Real estate revaluation reserve	1	–
<b>Total items that will not be reclassified to net income</b>	<b>\$ (76)</b>	<b>\$ 201</b>
<b>Items that may be subsequently reclassified to net income:</b>		
Foreign exchange gains (losses) on:		
Translation of foreign operations	\$ 1,888	\$ 1,015
Net investment hedges	(34)	(48)
Available-for-sale financial securities:		
Unrealized gains (losses) arising during the year	700	(171)
Reclassification of realized (gains) losses and impairments to net income	(231)	131
Cash flow hedges:		
Unrealized gains (losses) arising during the year	(136)	93
Reclassification of realized losses to net income	9	8
Share of other comprehensive income of associates	4	–
<b>Total items that may be subsequently reclassified to net income</b>	<b>\$ 2,200</b>	<b>\$ 1,028</b>
<b>Other comprehensive income, net of tax</b>	<b>\$ 2,124</b>	<b>\$ 1,229</b>
<b>Total comprehensive income, net of tax</b>	<b>\$ 5,717</b>	<b>\$ 4,395</b>
<b>Total comprehensive income (loss) attributed to:</b>		
Non-controlling interests	\$ 74	\$ 47
Participating policyholders	22	(12)
Shareholders	5,621	4,360

## Income Taxes included in Other Comprehensive Income

For the years ended December 31,  
(Canadian \$ in millions)

	2014	2013
<b>Income tax expense (recovery) on</b>		
<b>Items that will not be reclassified to net income:</b>		
Change in pension and other post-employment plans	\$ (33)	\$ 104
Real estate revaluation reserve	1	–
<b>Total income tax expense (recovery) on items that will not be reclassified to net income</b>	<b>\$ (32)</b>	<b>\$ 104</b>
<b>Items that may be subsequently reclassified to net income:</b>		
Unrealized foreign exchange gains/losses on translation of foreign operations	\$ 9	\$ (3)
Unrealized foreign exchange gains/losses on net investment hedges	(12)	(17)
Unrealized gains/losses on available-for-sale financial securities	162	(61)
Reclassification of realized gains/losses and recoveries/impairments to net income on available-for-sale financial securities	(62)	57
Unrealized gains/losses on cash flow hedges	(69)	47
Reclassification of realized gains/losses to net income on cash flow hedges	5	5
Share of other comprehensive income of associates	2	–
<b>Total income tax expense on items that may be subsequently reclassified to net income</b>	<b>\$ 35</b>	<b>\$ 28</b>
<b>Total income tax expense</b>	<b>\$ 3</b>	<b>\$ 132</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

# Consolidated Statements of Changes in Equity

For the years ended December 31,  
(Canadian \$ in millions)

	2014	2013
<b>Preferred shares</b>		
Balance, beginning of year	\$ 2,693	\$ 2,497
Issued (note 14)	800	200
Redeemed (note 14)	(784)	–
Issuance costs, net of tax	(16)	(4)
<b>Balance, end of year</b>	<b>\$ 2,693</b>	<b>\$ 2,693</b>
<b>Common shares</b>		
Balance, beginning of year	\$ 20,234	\$ 19,886
Issued on exercise of stock options	43	17
Issued under dividend reinvestment and share purchase plans	279	331
<b>Balance, end of year</b>	<b>\$ 20,556</b>	<b>\$ 20,234</b>
<b>Contributed surplus</b>		
Balance, beginning of year	\$ 256	\$ 257
Exercise of stock options and deferred share units	(3)	(3)
Stock option expense	14	15
Acquisition of non-controlling interest	–	(13)
<b>Balance, end of year</b>	<b>\$ 267</b>	<b>\$ 256</b>
<b>Shareholders' retained earnings</b>		
Balance, beginning of year	\$ 5,294	\$ 3,256
Net income attributed to shareholders	3,501	3,130
Preferred share dividends	(126)	(131)
Par redemption value in excess of carrying value for preferred shares redeemed	(16)	–
Common share dividends	(1,029)	(961)
<b>Balance, end of year</b>	<b>\$ 7,624</b>	<b>\$ 5,294</b>
<b>Shareholders' accumulated other comprehensive income (loss) ("AOCI")</b>		
Balance, beginning of year	\$ 46	\$ (1,184)
Change in unrealized foreign exchange gains (losses) of net foreign operations	1,854	967
Change in actuarial gains (losses) on pension and other post-employment plans	(77)	201
Change in unrealized gains (losses) on available-for-sale financial securities	466	(39)
Change in unrealized gains (losses) on derivative instruments designated as cash flow hedges	(127)	101
Share of other comprehensive income of associates	4	–
<b>Balance, end of year</b>	<b>\$ 2,166</b>	<b>\$ 46</b>
<b>Total shareholders' equity, end of year</b>	<b>\$ 33,306</b>	<b>\$ 28,523</b>
<b>Participating policyholders' equity</b>		
Balance, beginning of year	\$ 134	\$ 146
Net income (loss) attributed to participating policyholders	21	(12)
Other comprehensive income attributed to policyholders	1	–
<b>Balance, end of year</b>	<b>\$ 156</b>	<b>\$ 134</b>
<b>Non-controlling interests</b>		
Balance, beginning of year	\$ 376	\$ 301
Net income attributed to non-controlling interests	71	48
Other comprehensive income (loss) attributed to non-controlling interests	3	(1)
Contributions, net	14	28
<b>Balance, end of year</b>	<b>\$ 464</b>	<b>\$ 376</b>
<b>Total equity, end of year</b>	<b>\$ 33,926</b>	<b>\$ 29,033</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

For the years ended December 31,  
(Canadian \$ in millions)

	2014	2013
<b>Operating activities</b>		
Net income	\$ 3,593	\$ 3,166
Adjustments:		
Increase (decrease) in insurance contract liabilities	24,185	(10,130)
Increase in investment contract liabilities	65	162
Decrease in reinsurance assets	506	1,526
Amortization of premium on invested assets	(1)	(3)
Other amortization	462	426
Net realized and unrealized (gains) losses and impairments on assets	(17,312)	17,786
Gain on sale of Taiwan insurance business (note 3)	–	(479)
Deferred income tax expense	98	475
Stock option expense	14	15
Adjusted net income	\$ 11,610	\$ 12,944
Changes in policy related and operating receivables and payables	(804)	(3,441)
<b>Cash provided by operating activities</b>	<b>\$ 10,806</b>	<b>\$ 9,503</b>
<b>Investing activities</b>		
Purchases and mortgage advances	\$ (62,754)	\$ (67,801)
Disposals and repayments	58,871	57,721
Change in investment broker net receivables and payables	16	(108)
Net cash decrease from sale and purchase of subsidiaries and businesses	(199)	(359)
<b>Cash used in investing activities</b>	<b>\$ (4,066)</b>	<b>\$ (10,547)</b>
<b>Financing activities</b>		
Increase (decrease) in repurchase agreements and securities sold but not yet purchased	\$ 273	\$ (471)
Repayment of long-term debt (note 11)	(1,000)	(350)
Issue of capital instruments, net (note 12)	995	448
Issue of subscription receipts (note 13)	2,220	–
Funds borrowed (repaid), net	1	(127)
Secured borrowing from securitization transactions	–	750
Changes in deposits from bank clients, net	(1,526)	981
Shareholders' dividends paid in cash	(910)	(761)
Contributions from non-controlling interests, net	(59)	15
Common shares issued, net (note 14)	43	17
Preferred shares issued, net (note 14)	784	196
Preferred shares redeemed, net (note 14)	(800)	–
<b>Cash provided by financing activities</b>	<b>\$ 21</b>	<b>\$ 698</b>
<b>Cash and short-term securities</b>		
Increase (decrease) during the year	\$ 6,761	\$ (346)
Effect of foreign exchange rate changes on cash and short-term securities	790	479
Balance, beginning of year	12,886	12,753
<b>Balance, December 31</b>	<b>\$ 20,437</b>	<b>\$ 12,886</b>
<b>Cash and short-term securities</b>		
Beginning of year		
Gross cash and short-term securities	\$ 13,630	\$ 13,386
Net payments in transit, included in other liabilities	(744)	(633)
<b>Net cash and short-term securities, January 1</b>	<b>\$ 12,886</b>	<b>\$ 12,753</b>
<b>End of year</b>		
Gross cash and short-term securities	\$ 21,079	\$ 13,630
Net payments in transit, included in other liabilities	(642)	(744)
<b>Net cash and short-term securities, December 31</b>	<b>\$ 20,437</b>	<b>\$ 12,886</b>
<b>Supplemental disclosures on cash flow information</b>		
Interest received	\$ 8,898	\$ 8,616
Interest paid	1,079	1,046
Income taxes paid	754	1,110

The accompanying notes are an integral part of these Consolidated Financial Statements.



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# Notes to Consolidated Financial Statements

(Canadian \$ in millions except per share amounts or unless otherwise stated)

## Note 1 Nature of Operations and Significant Accounting Policies

### (a) Reporting entity

Manulife Financial Corporation (“MFC”) is a publicly traded life insurance company and the holding company of The Manufacturers Life Insurance Company (“MLI”), a Canadian life insurance company, and John Hancock Reassurance Company Ltd. (“JHRECO”), a Bermuda reinsurance company. MFC and its subsidiaries (collectively, “Manulife Financial” or the “Company”) is a leading Canada-based financial services group with principal operations in Asia, Canada and the United States. Manulife Financial’s international network of employees, agents and distribution partners offers financial protection and wealth management products and services to personal and business clients as well as asset management services to institutional customers. The Company operates as Manulife in Canada and Asia and primarily as John Hancock in the United States.

MFC is domiciled in Canada and incorporated under the Insurance Companies Act (Canada) (“ICA”). These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada (“OSFI”). None of the accounting requirements of OSFI are exceptions to IFRS. As outlined in note 1 (i) below, IFRS does not currently prescribe an insurance contract measurement model and therefore, as permitted by IFRS 4 “Insurance Contracts”, insurance contract liabilities continue to be measured using the Canadian Asset Liability Method (“CALM”).

These Consolidated Financial Statements should be read in conjunction with “Risk Management and Risk Factors” in the 2014 Management’s Discussion and Analysis (“MD&A”) dealing with IFRS 7 “Financial Instrument: Disclosures” as the discussion on market risk and liquidity risk includes disclosures that are considered an integral part of these Consolidated Financial Statements.

MFC’s Consolidated Financial Statements as at and for the year ended December 31, 2014 were authorized for issue by the Board of Directors on February 19, 2015.

### (b) Basis of preparation

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, and liabilities, and the disclosure of contingent assets and liabilities as at the date of the Consolidated Financial Statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from these estimates. The most significant estimation processes relate to the assumptions used in measuring insurance and investment contract liabilities, assessing assets for impairment, determination of pension and other post-employment benefit obligation and expense assumptions, determining income taxes and uncertain tax positions, fair valuation of certain financial instruments, eligibility of hedge accounting requirements, assessment of relationships with other entities for consolidation and the measurement and disclosure of contingent liabilities. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Although some variability is inherent in these estimates, management believes that the amounts recorded are appropriate. The significant accounting policies used and the most significant judgments made by management in applying these accounting policies in the preparation of these Consolidated Financial Statements are summarized below.

### (c) Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (not a forced liquidation or distress sale) between market participants at the measurement date, that is, an exit value.

When available, quoted market prices are used to determine fair value. If quoted market prices are not available, fair value is typically based upon alternative valuation techniques such as discounted cash flows, matrix pricing, consensus pricing services and other techniques. Broker quotes are generally used when external public vendor prices are not available.

The Company has a process in place that includes a review of price movements relative to the market, a comparison of prices between vendors, and a comparison to internal matrix pricing which uses predominately external observable data. Judgment is applied in adjusting external observable data for items including liquidity and credit factors.

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company’s valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 – Fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date. Valuations are based on quoted prices reflecting market transactions involving assets or liabilities identical to those being measured.

Level 2 – Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates,

credit risks, etc.) and inputs that are derived from or corroborated by observable market data. Most debt securities are classified within Level 2. Also, included in the Level 2 category are derivative instruments that are priced using models with observable market inputs, including interest rate swaps, equity swaps, and foreign currency forward contracts.

Level 3 – Fair value measurements using significant non-market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable, including assumptions about risk. Level 3 securities include less liquid securities such as structured asset-backed securities, commercial mortgage-backed securities (“CMBS”) and other securities that have little or no price transparency. Embedded and complex derivative financial instruments as well as real estate classified as investment property are also included in Level 3.

#### **(d) Basis of consolidation**

MFC consolidates the financial statements of all entities, including certain structured entities that it controls. Subsidiaries are entities controlled by the Company. The Company has control over an entity when the Company has the power to govern the financial and operating policies of the entity, is exposed to variable returns from its activities which are significant in relation to the total variable returns of the entity and the Company is able to use its power over the entity to affect its share of variable returns. In assessing control, significant judgment is applied while considering all relevant facts and circumstances. When assessing decision-making power, the Company considers the extent of its rights relative to the management of an entity, the level of voting rights held in an entity which are potentially or presently exercisable, the existence of any contractual management agreements which may provide the Company with power over an entity’s financial and operating policies and to the extent of minority ownership in an entity, if any, the possibility for de facto control being present. When assessing returns, the Company considers the significance of direct and indirect financial and non-financial variable returns to the Company from an entity’s activities in addition to the proportionate significance of such returns. The Company also considers the degree to which its interests are aligned with those of other parties investing in an entity and the degree to which it may act in its own interest.

The financial statements of subsidiaries and controlled structured entities are included in the Company’s consolidated results from the date control is established and are excluded from consolidation from the date control ceases. The initial control assessment is performed at inception and is reconsidered at a later date if the Company acquires or loses power over the key operating and financial policies of the entity; acquires additional interests or disposes of interests in the entity; the contractual arrangements of the entity are amended such that the Company’s proportionate exposure to variable returns changes; or if the Company’s ability to use its power to affect its variable returns from the entity changes.

The Company’s Consolidated Financial Statements have been prepared using uniform accounting policies for like transactions and events in similar circumstances. Intercompany balances, and income and expenses arising from intercompany transactions, have been eliminated in preparing the Consolidated Financial Statements.

Non-controlling interests are interests of other parties in the equity of the Company’s subsidiaries and are presented within total equity, separate from the equity of MFC’s shareholders. Non-controlling interests in the net income and other comprehensive income (“OCI”) of MFC’s subsidiaries and consolidated structured entities are included in total net income and total other comprehensive income, respectively. An exception to this occurs where the subsidiary or consolidated structured entity’s shares are required to be redeemed for cash on a fixed or determinable date, in which case non-controlling interests in the subsidiary’s capital are presented as liabilities of the Company and non-controlling interests in the subsidiary’s income and OCI are recorded as expenses of the Company.

The equity method of accounting is used to account for entities over which the Company has significant influence (“associate”), whereby the Company records its share of the associate’s net assets and financial results using uniform accounting policies for similar transactions and events. Significant judgment is used to determine whether voting rights, contractual management and other relationships with the entity, if any, provide the Company with significant influence over the entity. Gains and losses on the sale of associates are included in income when realized, while impairment losses are recognized immediately when there is objective evidence of impairment. Gains and losses on transactions with associates are eliminated to the extent of the Company’s interest in the associate. Investments in associates are included in other invested assets on the Company’s Consolidated Statements of Financial Position.

#### **(e) Invested assets**

Invested assets that are considered financial instruments are classified as fair value through profit or loss (“FVTPL”), loans and receivables, or as available-for-sale (“AFS”) financial assets. The Company determines the classification of its financial assets at initial recognition. Invested assets are recognized initially at fair value plus, in the case of investments not at FVTPL, directly attributable transaction costs. Invested assets are classified as financial instruments at FVTPL if they are held for trading, or if they are designated by management under the fair value option, or if a derivative is embedded in the investment. Invested assets classified as AFS are non-derivative financial assets that do not fall into any of the other categories described above.

Valuation methods for the Company’s invested assets are described below. All fair value valuations are performed in accordance with IFRS 13 “Fair Value Measurement”. The three levels of the fair value hierarchy and the disclosure of the fair value for financial instruments not carried at fair value on the Consolidated Statements of Financial Position are described in note 4. Fair valuations are performed both internally by the Company and externally by third-party service providers. When third-party service providers are engaged, the Company performs a variety of procedures to corroborate pricing information. These procedures may include, but are not limited to, inquiry and review of valuation techniques, inputs to the valuation and vendor controls reports.

Cash and short-term securities comprise cash, current operating accounts, overnight bank and term deposits, and fixed income securities held for the purpose of meeting short-term cash commitments. Short-term securities are carried at their fair values. Short-term securities are comprised of investments due to mature within one year of the date of purchase. The carrying value of these instruments approximates fair value due to their short-term maturities and they are generally classified as Level 1. Commercial paper and discount notes are classified as Level 2 because these securities are typically not actively traded. Net payments in transit and overdraft bank balances are included in other liabilities.

Debt securities are carried at fair value. Debt securities are generally valued by independent pricing vendors using proprietary pricing models incorporating current market inputs for similar instruments with comparable terms and credit quality (matrix pricing). The significant inputs include, but are not limited to, yield curves, credit risks and spreads, measures of volatility and prepayment rates. These debt securities are classified as Level 2, but can be Level 3 if the significant inputs are unobservable. Realized gains and losses on sale of debt securities and unrealized gains and losses on debt securities designated as FVTPL are recognized in investment income immediately. Unrealized gains and losses on AFS debt securities are recorded in OCI, with the exception of unrealized gains and losses on foreign currency translation which are included in income. Impairment losses on AFS debt securities are recognized in income when there is objective evidence of impairment. Impairment is considered to have occurred, based on management's judgment, when it is deemed probable that the Company will not be able to collect all amounts due according to contractual terms of the debt security.

Equities are comprised of common and preferred equities and are carried at fair value. Equities are classified as Level 1, as fair values are based on quoted market prices. Realized gains and losses on sale of equities and unrealized gains and losses on equities designated as FVTPL are recognized in investment income immediately. Unrealized gains and losses on AFS equities are recorded in OCI. Impairment losses on AFS equities are recognized in income on an individual security basis when there is objective evidence of impairment. Impairment is considered to have occurred when fair value has declined below cost by significant amounts or for prolonged periods of time. Judgment is applied in determining whether the decline is significant or prolonged.

Mortgages are carried at amortized cost and are classified as Level 3 due to the observability and significance of valuation inputs. Realized gains and losses are recorded in investment income immediately. When mortgages are impaired or when contractual payments are more than 90 days in arrears, contractual interest is no longer accrued. Contractual interest accruals are resumed once the contractual payments are no longer in arrears and are considered current. Impairment losses are recorded on mortgages when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest and are measured based on the discounted value of expected future cash flows at the original effective interest rates inherent in the mortgages. Expected future cash flows are typically determined in reference to the fair value of collateral security underlying the mortgages, net of expected costs of realization and any applicable insurance recoveries. Significant judgment is applied in the determination of impairment including the timing and amount of future collections.

The Company accounts for insured mortgage securitizations as secured financing transactions since the criteria for sale accounting are not met. For these transactions, the Company continues to recognize the mortgages and records a liability in other liabilities for the amount owed at maturity. Interest income on the mortgages and interest expense on the borrowing are recorded using the effective interest rate method.

Private placements, which include corporate loans for which there is no active market are carried at amortized cost. Realized gains and losses are recorded in income immediately. When private placements are considered impaired, contractual interest is no longer accrued. Contractual interest accruals are resumed once the investment is no longer considered to be impaired. Impairment losses are recorded on private placements when there is no longer assurance as to the timely collection of the full amount of principal and interest. Impairment is measured based on the discounted value of expected future cash flows at the original effective interest rates inherent in the loans. Significant judgment is applied in the determination of impairment including the timing and amount of future collections.

Policy loans are carried at an amount equal to their unpaid balance. Policy loans are fully collateralized by the cash surrender value of the underlying policies.

Loans to bank clients are carried at unpaid principal less allowance for credit losses, if any. When loans to bank clients are impaired or when contractual payments are more than 90 days in arrears, contractual interest is no longer accrued. Contractual interest accruals are resumed once the contractual payments are no longer in arrears and are considered current.

Once established, allowances for impairment of mortgages, private placements and loans to bank clients are reversed only if the conditions that caused the impairment no longer exist. Reversals of impairment charges on AFS debt securities are only recognized in income to the extent that increases in fair value can be attributed to events subsequent to the impairment loss being recorded. Impairment losses for AFS equity instruments are not reversed through income. On disposition of an impaired asset, any allowance for impairment is released.

In addition to impairment and provisions for loan losses (recoveries) reported in investment income, the measurement of insurance contract liabilities and the investment return assumptions include expected future credit losses on fixed income investments. Refer to note 8 (d).

Interest income is recognized on debt securities, mortgages, private placements, policy loans and loans to bank clients as it accrues and is calculated by using the effective interest rate method. Premiums, discounts and transaction costs are amortized over the life of the underlying investment using the effective yield method for all debt securities as well as mortgages and private placements measured at amortized cost.

The Company records purchases and sales of invested assets on a trade date basis, except for originated loans, which are recognized on a settlement date basis.

Real estate consists of both own use and investment property. Own use property is carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated based on the cost of an asset less its residual value and is recognized in income on a straight-line basis over the estimated useful life ranging from 30 to 60 years. Impairment losses are recorded in income to the extent the recoverable amount is less than the carrying amount. Where own use property is included in assets backing insurance contract liabilities, the fair value of own use property is used in the valuation of insurance contract liabilities.

Investment property is property held to earn rental income, for capital appreciation, or both. Investment property is measured at fair value with changes in fair value recognized in income. Fair value is determined using external appraisals that are based on the highest and best use of the property. The valuation techniques used include discounted cash flows, the direct capitalization method as well as comparable sales analysis and include both observable and unobservable inputs. Inputs include existing and assumed tenancies, market data from recent comparable transactions, future economic outlook and market risk assumptions, capitalization rates and internal rates of return. Investment property is classified as Level 3.

Other invested assets include private equity and property investments held in power and infrastructure and timber as well as the agriculture and oil and gas sectors. Private equity investments are accounted for as associates using the equity method (as described in note 1(d) above) or are classified as FVTPL or AFS and carried at fair value. Investments in oil and gas exploration and evaluation costs are measured on a "successful efforts" basis. Timber and agriculture properties are measured at fair value with changes in fair value recognized in income. The fair value of other invested assets is determined using a variety of valuation techniques as described in note 4. Other invested assets that are measured at fair value are classified as Level 3.

Other invested assets also include investments in leveraged leases, which are accounted for using the equity method. The carrying value under the equity method reflects the amortized cost of the lease receivable and related non-recourse debt using the effective yield method.

#### **(f) Goodwill and intangible assets**

Goodwill represents the difference between the purchase cost of an acquired business and the Company's proportionate share of the net identifiable assets acquired and liabilities and certain contingent liabilities assumed. It is initially recorded at cost and subsequently measured at cost less accumulated impairment.

Goodwill is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable at the cash-generating unit ("CGU") or group of CGUs level. The Company allocates goodwill to CGUs or groups of CGUs for the purpose of impairment testing based on the lowest level within the entity in which the goodwill is monitored for internal management purposes. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. Any potential impairment of goodwill is identified by comparing the recoverable amount of a CGU or group of CGUs to its carrying value. Goodwill is reduced by the amount of deficiency, if any. If the deficiency exceeds the carrying amount of goodwill, the carrying values of the remaining assets in the CGU or group of CGUs are reduced by the excess on a pro-rata basis.

The recoverable amount of a CGU is the higher of the estimated fair value less costs to sell or value-in-use of the CGU. In assessing value-in-use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Intangible assets with indefinite useful lives specifically include the John Hancock brand name and certain investment management contracts. This assessment is based on the brand name being protected in markets where branded products are sold by trademarks, which are renewable indefinitely, and for certain investment management contracts, the ability to renew the contract indefinitely. There are no legal, regulatory or contractual provisions that limit the useful lives of these intangible assets. An intangible asset with an indefinite useful life is not amortized but is subject to an annual impairment test which is performed more frequently if there is an indication that it is not recoverable.

Intangible assets with finite useful lives include the Company's acquired distribution networks, certain investment management contracts, capitalized software and other contractual rights. Software intangible assets are amortized on a straight-line basis over their estimated useful lives of three to five years. Distribution networks and other finite life intangible assets are amortized over their estimated useful lives, which vary from three to 68 years, in relation to the associated gross margin from the related business. Finite life intangible assets are assessed for indicators of impairment at each reporting period, or more frequently when events or changes in circumstances dictate. If any indication of impairment exists, these assets are subject to an impairment test.

#### **(g) Miscellaneous assets**

Miscellaneous assets include assets in the rabbi trust with respect to unfunded defined benefit obligations (refer to note 17 (d)), deferred acquisition costs, capital assets and defined benefit assets, if any (refer to note 1(o)). Deferred acquisition costs are carried at

cost less accumulated amortization. These costs are recognized over the period where redemption fees may be charged or over the period revenue is earned. Capital assets are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from two to 10 years.

#### **(h) Segregated funds**

The Company manages a number of segregated funds on behalf of policyholders. The investment returns on these funds are passed directly to policyholders. In some cases, the Company has provided guarantees associated with these funds.

Segregated funds net assets are recorded at fair value and primarily include investments in mutual funds, debt securities, equities, real estate, short-term investments and cash and cash equivalents. In assessing the Company's degree of control over the underlying investments, the Company considers the scope of its decision making rights, the rights held by other parties, its remuneration as an investment manager and its exposure to the variability of returns. The Company has determined that it does not have control over the underlying investments as it acts as an agent on behalf of segregated fund policyholders.

The methodology applied to determine the fair value of investments held in segregated funds is consistent with that applied to investments held by the general fund, as described above in note 1 (e). Segregated funds net liabilities are measured based on the value of the segregated fund net assets. The segregated fund assets and liabilities are presented on separate lines on the Consolidated Statements of Financial Position.

Investment returns on segregated fund assets belong to policyholders and the Company does not bear the risk associated with these assets outside of guarantees offered on certain variable life and annuity products, for which the underlying investment is segregated funds. Accordingly, investment income earned by segregated funds and expenses incurred by segregated funds are offset and are not separately presented in the Consolidated Statements of Income. Fee income earned by the Company for managing the segregated funds is included in other revenue. Refer to note 23.

Liabilities related to the guarantees associated with certain funds, as a result of certain variable life and annuity contracts, are recorded within the Company's insurance contract liabilities. The Company holds assets supporting these guarantees which are recognized in invested assets according to their investment type.

#### **(i) Insurance and investment contract liabilities**

Most contracts issued by the Company are considered insurance, investment or service contracts. Contracts under which the Company accepts significant insurance risk from a policyholder are classified as insurance contracts in the Consolidated Financial Statements. A contract is considered to have significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance at the inception of the contract. Contracts under which the Company does not accept significant insurance risk are classified as either investment contracts or considered service contracts and are accounted for in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" or IAS 18 "Revenue", respectively.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts if insurance risk subsequently becomes significant.

Insurance contract liabilities, net of reinsurance assets, represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends and refunds, taxes (other than income taxes) and expenses on policies in-force. Insurance contract liabilities are presented gross of reinsurance assets on the Consolidated Statements of Financial Position. The Company's Appointed Actuary is responsible for determining the amount of insurance contract liabilities in accordance with standards established by the Canadian Institute of Actuaries. Insurance contract liabilities, net of reinsurance assets, have been determined using CALM as permitted by IFRS 4 "Insurance Contracts". Refer to note 8.

Investment contract liabilities include contracts issued to retail and institutional investors that do not contain significant insurance risk. Investment contract liabilities and deposits are measured at amortized cost, or at fair value, if elected, to ensure consistent measurement and reduce accounting mismatches between the assets supporting the contracts and the liabilities. The liability is derecognized when the contract expires, is discharged or is cancelled.

Derivatives embedded within insurance contracts are separated if they are not considered to be closely related to the host insurance contract and do not meet the definition of an insurance contract. These embedded derivatives are presented separately in other assets or other liabilities and are measured at fair value with changes in fair value recognized in income.

#### **(j) Reinsurance assets**

The Company uses reinsurance in the normal course of business to manage its risk exposure. Insurance ceded to a reinsurer does not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet its obligations for reinsurance ceded to it under the reinsurance agreements.

Reinsurance assets represent the benefit derived from reinsurance agreements in force at the reporting date, taking into account the financial condition of the reinsurer. Amounts recoverable from reinsurers are estimated in accordance with the terms of the relevant reinsurance contract.

Gains or losses on buying reinsurance are recognized in income immediately at the date of purchase and are not amortized. Premiums ceded and claims reimbursed are presented on a gross basis on the Consolidated Statements of Income. Reinsurance assets are not offset against the related insurance contract liabilities and are presented separately on the Consolidated Statements of Financial Position. Refer to 8(a).

#### **(k) Other financial instruments accounted for as liabilities**

The Company issues a variety of other financial instruments classified as liabilities, including notes payable, term notes, senior notes, senior debentures, subordinated notes, surplus notes, subscription receipts and preferred shares. These financial liabilities are measured at amortized cost, with issuance costs deferred and amortized using the effective interest rate method.

#### **(l) Income taxes**

The provision for income taxes is calculated based on income tax laws and income tax rates substantively enacted as at the date of the Consolidated Statements of Financial Position. The income tax provision is comprised of current income taxes and deferred income taxes. Current and deferred income taxes relating to items recognized in OCI and directly in equity are similarly recognized in OCI and directly in equity, respectively.

Current income taxes are amounts expected to be payable or recoverable as a result of operations in the current year and any adjustments to taxes payable in respect of previous years.

Deferred income taxes are provided for using the liability method and result from temporary differences between the carrying values of assets and liabilities and their respective tax bases. Deferred income taxes are measured at the substantively enacted tax rates that are expected to be applied to temporary differences when they reverse.

A deferred tax asset is recognized to the extent that future realization of the tax benefit is probable. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the tax benefit will be realized. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

#### **(m) Foreign currency translation**

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Transactions in a foreign currency are initially recorded at the functional currency rate prevailing at the date of the transaction.

Assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate in effect at the reporting date. Revenue and expenses denominated in foreign currencies are translated at the average exchange rate prevailing during the year. Exchange gains and losses are recognized in income with the exception of foreign monetary items that form part of a net investment in a foreign operation and the results of hedging these positions. These foreign exchange gains and losses are recognized in OCI until such time that the foreign operation is disposed of, or control or significant influence over it is lost.

#### **(n) Stock-based compensation**

The Company provides stock-based compensation to certain employees and directors as described in note 16. Compensation expense of equity instruments is accrued based on the best estimate of the number of instruments expected to vest, with revisions made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates, unless forfeitures are due to market-based conditions.

Stock options are expensed with a corresponding increase in contributed surplus. Restricted share units, special restricted share units and deferred share units are expensed with a corresponding liability accrued based on the market value of MFC's common shares at the end of each quarter. Performance share units are expensed with a corresponding liability accrued based on specific performance conditions and the market value of MFC's common shares. The change in the value of the awards resulting from changes in the market value of the Company's common shares or changes in the specific performance conditions and credited dividends is recognized in income, offset by the impact of total return swaps used to manage the variability of the related liability.

Stock-based compensation cost is recognized over the applicable vesting period, except if the employee is eligible to retire at the time of grant or will be eligible to retire during the vesting period. Compensation cost, attributable to stock options and restricted share units granted to employees who are eligible to retire on the grant date or who will become eligible to retire during the vesting period, is recognized over the period from the grant date to the date of retirement eligibility. When a stock-based compensation award vests in instalments (graded vesting features), each instalment is considered a separate award with the compensation expense amortized accordingly.

Contributions to the Global Share Ownership Plan ("GSOP") (refer to note 16(d)), are expensed as incurred. Under the GSOP, subject to certain conditions, the Company will match a percentage of an employee's eligible contributions to certain maximums. All contributions are used by the plan's trustee to purchase MFC common shares in the open market.

### **(o) Employee future benefits**

The Company maintains pension plans, both defined benefit and defined contribution, and other post-employment plans for eligible employees and agents. These plans include broad-based pension plans for employees that are typically funded and supplemental non-registered (non-qualified) pension plans for executives, retiree welfare plans and disability welfare plans that are typically not funded.

The Company's obligation in respect of defined benefit pension and other post-employment plans is calculated for each plan as the estimated present value of the future benefits that eligible employees have earned in return for their service up to the reporting date using the projected benefit method. The discount rate used is based on the yield, at the reporting date, on high quality corporate debt securities that have approximately the same term as the obligations and that are denominated in the same currency in which the benefits are expected to be paid and is updated annually.

To determine the Company's net defined benefit asset or liability, the fair value of plan assets are deducted from the defined benefit obligations. When this calculation results in a surplus, the asset recognized is limited to the present value of future economic benefit available in the form of future refunds from the plan or reductions in future contributions to the plan (the asset limit). Re-measurement of the net defined benefit asset or liability consists of actuarial gains and losses, the change in effect from asset limits, and the return on plan assets, excluding amounts included in net interest on the net defined benefit asset or liability, and is reflected in OCI. Net interest income or expense is determined by applying the discount rate to the net defined benefit asset or liability, and is recognized in income.

Defined benefit assets are included in other assets and defined benefit liabilities are included in other liabilities. The net benefit cost for the year is included in general expenses and is calculated as the sum of the service cost in respect of the fiscal year and the net interest on the net defined benefit asset or liability. Re-measurement effects are recorded in OCI in the period in which they occur and are not reclassified to income in subsequent periods.

The cost of defined contribution plans is the contribution provided by the Company and is recognized in income in the periods during which services are rendered by employees.

The cost of retiree welfare plans is recognized in income over the employees' years of service to their dates of full entitlement.

The current year cost of disability welfare plans is the year-over-year change in the defined benefit obligation, including any actuarial gains or losses.

When the benefits under the pension plans and other post-employment plans are improved, the increase in obligation for past service is recognized immediately in income.

### **(p) Derivative and hedging instruments**

The Company uses derivative financial instruments ("derivatives") to manage exposures to foreign currency, interest rate and other market risks arising from on-balance sheet financial instruments, selected anticipated transactions and certain insurance contract liabilities. Derivatives embedded in other financial instruments ("host instruments") are separately recorded as derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a standalone derivative and the host instrument itself is not recorded at FVTPL. Derivatives are recorded at fair value. Derivatives with unrealized gains are reported as derivative assets and derivatives with unrealized losses are reported as derivative liabilities.

A determination is made for each derivative as to whether to apply hedge accounting. Where hedge accounting is not applied, changes in the fair value of derivatives are recorded in investment income. Refer to note 5.

Where the Company has elected to apply hedge accounting, a hedging relationship is designated and documented at inception. Hedge effectiveness is evaluated at inception and throughout the term of the hedge and hedge accounting is only applied when the Company expects that the hedging relationship will be highly effective in achieving offsetting changes in fair value or changes in cash flows attributable to the risk being hedged. The assessment of hedge effectiveness is performed at the end of each reporting period both prospectively and retrospectively. When it is determined that the hedging relationship is no longer effective, or the hedging instrument or the hedged item has been sold or terminated, the Company discontinues hedge accounting prospectively. In such cases, if the derivatives are not sold or terminated, any subsequent changes in fair value of the derivative are recognized in investment income.

For derivatives that are designated as hedging instruments, changes in fair value are recognized according to the nature of the risks being hedged, as discussed below.

In a fair value hedging relationship, changes in the fair value of the hedging derivatives are recorded in investment income, along with changes in fair value attributable to the hedged risk. The carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk. To the extent the changes in the fair value of derivatives do not offset the changes in the fair value of the hedged item attributable to the hedged risk in investment income, any ineffectiveness will remain in investment income. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments are amortized to investment income over the remaining term of the hedged item unless the hedged item is sold, at which time the balance is recognized immediately in investment income.



In a cash flow hedging relationship, the effective portion of the changes in the fair value of the hedging instrument is recorded in OCI while the ineffective portion is recognized in investment income. Gains and losses accumulated in OCI are recognized in income during the same periods as the variability in the cash flows hedged or the hedged forecasted transactions are recognized in income. The reclassifications from accumulated other comprehensive income ("AOCI") are made to investment income, with the exception of total return swaps that hedge restricted share units, which are reclassified to general expenses.

Gains and losses on cash flow hedges accumulated in AOCI are reclassified immediately to investment income when the hedged item is sold or the forecasted transaction is no longer expected to occur. When a hedge is discontinued, but the hedged forecasted transaction remains highly probable to occur, the amounts accumulated in AOCI are reclassified to investment income in the periods during which variability in the cash flows hedged or the hedged forecasted transaction is recognized in income.

In a net investment hedging relationship, the gains and losses relating to the effective portion of the hedge are recorded in OCI. Gains and losses in AOCI are recognized in income during the periods when gains or losses on the underlying hedged net investment in foreign operations are recognized in income.

#### **(q) Premium income and related expenses**

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. Premiums are reported gross of reinsurance ceded (refer to note 8). Revenue on service contracts is recognized as services are rendered.

Expenses are recognized when incurred. Insurance contract liabilities are computed at the end of each year, resulting in benefits and expenses being matched with the premium income.

### **Note 2 Accounting and Reporting Changes**

#### **(a) Changes in accounting policy**

##### **(i) Amendments to IAS 32 "Financial Instruments: Presentation"**

Effective January 1, 2014, the Company adopted the amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" issued by the IASB in December 2011. The amendments clarify the basis for when offsetting of financial instruments would be required in the statements of financial position. The adoption of these amendments did not have a significant impact on the Company's Consolidated Financial Statements.

##### **(ii) Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements"**

Effective January 1, 2014, the Company adopted the amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" issued by the IASB in October 2012. The amendments establish the definition of an investment entity using principles commonly found in the mutual fund industry. The amendments require investment entities to use fair value accounting for all of their investments, including those which they control or have significant influence over. The amendments constitute a scope change for IFRS 10 and, therefore, investment entities, as defined, will be exempt from applying consolidation accounting for their investments. The adoption of these amendments did not have a significant impact on the Company's Consolidated Financial Statements.

##### **(iii) IFRS Interpretation Committee ("IFRIC") Interpretation 21 "Levies"**

Effective January 1, 2014, the Company adopted IFRIC Interpretation 21 "Levies" issued by the IASB in May 2013. IFRIC 21 provides guidance on recognizing liabilities for payments to government in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". It does not provide guidance on accounting for income taxes, fines and penalties or for acquisition of assets or services from governments. IFRIC 21 establishes that a liability for a levy is recognized when the activity that triggers payment occurs. The adoption of this amendment did not have a significant impact on the Company's Consolidated Financial Statements.

##### **(iv) Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"**

Effective January 1, 2014, the Company adopted the amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" issued by the IASB in June 2013. The amendments address the accounting for derivatives designated as a hedging instrument when there has been a change in counterparty. Under the amendments, for situations in which a law or regulation requires such novation to the new counterparty, the Company can continue the current hedge designation despite the change. A novation occurs when the parties of the derivative agree to change counterparties for the purposes of using a central counterparty for clearing. The adoption of these amendments did not have a significant impact on the Company's Consolidated Financial Statements.

#### **(b) Future accounting and reporting changes**

##### **(i) Amendments to IAS 19 "Employee Benefits"**

The amendments to IAS 19 "Employee Benefits" were issued in November 2013 and are effective for years beginning on or after January 1, 2015, to be applied retrospectively. The amendments clarify the accounting for contributions by employees or third parties to defined benefit plans. Adoption of these amendments is not expected to have a significant impact on the Company's Consolidated Financial Statements.

## **(ii) Annual Improvements 2010–2012 and 2011–2013 Cycles**

Annual Improvements 2010–2012 and 2011–2013 Cycles were issued in December 2013 and are effective for years beginning on or after January 1, 2015. The IASB issued 10 minor amendments to different standards as part of the Annual Improvements process, with some amendments to be applied prospectively and others to be applied retrospectively. Adoption of the amendments which are applicable for the Company is not expected to have a significant impact on the Company's Consolidated Financial Statements.

## **(iii) Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"**

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" were issued in May 2014 and are effective for years beginning on or after January 1, 2016, to be applied prospectively. The amendments clarify that the depreciation or amortization of assets accounted for under these two standards should reflect a pattern of consumption of the assets rather than reflect economic benefits expected to be generated from the assets. The Company is assessing the impact of these amendments.

## **(iv) Amendments to IFRS 11 "Joint Arrangements"**

Amendments to IFRS 11 "Joint Arrangements" were issued in May 2014 and are effective for years beginning on or after January 1, 2016, to be applied prospectively. The amendments clarify that an acquisition of a joint interest in a joint operation that is a business should be accounted for and disclosed as a business combination in accordance with IFRS 3 "Business Combinations". Adoption of these amendments is not expected to have a significant impact on the Company's Consolidated Financial Statements.

## **(v) Amendments to IAS 41 "Agriculture" and IAS 16 "Property, Plant and Equipment"**

Amendments to IAS 41 "Agriculture" and IAS 16 "Property, Plant and Equipment" were issued in June 2014 and are effective for years beginning on or after January 1, 2016, to be applied retrospectively. These amendments require that bearer plants should be considered as property, plant and equipment in the scope of IAS 16 and should be measured either at cost or revalued amount with changes recognized in OCI. Currently, these plants are in the scope of IAS 41 and are measured at fair value less cost to sell. A bearer plant is used in the production of agricultural produce and is not intended to be sold as a living plant except for incidental scrap sales. These amendments only apply to the accounting requirements of a bearer plant and not agricultural land properties. Adoption of these amendments is not expected to have a significant impact on the Company's Consolidated Financial Statements.

## **(vi) Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"**

Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" were issued in September 2014 and are effective for years beginning on or after January 1, 2016, to be applied prospectively. The amendments require that upon loss of control of a subsidiary during its transfer to an associate or joint venture, full gain recognition on the transfer is appropriate only if the subsidiary meets the definition of a business in IFRS 3 "Business Combinations". Otherwise, gain recognition is appropriate only to the extent of third-party ownership of the associate or joint venture. Adoption of these amendments is not expected to have significant impact on the Company's Consolidated Financial Statements.

Additional amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" were issued in December 2014 and are effective for years beginning on or after January 1, 2016, to be applied retrospectively. The amendments clarify the requirements when accounting for investment entities. Adoption of these amendments is not expected to have a significant impact on the Company's Consolidated Financial Statements.

## **(vii) Annual Improvements 2012–2014 Cycle**

Annual Improvements 2012–2014 Cycle was issued in September 2014 and is effective for years beginning on or after January 1, 2016. The IASB issued five minor amendments to different standards as part of the Annual Improvements process, with some amendments to be applied prospectively and others to be applied retrospectively. Adoption of these amendments is not expected to have a significant impact on the Company's Consolidated Financial Statements.

## **(viii) IFRS 15 "Revenue from Contracts with Customers"**

IFRS 15 "Revenue from Contracts with Customers" was issued in May 2014 and is effective for years beginning on or after January 1, 2017, to be applied retrospectively, or on a modified retrospective basis. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognizing revenue and cash flows arising from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 does not apply to insurance contracts, financial instruments and lease contracts. Accordingly, the adoption of IFRS 15 may impact the revenue recognition related to the Company's asset management and service contracts and will result in additional financial statement disclosure. The Company is assessing the impact of this standard.

## **(ix) IFRS 9 "Financial Instruments"**

IFRS 9 "Financial Instruments" was issued in November 2009 and amended in October 2010, November 2013 and July 2014, and is effective for years beginning on or after January 1, 2018, to be applied retrospectively, or on a modified retrospective basis. It is intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9's current classification and measurement methodology provides that financial assets are measured at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The

classification and measurement for financial liabilities remains generally unchanged; however, revisions have been made in the accounting for changes in fair value of a financial liability attributable to changes in the credit risk of that liability. Gains or losses caused by changes in an entity's own credit risk on such liabilities are no longer recognized in profit or loss but instead are reflected in OCI.

Revisions to hedge accounting were issued in November 2013 as part of the overall IFRS 9 project. The amendment introduces a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

Revisions issued in July 2014 replace the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. Changes were also made to the existing classification and measurement model designed primarily to address specific application issues raised by early adopters of the standard. They also address the income statement accounting mismatches and short-term volatility issues which have been identified as a result of the insurance contracts project. The Company is assessing the impact of these amendments.

#### **(x) Amendments to IAS 1 "Presentation of Financial Statements"**

Amendments to IAS 1 "Presentation of Financial Statements" were issued in December 2014 and are effective for years beginning on or after January 1, 2016. The amendments clarify existing requirements relating to materiality and aggregation, along with presentation of subtotals in the financial statements. Adoption of these amendments is not expected to have a significant impact on the Company's Consolidated Financial Statements.

### **Note 3 Acquisition and Disposition**

On September 3, 2014, MLI entered into an agreement with Standard Life Oversea Holdings Limited, a subsidiary of Standard Life plc, to acquire the shares of Standard Life Financial Inc. and of Standard Life Investments Inc., collectively the Canadian-based operations of Standard Life plc, for approximately \$4 billion in cash at closing, subject to certain adjustments. The transaction closed on January 30, 2015. Refer to note 13 "Liabilities for Subscription Receipts", which describes the financing of the acquisition, and note 25 "Subsequent Event" related to the closing of the transaction.

On December 31, 2013, the Company sold its Taiwan insurance business to CTBC Life Insurance Co. Ltd. ("CTBC Life"). CTBC Life assumed all of the life insurance business-related obligations of Manulife (International) Limited Taiwan Branch, which transferred the infrastructure (including information technology systems and workforce) and other assets required to administer and support the life insurance business to CTBC Life. In 2013, the gain on sale was \$350 (net of taxes of \$129), which was recorded in other revenue in the Company's Consolidated Statements of Income.

## Note 4 Invested Assets and Investment Income

### (a) Carrying values and fair values of invested assets

As at December 31, 2014	FVTPL <sup>(1)</sup>	AFS <sup>(2)</sup>	Other	Total carrying value	Total fair value
Cash and short-term securities <sup>(3)</sup>	\$ 320	\$ 14,505	\$ 6,254	\$ 21,079	\$ 21,079
Debt securities <sup>(4)</sup>					
Canadian government and agency	13,762	3,858	–	17,620	17,620
U.S. government and agency	15,225	9,611	–	24,836	24,836
Other government and agency	13,838	1,489	–	15,327	15,327
Corporate	68,828	4,437	–	73,265	73,265
Mortgage/asset-backed securities	3,047	351	–	3,398	3,398
Public equities	12,389	2,154	–	14,543	14,543
Mortgages	–	–	39,458	39,458	41,493
Private placements	–	–	23,284	23,284	25,418
Policy loans	–	–	7,876	7,876	7,876
Loans to bank clients	–	–	1,772	1,772	1,778
Real estate					
Own use property <sup>(5)</sup>	–	–	831	831	1,566
Investment property	–	–	9,270	9,270	9,270
Other invested assets					
Other alternative long-duration assets <sup>(6)</sup>	6,942	73	6,144	13,159	13,194
Other	149	–	3,443	3,592	3,592
<b>Total invested assets<sup>(7)</sup></b>	<b>\$ 134,500</b>	<b>\$ 36,478</b>	<b>\$ 98,332</b>	<b>\$ 269,310</b>	<b>\$ 274,255</b>

#### As at December 31, 2013

Cash and short-term securities <sup>(3)</sup>	\$ 421	\$ 10,617	\$ 2,592	\$ 13,630	\$ 13,630
Debt securities <sup>(4)</sup>					
Canadian government and agency	13,106	2,844	–	15,950	15,950
U.S. government and agency	13,189	8,383	–	21,572	21,572
Other government and agency	10,862	1,962	–	12,824	12,824
Corporate	57,192	4,017	–	61,209	61,209
Mortgage/asset-backed securities	2,774	628	–	3,402	3,402
Public equities	11,011	2,064	–	13,075	13,075
Mortgages	–	–	37,558	37,558	39,176
Private placements	–	–	21,015	21,015	22,008
Policy loans	–	–	7,370	7,370	7,370
Loans to bank clients	–	–	1,901	1,901	1,907
Real estate					
Own use property <sup>(5)</sup>	–	–	804	804	1,476
Investment property	–	–	8,904	8,904	8,904
Other invested assets					
Other alternative long-duration assets <sup>(6)</sup>	5,921	68	4,217	10,206	10,402
Other	108	26	3,155	3,289	3,289
<b>Total invested assets<sup>(7)</sup></b>	<b>\$ 114,584</b>	<b>\$ 30,609</b>	<b>\$ 87,516</b>	<b>\$ 232,709</b>	<b>\$ 236,194</b>

<sup>(1)</sup> The FVTPL classification was elected for the securities backing insurance and investment contract liabilities in order to substantially reduce an accounting mismatch arising from changes in the value of these assets and changes in the value of the related insurance and investment contract liabilities. There would otherwise be a mismatch if the AFS classification was selected because changes in insurance and investment contract liabilities are recognized in net income rather than in OCI.

<sup>(2)</sup> Securities that are designated as AFS are not actively traded by the Company but sales do occur as circumstances warrant. Such sales result in a reclassification of any accumulated unrealized gain (loss) in AOCI to net income as a realized gain (loss).

<sup>(3)</sup> Includes short-term securities with maturities of less than one year at acquisition amounting to \$6,502 (2013 – \$4,473), cash equivalents with maturities of less than 90 days at acquisition amounting to \$8,322 (2013 – \$6,565) and cash of \$6,254 (2013 – \$2,592). Also refer to note 13.

<sup>(4)</sup> Debt securities include securities which were acquired with maturities of less than one year and less than 90 days of \$1,218 and \$109, respectively (2013 – \$502 and \$60, respectively).

<sup>(5)</sup> Includes accumulated depreciation of \$322 (2013 – \$294).

<sup>(6)</sup> Other alternative long-duration assets include investments in private equity of \$2,758, power and infrastructure of \$4,002, oil and gas of \$2,161, timber and agriculture sectors of \$3,949 and various other invested assets of \$289 (2013 – \$2,181, \$3,486, \$1,643, \$2,770 and \$126, respectively). On March 26, 2014, the Company acquired a controlling financial interest in Hancock Victoria Plantations Holdings PTY Limited ("HVPH") which was an associate before this transaction. Upon initial consolidation of HVPH, timber properties of \$807, carried at fair value, were recognized and \$80 of investment in associate was derecognized. As at December 31, 2014, the third-party interest of \$92 is included in other liabilities.

<sup>(7)</sup> The methodologies for determining fair value of the Company's invested assets are described in note 1.

**(b) Other invested assets**

Other invested assets include investments in associates and joint ventures which were accounted for using the equity method of accounting as follows.

As at December 31,

	2014		2013	
	Carrying value	% of total	Carrying value	% of total
Leveraged leases	\$ 2,925	70	\$ 2,629	73
Timber	241	6	259	7
Affordable housing	228	6	252	7
Other	770	18	488	13
<b>Total</b>	<b>\$ 4,164</b>	<b>100</b>	<b>\$ 3,628</b>	<b>100</b>

The Company's share of profit and dividends from these investments for the year ended December 31, 2014 were \$105 and \$8, respectively (2013 – \$132 and \$5, respectively).

**(c) Investment income**

For the year ended December 31, 2014

	FVTPL	AFS	Other <sup>(2)</sup>	Total	Yields <sup>(3)</sup>
Cash and short-term securities					<b>0.9%</b>
Interest income	\$ 7	\$ 79	\$ –	\$ 86	
Gains (losses) <sup>(1)</sup>	(31)	88	–	57	
Debt securities					<b>11.5%</b>
Interest income	4,191	492	–	4,683	3.8%
Gains <sup>(1)</sup>	8,925	153	–	9,078	7.4%
Recovery, net	21	1	–	22	
Public equities					<b>10.1%</b>
Dividend income	380	55	–	435	
Gains <sup>(1)</sup>	765	148	–	913	
Impairment loss	–	(11)	–	(11)	
Mortgages					<b>4.6%</b>
Interest income	–	–	1,667	1,667	
Gains <sup>(1)</sup>	–	–	68	68	
Provision, net	–	–	(16)	(16)	
Private placements					<b>6.1%</b>
Interest income	–	–	1,308	1,308	
Losses <sup>(1)</sup>	–	–	(7)	(7)	
Impairment, net	–	–	(9)	(9)	
Policy loans	–	–	432	432	5.7%
Loans to bank clients					<b>4.3%</b>
Interest income	–	–	76	76	
Recovery, net	–	–	1	1	
Real estate					<b>7.3%</b>
Rental income, net of depreciation	–	–	434	434	
Gains <sup>(1)</sup>	–	–	264	264	
Impairment loss	–	–	(5)	(5)	
Derivatives					<b>n/a</b>
Interest income, net	–	–	720	720	
Gains <sup>(1)</sup>	–	–	6,239	6,239	
Other investments					<b>10.3%</b>
Interest income	–	–	51	51	
Oil and gas, timber, agriculture and other income	–	–	931	931	
Gains <sup>(1)</sup>	378	11	241	630	
Impairment, net	(7)	–	(140)	(147)	
<b>Total investment income</b>	<b>\$ 14,629</b>	<b>\$ 1,016</b>	<b>\$ 12,255</b>	<b>\$ 27,900</b>	<b>11.8%</b>
Investment income					
Interest income	\$ 4,198	\$ 571	\$ 4,254	\$ 9,023	3.7%
Dividend, rental and other income	380	55	1,365	1,800	0.7%
Impairments and provisions for loan losses (note 10)	14	(10)	(169)	(165)	(0.1%)
Other	(97)	371	(124)	150	0.1%
	<b>\$ 4,495</b>	<b>\$ 987</b>	<b>\$ 5,326</b>	<b>\$ 10,808</b>	
Realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities and on macro equity hedges					
Debt securities	\$ 8,926	\$ 9	\$ –	\$ 8,935	3.6%
Public equities	752	20	–	772	0.3%
Mortgages	–	–	66	66	0.0%
Private placements	–	–	(8)	(8)	0.0%
Real estate	–	–	264	264	0.1%
Other investments	456	–	165	621	0.2%
Derivatives, including macro equity hedging program	–	–	6,442	6,442	2.6%
	<b>\$ 10,134</b>	<b>\$ 29</b>	<b>\$ 6,929</b>	<b>\$ 17,092</b>	
<b>Total investment income</b>	<b>\$ 14,629</b>	<b>\$ 1,016</b>	<b>\$ 12,255</b>	<b>\$ 27,900</b>	<b>11.8%</b>

For the year ended December 31, 2013	FVTPL	AFS	Other <sup>(2)</sup>	Total	Yields <sup>(3)</sup>
Cash and short-term securities					1.2%
Interest income	\$ 5	\$ 70	\$ –	\$ 75	
Gains <sup>(1)</sup>	5	73	–	78	
Debt securities					(3.0%)
Interest income	3,961	511	–	4,472	3.8%
Losses <sup>(1)</sup>	(7,762)	(308)	–	(8,070)	(6.6%)
Recovery (impairment loss), net	44	(4)	–	40	
Public equities					16.5%
Dividend income	314	50	–	364	
Gains <sup>(1)</sup>	1,370	131	–	1,501	
Impairment loss	–	(7)	–	(7)	
Mortgages					4.7%
Interest income	–	–	1,625	1,625	
Gains <sup>(1)</sup>	–	–	55	55	
Provision, net	–	–	(3)	(3)	
Private placements					6.0%
Interest income	–	–	1,274	1,274	
Losses <sup>(1)</sup>	–	–	(15)	(15)	
Impairment, net	–	–	(55)	(55)	
Policy loans	–	–	404	404	5.7%
Loans to bank clients					4.2%
Interest income	–	–	85	85	
Provision, net	–	–	(2)	(2)	
Real estate					6.3%
Rental income, net of depreciation	–	–	442	442	
Gains <sup>(1)</sup>	–	–	98	98	
Impairment loss	–	–	(1)	(1)	
Derivatives					n/a
Interest income, net	–	–	688	688	
Losses <sup>(1)</sup>	–	–	(12,006)	(12,006)	
Other investments					10.3%
Interest income	–	–	47	47	
Oil and gas, timber, agriculture and other income	–	–	619	619	
Gains <sup>(1)</sup>	262	2	292	556	
Impairment, net	–	(2)	(9)	(11)	
<b>Total investment income (loss)</b>	<b>\$ (1,801)</b>	<b>\$ 516</b>	<b>\$ (6,462)</b>	<b>\$ (7,747)</b>	<b>(3.3%)</b>
Investment income					
Interest income	\$ 3,966	\$ 581	\$ 4,123	\$ 8,670	3.8%
Dividend, rental and other income	314	50	1,061	1,425	0.6%
Impairments and provisions for loan losses (note 10)	44	(13)	(70)	(39)	0.0%
Other	(34)	(119)	(43)	(196)	(0.1%)
	\$ 4,290	\$ 499	\$ 5,071	\$ 9,860	
Realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities and on macro equity hedges					
Debt securities	\$ (7,762)	\$ 3	\$ –	\$ (7,759)	(3.3%)
Public equities	1,339	12	–	1,351	0.6%
Mortgages	–	–	53	53	0.0%
Private placements	–	–	(15)	(15)	0.0%
Real estate	–	–	98	98	0.0%
Other investments	332	2	291	625	0.3%
Derivatives, including macro equity hedging program	–	–	(11,960)	(11,960)	(5.0%)
	\$ (6,091)	\$ 17	\$ (11,533)	\$ (17,607)	
<b>Total investment income (loss)</b>	<b>\$ (1,801)</b>	<b>\$ 516</b>	<b>\$ (6,462)</b>	<b>\$ (7,747)</b>	<b>(3.3%)</b>

<sup>(1)</sup> Includes net realized gains (losses) as well as net unrealized gains (losses) for financial instruments at FVTPL, real estate investment properties, and other invested assets carried at fair value and net realized gains (losses) for financial instruments at AFS and other invested assets carried at amortized cost.

<sup>(2)</sup> Other includes interest income, real estate rental income and derivative income as outlined in note 5 and earnings on other investments.

<sup>(3)</sup> Yields are based on IFRS income and are calculated using the geometric average of assets held at IFRS carrying value during the reporting year.

#### (d) Investment expenses

The following table presents total investment expenses of the Company.

For the years ended December 31,	2014	2013
Related to invested assets	\$ 470	\$ 418
Related to segregated, mutual and other funds	849	736
<b>Total investment expenses</b>	<b>\$ 1,319</b>	<b>\$ 1,154</b>

### (e) Investment properties

The following table identifies the amounts included in investment income relating to investment properties.

For the years ended December 31,	2014	2013
Rental income from investment properties	\$ 906	\$ 839
Direct operating expenses that generated rental income	(540)	(461)
<b>Total</b>	<b>\$ 366</b>	<b>\$ 378</b>

### (f) Mortgage securitization

The Company securitizes certain insured fixed and variable rate commercial and residential mortgages and Home Equity Lines of Credit ("HELOC") through creation of mortgage-backed securities under the Canadian Mortgage Bond Program ("CMB"), as well as through a HELOC securitization program. Benefits received from the transfers include interest spread between the asset and associated liability. Under IFRS, these transactions remain "on-balance sheet" and are accounted for as secured borrowings, as described in note 1(e).

There are no expected credit losses on mortgages that have been securitized under the Government of Canada CMB and the HELOC securitization program as they are insured by the Canada Mortgage and Housing Corporation ("CMHC") and other third-party insurance programs against borrowers' default.

Cash flows received from the underlying securitized assets/mortgages are used to settle the related secured borrowing liability. For CMB transactions receipts of principal are deposited into a trust account for settlement of the liability at time of maturity. These transferred assets and related cash flows cannot be transferred or used for other purposes. For the HELOC transactions, investors are entitled to periodic interest payments and the remaining cash receipts of principal are allocated to the Company (the "Seller") during the revolving period of the deal and are accumulated for settlement of the liability based on the terms of the note.

The carrying amount of securitized assets reflecting the Company's continuing involvement with the mortgages and the associated liabilities is as follows.

#### As at December 31, 2014

Securitization program	Securitized assets			Secured borrowing liabilities
	Securitized mortgages	Restricted cash and short-term securities	Total	
HELOC securitization <sup>(1),(2)</sup>	\$ 2,000	\$ 10	\$ 2,010	\$ 1,999
CMB securitization	72	2	74	74
<b>Total</b>	<b>\$ 2,072</b>	<b>\$ 12</b>	<b>\$ 2,084</b>	<b>\$ 2,073</b>

#### As at December 31, 2013

HELOC securitization <sup>(1)</sup>	\$ 2,000	\$ 10	\$ 2,010	\$ 1,998
CMB securitization	104	11	115	115
<b>Total</b>	<b>\$ 2,104</b>	<b>\$ 21</b>	<b>\$ 2,125</b>	<b>\$ 2,113</b>

<sup>(1)</sup> Manulife Bank, a MFC subsidiary, securitizes a portion of its HELOC receivables through Platinum Trust, which funds the purchase of the co-ownership interests from the Bank by issuing term notes collateralized by the underlying pool of CMHC issued HELOCs to institutional investors. The restricted cash balance for the HELOC securitization reflects a cash reserve fund established in relation to the transactions. The reserve will be drawn upon only in the event of insufficient cash flows from the underlying HELOCs to satisfy the secured borrowing liability.

<sup>(2)</sup> The secured borrowing liabilities primarily comprise of Series 2010-1 and Series 2011-1 notes with floating rates and are expected to mature on December 15, 2015 and December 15, 2017 respectively.

Fair value of the securitized assets as at December 31, 2014 was \$2,084 (2013 – \$2,127) and the fair value of the associated liabilities was \$2,079 (2013 – \$2,124).

### (g) Fair value measurement

The following table presents fair value of the Company's invested assets and segregated funds net assets, measured at fair value in the Consolidated Statements of Financial Position and categorized by hierarchy.

As at December 31, 2014	Total fair value	Level 1	Level 2	Level 3
<b>Cash and short-term securities</b>				
FVTPL	\$ 320	\$ –	\$ 320	\$ –
AFS	14,505	–	14,505	–
Other	6,254	6,254	–	–
<b>Debt securities<sup>(1)</sup></b>				
<b>FVTPL</b>				
Canadian government and agency	13,762	–	12,756	1,006
U.S. government and agency	15,225	–	14,417	808
Other government and agency	13,838	–	13,401	437
Corporate	68,828	–	65,678	3,150
Residential mortgage/asset-backed securities	146	–	13	133
Commercial mortgage/asset-backed securities	835	–	258	577
Other securitized assets	2,066	–	2,005	61
<b>AFS</b>				
Canadian government and agency	3,858	–	2,974	884
U.S. government and agency	9,611	–	9,599	12
Other government and agency	1,489	–	1,435	54
Corporate	4,437	–	4,203	234
Residential mortgage/asset-backed securities	103	–	75	28
Commercial mortgage/asset-backed securities	98	–	15	83
Other securitized assets	150	–	137	13
<b>Equities</b>				
FVTPL	12,389	12,381	6	2
AFS	2,154	2,154	–	–
<b>Real estate – investment property<sup>(2)</sup></b>	<b>9,270</b>	<b>–</b>	<b>–</b>	<b>9,270</b>
<b>Other invested assets<sup>(3)</sup></b>	<b>10,759</b>	<b>–</b>	<b>–</b>	<b>10,759</b>
<b>Segregated funds net assets<sup>(4)</sup></b>	<b>256,532</b>	<b>234,120</b>	<b>19,821</b>	<b>2,591</b>
<b>Total</b>	<b>\$ 446,629</b>	<b>\$ 254,909</b>	<b>\$ 161,618</b>	<b>\$ 30,102</b>

### As at December 31, 2013

<b>Cash and short-term securities</b>				
FVTPL	\$ 421	\$ –	\$ 421	\$ –
AFS	10,617	–	10,617	–
Other	2,592	2,592	–	–
<b>Debt securities<sup>(1)</sup></b>				
<b>FVTPL</b>				
Canadian government and agency	13,106	–	12,282	824
U.S. government and agency	13,189	–	12,611	578
Other government and agency	10,862	–	10,542	320
Corporate	57,192	–	54,131	3,061
Residential mortgage/asset-backed securities	159	–	12	147
Commercial mortgage/asset-backed securities	827	–	474	353
Other securitized assets	1,788	–	1,711	77
<b>AFS</b>				
Canadian government and agency	2,844	–	2,306	538
U.S. government and agency	8,383	–	8,378	5
Other government and agency	1,962	–	1,902	60
Corporate	4,017	–	3,789	228
Residential mortgage/asset-backed securities	368	–	337	31
Commercial mortgage/asset-backed securities	90	–	32	58
Other securitized assets	170	–	139	31
<b>Equities</b>				
FVTPL	11,011	11,005	6	–
AFS	2,064	2,064	–	–
<b>Real estate – investment property<sup>(2)</sup></b>	<b>8,904</b>	<b>–</b>	<b>–</b>	<b>8,904</b>
<b>Other invested assets<sup>(3)</sup></b>	<b>8,508</b>	<b>–</b>	<b>–</b>	<b>8,508</b>
<b>Segregated funds net assets<sup>(4)</sup></b>	<b>239,871</b>	<b>219,464</b>	<b>18,046</b>	<b>2,361</b>
<b>Total</b>	<b>\$ 398,945</b>	<b>\$ 235,125</b>	<b>\$ 137,736</b>	<b>\$ 26,084</b>

<sup>(1)</sup> Assets included in Level 3 consist primarily of debt securities with maturities greater than 30 years for which the Treasury yield curve is extrapolated and not observable, as well as debt securities where only unobservable single quoted broker prices are provided.



- (2) For investment property, the significant unobservable inputs are capitalization rate (ranging from 4.0% to 10.25% during the year and ranging from 4.5% to 8.5% for the year 2013) and terminal capitalization rate (ranging from 4.9% to 9.25% during the year and ranging from 5.1% to 9.0% during the year 2013). Holding other factors constant, a lower capitalization or terminal capitalization rate will tend to increase the fair value of investment property. Changes in fair value based on variations in unobservable inputs generally cannot be extrapolated because the relationship between the directional changes of each input is not usually linear.
- (3) Other invested assets measured at fair value are held primarily in power and infrastructure and timber sectors. The significant inputs used in the valuation of the Company's power and infrastructure investments are primarily future distributable cash flows, terminal values and discount rates. Holding other factors constant, an increase to future distributable cash flows or terminal values would tend to increase the fair value of a power and infrastructure investment, while an increase in the discount rate would have the opposite effect. Discount rates during the year ranged from 10.0% to 16.0% (2013 – ranged from 10.0% to 18.0%). Disclosure of distributable cash flow and terminal value ranges are not meaningful given the disparity in estimates by project. The significant inputs used in the valuation of the Company's investments in timberland are timber prices and discount rates. Holding other factors constant, an increase to timber prices would tend to increase the fair value of a timberland investment, while an increase in the discount rates would have the opposite effect. Discount rates during the year ranged from 5.25% to 8.0% (2013 – ranged from 5.25% to 6.0%). A range of prices for timber is not meaningful as the market price depends on factors such as property location and proximity to markets and exports yards.
- (4) Segregated funds net assets are recorded at fair value. The Company's Level 3 segregated funds assets are predominantly invested in timberland properties valued as described above.

For invested assets not measured at fair value in the Consolidated Statements of Financial Position, the following table discloses the summarized fair value information categorized by hierarchy, together with the related carrying values.

<b>As at December 31, 2014</b>	Carrying value	Total fair value	Level 1	Level 2	Level 3
Mortgages <sup>(1)</sup>	\$ 39,458	\$ 41,493	\$ –	\$ –	\$ 41,493
Private placements <sup>(2)</sup>	23,284	25,418	–	20,813	4,605
Policy loans <sup>(3)</sup>	7,876	7,876	–	7,876	–
Loans to bank clients <sup>(4)</sup>	1,772	1,778	–	1,778	–
Real estate – own use property <sup>(5)</sup>	831	1,566	–	–	1,566
Other invested assets <sup>(6)</sup>	5,992	6,027	–	–	6,027
<b>Total invested assets disclosed at fair value</b>	<b>\$ 79,213</b>	<b>\$ 84,158</b>	<b>\$ –</b>	<b>\$ 30,467</b>	<b>\$ 53,691</b>

#### As at December 31, 2013

Mortgages <sup>(1)</sup>	\$ 37,558	\$ 39,176	\$ –	\$ –	\$ 39,176
Private placements <sup>(2)</sup>	21,015	22,008	–	18,619	3,389
Policy loans <sup>(3)</sup>	7,370	7,370	–	7,370	–
Loans to bank clients <sup>(4)</sup>	1,901	1,907	–	1,907	–
Real estate – own use property <sup>(5)</sup>	804	1,476	–	–	1,476
Other invested assets <sup>(6)</sup>	4,987	5,183	–	–	5,183
<b>Total invested assets disclosed at fair value</b>	<b>\$ 73,635</b>	<b>\$ 77,120</b>	<b>\$ –</b>	<b>\$ 27,896</b>	<b>\$ 49,224</b>

(1) Fair value of commercial mortgages is derived through an internal valuation methodology using both observable and unobservable inputs. Unobservable inputs include credit assumptions and liquidity spread adjustments. Fair value of fixed-rate residential mortgages is determined using the discounted cash flow method. Inputs used for valuation are primarily comprised of prevailing interest rates as well as posted client rates and prepayment rates, if applicable. Fair value of variable-rate residential mortgages is assumed to be their carrying value.

(2) Fair value of private placements is derived through an internal valuation methodology using both observable and unobservable inputs. Unobservable inputs include credit assumptions and liquidity spread adjustments. Private placements are classified within Level 2 unless the liquidity adjustment constitutes a significant price impact, in which case the securities are classified as Level 3.

(3) The fair value of policy loans is equal to their unpaid principal balances.

(4) Fair value of fixed-rate loans to bank clients is determined using the discounted cash flow method. Inputs used for valuation are primarily comprised of current interest rates as well as posted client rates. Fair value of variable-rate loans is assumed to be their carrying value.

(5) Fair value of own use real estate and the level of the fair value hierarchy are calculated in accordance with the methodologies described for real estate – investment property in note 1.

(6) Other invested assets disclosed at fair value include \$2,925 (2013 – \$2,629) of leveraged leases which are shown at their carrying values as fair value is not routinely calculated on these investments.

#### Transfers between Level 1 and Level 2

The Company's policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the year ended December 31, 2014, the Company had no transfers (2013 – \$7) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Company had no transfers (2013 – \$28) of assets from Level 2 to Level 1 during the year ended December 31, 2014.

For segregated funds net assets, the Company had a \$17 (2013 – \$300) of transfers from Level 1 to Level 2 for the year ended December 31, 2014. The Company had no transfers from Level 2 to Level 1 for the years ended December 31, 2014 and 2013.

### Invested assets and segregated funds net assets measured at fair value on the Consolidated Statements of Financial Position using significant unobservable inputs (Level 3)

The Company classifies the fair values of invested assets as Level 3 if there are no observable markets for the instruments or, in the absence of active markets, the majority of the inputs used to determine fair value are based on the Company's own assumptions about market participant assumptions. The Company prioritizes the use of market-based inputs over entity-based assumptions in determining Level 3 fair values and, therefore, the gains and losses in the tables below include changes in fair value due to both observable and unobservable factors.

The following tables present a roll forward for all invested assets and segregated funds net assets measured at fair value using significant unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013.

	Net realized / unrealized gains (losses) included in:					Transfers			Currency movement <sup>(5)</sup>	Balance as at December 31, 2014	Change in unrealized gains (losses) on assets still held
	Balance as at January 1, 2014	Net income <sup>(1)</sup>	OCI <sup>(2)</sup>	Purchases <sup>(3)</sup>	Sales Settlements	Into Level 3 <sup>(4)</sup>	Out of Level 3 <sup>(4)</sup>				
<b>Debt securities</b>											
<b>FVTPL</b>											
Canadian government & agency	\$ 824	\$ 143	\$ -	\$ 1,131	\$ (881)	\$ -	\$ -	\$ (216)	\$ 5	\$ 1,006	\$ 115
U.S. government & agency	578	121	-	111	-	-	-	(61)	59	808	121
Other government & agency	320	65	-	90	(27)	(2)	-	(22)	13	437	63
Corporate	3,061	193	-	513	(109)	(159)	34	(489)	106	3,150	184
Residential mortgage/asset-backed securities	147	7	-	-	-	(32)	-	-	11	133	4
Commercial mortgage/asset-backed securities	353	8	-	236	(7)	(52)	-	(2)	41	577	13
Other securitized assets	77	6	-	-	-	(31)	4	(1)	6	61	6
	\$ 5,360	\$ 543	\$ -	\$ 2,081	\$ (1,024)	\$ (276)	\$ 38	\$ (791)	\$ 241	\$ 6,172	\$ 506
<b>AFS</b>											
Canadian government & agency	\$ 538	\$ 33	\$ 96	\$ 658	\$ (430)	\$ -	\$ -	\$ (11)	\$ -	\$ 884	\$ -
U.S. government & agency	5	-	2	6	-	-	-	-	(1)	12	-
Other government & agency	60	-	2	19	(27)	(1)	-	(1)	2	54	-
Corporate	228	1	6	18	(4)	(21)	15	(16)	7	234	-
Residential mortgage/asset-backed securities	31	2	1	-	-	(9)	-	-	3	28	-
Commercial mortgage/asset-backed securities	58	-	4	28	(3)	(11)	-	(1)	8	83	-
Other securitized assets	31	-	1	-	-	(21)	-	(1)	3	13	-
	\$ 951	\$ 36	\$ 112	\$ 729	\$ (464)	\$ (63)	\$ 15	\$ (30)	\$ 22	\$ 1,308	\$ -
<b>Equities</b>											
FVTPL	\$ -	\$ (1)	\$ -	\$ 1	\$ -	\$ -	\$ 1	\$ -	\$ 1	\$ 2	\$ (1)
AFS	-	-	-	1	-	-	-	-	(1)	-	-
	\$ -	\$ (1)	\$ -	\$ 2	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ 2	\$ (1)
<b>Real estate – investment property</b>	\$ 8,904	\$ 262	\$ -	\$ 830	\$ (1,217)	\$ -	\$ -	\$ -	\$ 491	\$ 9,270	\$ 265
<b>Other invested assets</b>	8,508	602	(33)	2,107	(417)	(657)	-	-	649	10,759	454
	\$ 17,412	\$ 864	\$ (33)	\$ 2,937	\$ (1,634)	\$ (657)	\$ -	\$ -	\$ 1,140	\$ 20,029	\$ 719
<b>Segregated funds net assets</b>	\$ 2,361	\$ 179	\$ -	\$ 71	\$ (290)	\$ (2)	\$ 51	\$ -	\$ 221	\$ 2,591	\$ 62
<b>Total</b>	\$ 26,084	\$ 1,621	\$ 79	\$ 5,820	\$ (3,412)	\$ (998)	\$ 105	\$ (821)	\$ 1,624	\$ 30,102	\$ 1,286

	Balance as at January 1, 2013	Net realized / unrealized gains (losses) included in:			Transfers					Balance as at December 31, 2013	Change in unrealized gains (losses) on assets still held	
		Net income <sup>(1)</sup>	OCI <sup>(2)</sup>	Purchases	Sales	Settlements	Into Level 3 <sup>(4)</sup>	Out of Level 3 <sup>(4)</sup>	Currency movement <sup>(5)</sup>			
<b>Debt securities</b>												
<b>FVTPL</b>												
Canadian government & agency	\$ 579	\$ (66)	\$ –	\$ 742	\$ (94)	\$ –	\$ –	\$ (337)	\$ –	\$ 824	\$ (70)	
U.S. government & agency	744	(136)	–	–	–	–	–	(67)	37	578	(136)	
Other government & agency	800	(48)	–	148	(611)	(9)	5	–	35	320	(55)	
Corporate	3,444	(203)	–	719	(131)	(82)	1	(704)	17	3,061	(221)	
Residential mortgage/asset-backed securities	194	32	–	–	(41)	(52)	–	–	14	147	21	
Commercial mortgage/asset-backed securities	379	11	–	73	(11)	(126)	3	(1)	25	353	27	
Other securitized assets	135	30	–	–	(29)	(68)	–	–	9	77	(7)	
	\$ 6,275	\$ (380)	\$ –	\$ 1,682	\$ (917)	\$ (337)	\$ 9	\$ (1,109)	\$ 137	\$ 5,360	\$ (441)	
<b>AFS</b>												
Canadian government & agency	\$ 215	\$ (10)	\$ (59)	\$ 597	\$ (198)	\$ –	\$ –	\$ (7)	\$ –	\$ 538	\$ –	
U.S. government & agency	5	–	–	–	–	–	–	–	–	5	–	
Other government & agency	71	1	(4)	34	(40)	(2)	1	–	(1)	60	–	
Corporate	305	2	(27)	28	(33)	(38)	–	(4)	(5)	228	–	
Residential mortgage/asset-backed securities	49	11	6	–	(16)	(23)	–	–	4	31	–	
Commercial mortgage/asset-backed securities	49	(7)	7	16	(2)	(7)	1	(3)	4	58	–	
Other securitized assets	41	2	1	–	(8)	(8)	–	–	3	31	–	
	\$ 735	\$ (1)	\$ (76)	\$ 675	\$ (297)	\$ (78)	\$ 2	\$ (14)	\$ 5	\$ 951	\$ –	
<b>Equities</b>												
<b>FVTPL</b>												
AFS	\$ –	\$ (1)	\$ –	\$ –	\$ –	\$ –	\$ 1	\$ –	\$ –	\$ –	\$ –	
	\$ –	\$ –	\$ –	\$ 2	\$ –	\$ –	\$ –	\$ (2)	\$ –	\$ –	\$ –	
	\$ –	\$ (1)	\$ –	\$ 2	\$ –	\$ –	\$ 1	\$ (2)	\$ –	\$ –	\$ –	
<b>Real estate – investment property</b>												
<b>Other invested assets</b>	\$ 7,724	\$ 98	\$ –	\$ 1,069	\$ (248)	\$ –	\$ –	\$ –	\$ 261	\$ 8,904	\$ 92	
	6,836	546	(2)	1,266	(186)	(342)	5	(1)	386	8,508	440	
	\$ 14,560	\$ 644	\$ (2)	\$ 2,335	\$ (434)	\$ (342)	\$ 5	\$ (1)	\$ 647	\$ 17,412	\$ 532	
<b>Segregated funds net assets</b>	\$ 2,212	\$ 170	\$ –	\$ 33	\$ (201)	\$ –	\$ (1)	\$ 1	\$ 147	\$ 2,361	\$ 127	
<b>Total</b>	\$ 23,782	\$ 432	\$ (78)	\$ 4,727	\$ (1,849)	\$ (757)	\$ 16	\$ (1,125)	\$ 936	\$ 26,084	\$ 218	

(1) These amounts are included in investment income on the Consolidated Statements of Income.

(2) These amounts are included in AOCI on the Consolidated Statements of Financial Position.

(3) The 2014 purchases of other invested assets include timber properties recognized upon initial consolidation of HVPH. Refer to footnote 6 to note 4(a) above.

(4) For assets that are transferred into or out of Level 3, the Company uses the fair value of the assets at the beginning of the year.

(5) Currency movement is recognized in OCI for AFS equities, and in net income for other asset classes shown.

The transfers into Level 3 primarily result from securities that were impaired during the year or securities where a lack of observable market data (versus the previous period) resulted in reclassifying assets into Level 3. The transfers from Level 3 primarily result from observable market data now being available for the entire term structure of the debt security.

## Note 5 Derivative and Hedging Instruments

Derivatives are financial contracts, the value of which is derived from underlying interest rates, foreign exchange rates, other financial instruments, commodity prices or indices. The Company uses derivatives including swaps, forward and futures agreements, and options to manage current and anticipated exposures to changes in interest rates, foreign exchange rates, commodity prices and equity market prices, and to replicate permissible investments.

Swaps are over-the-counter (“OTC”) contractual agreements between the Company and a third party to exchange a series of cash flows based upon rates applied to a notional amount. For interest rate swaps, counterparties generally exchange fixed or floating interest rate payments based on a notional value in a single currency. Cross currency swaps involve the exchange of principal amounts between parties as well as the exchange of interest payments in one currency for the receipt of interest payments in another currency. Total return swaps are contracts that involve the exchange of payments based on changes in the values of a reference asset, including any returns such as interest earned on these assets, in return for amounts based on reference rates specified in the contract.

Forward and futures agreements are contractual obligations to buy or sell a financial instrument, foreign currency or other underlying commodity on a predetermined future date at a specified price. Forward contracts are OTC contracts negotiated between counterparties, whereas futures agreements are contracts with standard amounts and settlement dates that are traded on regulated exchanges.

Options are contractual agreements whereby the holder has the right, but not the obligation, to buy (call option) or sell (put option) a security, exchange rate, interest rate, or other financial instrument at a predetermined price/rate within a specified time.

See variable annuity guarantee dynamic hedging strategy in the "Risk Management and Risk Factors" section of the Company's 2014 MD&A for an explanation of the Company's dynamic hedging strategy for its variable annuity product guarantees.

### (a) Fair value of derivatives

The pricing models used to value OTC derivatives are based on market standard valuation methodologies and the inputs to these models are consistent with what a market participant would use when pricing the instruments. Derivative valuations can be affected by changes in interest rates, currency exchange rates, financial indices, credit spreads, default risk (including the counterparties to the contract), and market volatility. The significant inputs to the pricing models for most OTC derivatives are inputs that are observable or can be corroborated by observable market data and are classified as Level 2. Inputs that are observable generally include interest rates, foreign currency exchange rates and interest rate curves. However, certain OTC derivatives may rely on inputs that are significant to the fair value that are not observable in the market or cannot be derived principally from, or corroborated by, observable market data and these derivatives are classified as Level 3. Inputs that are unobservable generally include broker quotes, volatilities and inputs that are outside of the observable portion of the interest rate curve or other relevant market measures. These unobservable inputs may involve significant management judgment or estimation. Even though unobservable, these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what market participants would use when pricing such instruments. The Company use of unobservable inputs is limited and the impact on derivative fair values does not represent a material amount as evidenced by the limited amount of Level 3 derivatives. The credit risk of both the counterparty and the Company are considered in determining the fair value for all OTC derivatives after taking into account the effects of netting agreements and collateral arrangements.

The gross notional amount and the fair value of derivative contracts by the underlying risk exposure for derivatives in qualifying hedging and derivatives not designated in qualifying hedging relationships are summarized in the following table.

As at December 31,		2014			2013		
		Notional amount	Fair value		Notional amount	Fair value	
Type of hedge	Instrument type		Assets	Liabilities		Assets	Liabilities
<b>Qualifying hedge accounting relationships</b>							
Fair value hedges	Interest rate swaps	\$ 4,350	\$ 12	\$ 918	\$ 5,768	\$ 185	\$ 395
	Foreign currency swaps	80	-	15	73	-	16
Cash flow hedges	Interest rate swaps	-	-	-	64	-	-
	Foreign currency swaps	827	-	284	785	-	59
	Forward contracts	114	-	4	132	-	1
	Equity contracts	95	9	-	101	21	-
Total derivatives in qualifying hedge accounting relationships		\$ 5,466	\$ 21	\$ 1,221	\$ 6,923	\$ 206	\$ 471
<b>Derivatives not designated in qualifying hedge accounting relationships</b>							
	Interest rate swaps	\$ 234,690	\$ 17,354	\$ 9,134	\$ 192,236	\$ 8,989	\$ 7,535
	Interest rate futures	6,111	-	-	4,836	-	-
	Interest rate options	3,900	108	-	2,854	23	-
	Foreign currency swaps	6,786	141	887	6,663	130	506
	Currency rate futures	4,277	-	-	3,760	-	-
	Forward contracts	8,319	1,096	33	6,921	14	417
	Equity contracts	10,317	586	8	4,761	302	-
	Credit default swaps	477	9	-	335	9	-
	Equity futures	14,070	-	-	9,894	-	-
Total derivatives not designated in qualifying hedge accounting relationships		\$ 288,947	\$ 19,294	\$ 10,062	\$ 232,260	\$ 9,467	\$ 8,458
<b>Total derivatives</b>		<b>\$ 294,413</b>	<b>\$ 19,315</b>	<b>\$ 11,283</b>	<b>\$ 239,183</b>	<b>\$ 9,673</b>	<b>\$ 8,929</b>

The fair value of derivative instruments is summarized by term to maturity in the following tables. Fair values shown do not incorporate the impact of master netting agreements. Refer to note 10.

As at December 31, 2014	Term to maturity				
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Derivative assets	\$ 657	\$ 895	\$ 596	\$ 17,167	\$ 19,315
Derivative liabilities	99	302	413	10,469	11,283
<b>As at December 31, 2013</b>					
Derivative assets	\$ 103	\$ 442	\$ 316	\$ 8,812	\$ 9,673
Derivative liabilities	484	357	328	7,760	8,929

	Remaining term to maturity (notional amounts)				Fair value			Credit risk equivalent <sup>(1)</sup>	Risk-weighted amount <sup>(2)</sup>
	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Net		
<b>As at December 31, 2014</b>									
Interest rate contracts									
OTC swap contracts	\$ 11,221	\$ 29,197	\$ 149,857	\$ 190,275	\$ 16,154	\$ (8,470)	\$ 7,684	\$ 8,843	\$ 1,019
Cleared swap contracts	3,028	12,645	33,092	48,765	2,022	(2,281)	(259)	–	–
Forward contracts	2,295	5,225	–	7,520	1,090	(4)	1,086	106	12
Futures	6,111	–	–	6,111	–	–	–	–	–
Options purchased	–	–	3,900	3,900	108	–	108	237	28
Subtotal	\$ 22,655	\$ 47,067	\$ 186,849	\$ 256,571	\$ 19,374	\$ (10,755)	\$ 8,619	\$ 9,186	\$ 1,059
Foreign exchange									
Swap contracts	235	2,361	5,097	7,693	144	(1,200)	(1,056)	988	109
Forward contracts	863	50	–	913	6	(33)	(27)	30	3
Futures	4,277	–	–	4,277	–	–	–	–	–
Credit derivatives	–	477	–	477	10	–	10	–	–
Equity contracts									
Swap contracts	1,508	122	1	1,631	28	(7)	21	238	24
Futures	14,070	–	–	14,070	–	–	–	–	–
Options purchased	2,388	6,393	–	8,781	564	(1)	563	2,184	240
Subtotal including accrued interest	\$ 45,996	\$ 56,470	\$ 191,947	\$ 294,413	\$ 20,126	\$ (11,996)	\$ 8,130	\$ 12,626	\$ 1,435
Less accrued interest	–	–	–	–	811	(713)	98	–	–
<b>Total</b>	<b>\$ 45,996</b>	<b>\$ 56,470</b>	<b>\$ 191,947</b>	<b>\$ 294,413</b>	<b>\$ 19,315</b>	<b>\$ (11,283)</b>	<b>\$ 8,032</b>	<b>\$ 12,626</b>	<b>\$ 1,435</b>
<b>As at December 31, 2013</b>									
Interest rate contracts									
OTC swap contracts	\$ 8,872	\$ 32,317	\$ 144,352	\$ 185,541	\$ 9,327	\$ (8,049)	\$ 1,278	\$ 3,866	\$ 463
Cleared swap contracts	–	3,712	8,815	12,527	196	(101)	95	–	–
Interest rate forwards	4,563	1,622	–	6,185	11	(410)	(399)	16	2
Futures	4,836	–	–	4,836	–	–	–	–	–
Options purchased	–	–	2,854	2,854	23	–	23	82	10
Subtotal	\$ 18,271	\$ 37,651	\$ 156,021	\$ 211,943	\$ 9,557	\$ (8,560)	\$ 997	\$ 3,964	\$ 475
Foreign exchange									
Swap contracts	479	2,018	5,025	7,522	131	(593)	(462)	449	52
Forward contracts	868	–	–	868	3	(9)	(6)	7	1
Futures	3,760	–	–	3,760	–	–	–	–	–
Credit derivatives	–	335	–	335	9	–	9	–	–
Equity contracts									
Swap contracts	1,240	124	4	1,368	54	–	54	58	6
Futures	9,894	–	–	9,894	–	–	–	–	–
Options purchased	653	2,840	–	3,493	267	–	267	504	62
Subtotal including accrued interest	\$ 35,165	\$ 42,968	\$ 161,050	\$ 239,183	\$ 10,021	\$ (9,162)	\$ 859	\$ 4,982	\$ 596
Less accrued interest	–	–	–	–	348	(233)	115	–	–
<b>Total</b>	<b>\$ 35,165</b>	<b>\$ 42,968</b>	<b>\$ 161,050</b>	<b>\$ 239,183</b>	<b>\$ 9,673</b>	<b>\$ (8,929)</b>	<b>\$ 744</b>	<b>\$ 4,982</b>	<b>\$ 596</b>

<sup>(1)</sup> Credit risk equivalent is the sum of replacement cost and the potential future credit exposure. Replacement cost represents the current cost of replacing all contracts with a positive fair value. The amounts take into consideration legal contracts that permit offsetting of positions. The potential future credit exposure is calculated based on a formula prescribed by OSFI.

<sup>(2)</sup> Risk-weighted amount represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

The following table presents the fair value of derivative contracts categorized by the fair value hierarchy.

As at December 31, 2014	Total fair value	Level 1	Level 2	Level 3
<b>Derivative assets</b>				
Interest rate contracts	\$ 18,564	\$ –	\$ 17,553	\$ 1,011
Foreign exchange contracts	147	–	144	3
Equity contracts	595	–	84	511
Credit default swaps	9	–	9	–
<b>Total derivative assets</b>	<b>\$ 19,315</b>	<b>\$ –</b>	<b>\$ 17,790</b>	<b>\$ 1,525</b>
<b>Derivative liabilities</b>				
Interest rate contracts	\$ 10,057	\$ –	\$ 9,652	\$ 405
Foreign exchange contracts	1,218	–	1,211	7
Equity contracts	8	–	–	8
<b>Total derivative liabilities</b>	<b>\$ 11,283</b>	<b>\$ –</b>	<b>\$ 10,863</b>	<b>\$ 420</b>
<b>As at December 31, 2013</b>				
<b>Derivative assets</b>				
Interest rate contracts	\$ 9,208	\$ –	\$ 9,177	\$ 31
Foreign exchange contracts	133	–	132	1
Equity contracts	323	–	30	293
Credit default swaps	9	–	9	–
<b>Total derivative assets</b>	<b>\$ 9,673</b>	<b>\$ –</b>	<b>\$ 9,348</b>	<b>\$ 325</b>
<b>Derivative liabilities</b>				
Interest rate contracts	\$ 8,340	\$ –	\$ 7,888	\$ 452
Foreign exchange contracts	589	–	569	20
<b>Total derivative liabilities</b>	<b>\$ 8,929</b>	<b>\$ –</b>	<b>\$ 8,457</b>	<b>\$ 472</b>

The following table presents a roll forward for the net derivative contracts measured at fair value using significant unobservable inputs (Level 3).

For the years ended December 31,	2014	2013
Balance at the beginning of the year	\$ (147)	\$ (6)
Net realized/unrealized gains (losses) included in:		
Net income <sup>(1)</sup>	1,338	(388)
OCI <sup>(2)</sup>	(23)	34
Purchases <sup>(3)</sup>	320	297
Sales	(48)	(116)
Transfers		
Into Level 3 <sup>(4)</sup>	(350)	–
Out of Level 3 <sup>(4)</sup>	(34)	15
Currency movement	49	17
<b>Balance at the end of the year</b>	<b>\$ 1,105</b>	<b>\$ (147)</b>
<b>Change in unrealized gains (losses) on instruments still held</b>	<b>\$ 927</b>	<b>\$ (193)</b>

<sup>(1)</sup> These amounts are included in investment income on the Consolidated Statements of Income.

<sup>(2)</sup> These amounts are included in AOCI on the Consolidated Statements of Financial Position.

<sup>(3)</sup> Purchases include derivatives recognized upon initial consolidation of HVPH. Refer to note 4.

<sup>(4)</sup> For items that are transferred into and out of Level 3, the Company uses the fair value of the items at the end and beginning of the period, respectively. Transfers into Level 3 occur when the inputs used to price the assets and liabilities lack observable market data (versus the previous year). Transfers out of Level 3 occur when the inputs used to price the assets and liabilities become available from observable market data.

## (b) Hedging relationships

The Company uses derivatives for economic hedging purposes. In certain circumstances, these hedges also meet the requirements for hedge accounting. Risk management strategies eligible for hedge accounting are designated as fair value hedges, cash flow hedges or net investment hedges, as described below.

### Fair value hedges

The Company uses interest rate swaps to manage its exposure to changes in the fair value of fixed rate financial instruments caused by changes in interest rates. The Company also uses cross currency swaps to manage its exposure to foreign exchange rate fluctuations, interest rate fluctuations, or both.

The Company recognizes gains and losses on derivatives and the related hedged items in fair value hedges in investment income. These investment gains (losses) are shown in the following table.

### Derivatives in qualifying fair value hedging relationships

	Hedged items in qualifying fair value hedging relationships	Gains (losses) recognized on derivatives	Gains (losses) recognized for hedged items	Ineffectiveness recognized in investment income
<b>For the year ended December 31, 2014</b>				
Interest rate swaps	Fixed rate assets	\$ (1,080)	\$ 983	\$ (97)
	Fixed rate liabilities	(9)	10	1
Foreign currency swaps	Fixed rate assets	2	4	6
<b>Total</b>		<b>\$ (1,087)</b>	<b>\$ 997</b>	<b>\$ (90)</b>
<b>For the year ended December 31, 2013</b>				
Interest rate swaps	Fixed rate assets	\$ 930	\$ (998)	\$ (68)
	Fixed rate liabilities	(16)	16	–
Foreign currency swaps	Fixed rate assets	13	(6)	7
<b>Total</b>		<b>\$ 927</b>	<b>\$ (988)</b>	<b>\$ (61)</b>

### Cash flow hedges

The Company uses interest rate swaps to hedge the variability in cash flows from variable rate financial instruments and forecasted transactions. The Company also uses cross currency swaps and foreign currency forward contracts to hedge the variability from foreign currency financial instruments and foreign currency expenses. Total return swaps are used to hedge the variability in cash flows associated with certain stock-based compensation awards. Inflation swaps are used to reduce inflation risk generated from inflation indexed liabilities.

The effects of derivatives in cash flow hedging relationships on the Consolidated Statements of Income and the Consolidated Statements of Comprehensive Income are shown in the following table.

### Derivatives in qualifying cash flow hedging relationships

	Hedged items in qualifying cash flow hedging relationships	Gains (losses) deferred in AOCI on derivatives	Gains (losses) reclassified from AOCI into investment income	Ineffectiveness recognized in investment income
<b>For the year ended December 31, 2014</b>				
Interest rate swaps	Forecasted liabilities	\$ (7)	\$ (17)	\$ –
Foreign currency swaps	Fixed rate assets	(3)	–	–
	Floating rate liabilities	(164)	–	–
Forward contracts	Forecasted expenses	(6)	(4)	–
Equity contracts	Stock-based compensation	(19)	5	–
<b>Total</b>		<b>\$ (199)</b>	<b>\$ (16)</b>	<b>\$ –</b>
<b>For the year ended December 31, 2013</b>				
Interest rate swaps	Forecasted liabilities	\$ (10)	\$ (12)	\$ –
Foreign currency swaps	Floating rate liabilities	132	–	–
Forward contracts	Forecasted expenses	(10)	–	–
Equity contracts	Stock-based compensation	33	–	–
<b>Total</b>		<b>\$ 145</b>	<b>\$ (12)</b>	<b>\$ –</b>

The Company anticipates that net losses of approximately \$29 will be reclassified from AOCI to net income within the next 12 months. The maximum time frame for which variable cash flows are hedged is 22 years.

### Hedges of net investments in foreign operations

The Company primarily uses forward currency contracts, cross currency swaps and non-functional currency denominated debt to manage its foreign currency exposures to net investments in foreign operations.

The effects of derivatives in net investment hedging relationships on the Consolidated Statements of Income and the Consolidated Statements of Comprehensive Income are shown in the following table.

### Hedging instruments in net investment hedging relationships

	Gains (losses) deferred in AOCI on derivatives	Gains (losses) reclassified from AOCI into investment income	Ineffectiveness recognized in investment income
<b>For the year ended December 31, 2014</b>			
Foreign currency forwards	\$ (37)	\$ –	\$ –
Non-functional currency denominated debt	(106)	–	–
<b>Total</b>	<b>\$ (143)</b>	<b>\$ –</b>	<b>\$ –</b>
<b>For the year ended December 31, 2013</b>			
Currency swaps and interest rate swaps	\$ 23	\$ –	\$ –
Non-functional currency denominated debt	(76)	–	–
<b>Total</b>	<b>\$ (53)</b>	<b>\$ –</b>	<b>\$ –</b>

### (c) Derivatives not designated in qualifying hedge accounting relationships

Derivatives used in portfolios supporting insurance contract liabilities are generally not designated in qualifying hedge accounting relationships because the change in the value of the insurance contract liabilities economically hedged by these derivatives is also recorded through net income. Given the changes in fair value of these derivatives and related hedged risks are recognized in investment income as they occur, they generally offset the change in hedged risk to the extent the hedges are economically effective. Interest rate and cross currency swaps are used in the portfolios supporting insurance contract liabilities to manage duration and currency risks.

The effects of derivatives not designated in qualifying hedge accounting relationships on the Consolidated Statements of Income are shown in the following table.

### Derivatives not designated in qualifying hedge accounting relationships

For the years ended December 31,	2014	2013
<b>Investment income (loss):</b>		
Interest rate swaps	\$ 6,628	\$ (7,296)
Interest rate futures	(266)	152
Interest rate options	75	(20)
Foreign currency swaps	(382)	(296)
Currency rate futures	77	(226)
Forward contracts	1,569	(457)
Equity futures	(1,300)	(3,867)
Equity contracts	(71)	62
Credit default swaps	(2)	–
<b>Total</b>	<b>\$ 6,328</b>	<b>\$ (11,948)</b>

### (d) Embedded derivatives

Certain insurance contracts contain features that are classified as embedded derivatives and are measured separately at FVTPL including reinsurance contracts related to guaranteed minimum income benefits and contracts containing certain credit and interest rate features.

Certain reinsurance contracts related to guaranteed minimum income benefits are considered embedded derivatives requiring separate measurement at FVTPL as the financial component contained in the reinsurance contracts does not contain significant insurance risk. As at December 31, 2014, reinsurance ceded guaranteed minimum income benefits had a fair value of \$1,258 (2013 – \$992) and reinsurance assumed guaranteed minimum income benefits had a fair value of \$112 (2013 – \$88). Claims recovered under reinsurance ceded contracts offset the claims expenses and claims paid on the reinsurance assumed are reported as contract benefits.

The Company's credit and interest rate embedded derivatives promise to pay the returns on a portfolio of assets to the contract holder. These embedded derivatives contain a credit and interest rate risk that is a financial risk embedded in the underlying insurance contract. As at December 31, 2014, these embedded derivatives had a fair value of \$194 (2013 – \$92).

Other financial instruments classified as embedded derivatives but exempt from separate measurement at fair value include variable universal life and variable life products, minimum guaranteed credited rates, no lapse guarantees, guaranteed annuitization options, CPI indexing of benefits, and segregated fund minimum guarantees other than reinsurance ceded/assumed guaranteed minimum income benefits. These embedded derivatives are measured and reported within insurance contract liabilities and are exempt from separate fair value measurement as they contain insurance risk and/or are closely related to the insurance host contract.



## Note 6 Income Taxes

### (a) Components of the income tax expense

Income tax recognized in the Consolidated Statements of Income:

For the years ended December 31,	2014	2013
<b>Current tax</b>		
Current year	\$ 521	\$ 45
Adjustments to prior year	52	61
	\$ 573	\$ 106
<b>Deferred tax</b>		
Reversal of temporary differences	102	496
Effects of changes in tax rates	(4)	(21)
<b>Income tax expense</b>	<b>\$ 671</b>	<b>\$ 581</b>

Income tax recognized in Other Comprehensive Income ("OCI"):

For the years ended December 31,	2014	2013
Current income tax expense (recovery)	\$ 46	\$ (14)
Deferred income tax expense (recovery)	(43)	146
<b>Income tax expense</b>	<b>\$ 3</b>	<b>\$ 132</b>

Income tax recognized directly in Equity:

For the years ended December 31,	2014	2013
Current income tax expense (recovery)	\$ (6)	\$ 70
Deferred income tax recovery	(25)	(33)
<b>Income tax expense (recovery)</b>	<b>\$ (31)</b>	<b>\$ 37</b>

The effective income tax rate reported in the Consolidated Statements of Income varies from the Canadian tax rate of 26.5 per cent for the year ended December 31, 2014 (2013 – 26.5 per cent) and the reasons are shown below.

### Reconciliation of income tax expense

For the years ended December 31,	2014	2013
Income before income taxes	\$ 4,264	\$ 3,747
Income tax expense at Canadian statutory tax rate	\$ 1,130	\$ 993
Increase (decrease) in income taxes due to:		
Tax-exempt investment income	(185)	(170)
Differences in tax rate on income not subject to tax in Canada	(190)	(176)
General business tax credits net of tax credits not recognized	(31)	14
Adjustments to current tax related to prior years	52	61
Unused tax losses not recognized as deferred tax assets	91	6
Recovery of unrecognized tax losses of prior periods	(3)	(55)
Other differences	(193)	(92)
<b>Income tax expense</b>	<b>\$ 671</b>	<b>\$ 581</b>

As at December 31, 2014, the Company has approximately \$493 of a current tax payable included in other liabilities (2013 – \$617) and a current tax recoverable of \$168 included in other assets (2013 – \$254).

## (b) Deferred taxes

### Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and they relate to the same tax authority for the same taxable entity.

As at December 31,	2014	2013
<b>Net deferred tax assets (liabilities)</b>		
Loss carryforwards	\$ 1,645	\$ 807
Actuarial liabilities	5,935	3,249
Pension and post-retirement benefits	277	283
Tax credits	535	585
Accrued interest	105	167
Real estate	(1,162)	(1,397)
Securities and other investments	(4,519)	(260)
Sale of invested assets	(214)	(250)
Goodwill and intangible assets	(773)	(743)
Other	272	(295)
<b>Net deferred tax assets</b>	<b>\$ 2,101</b>	<b>\$ 2,146</b>
<b>Comprising</b>		
Deferred tax assets	\$ 3,329	\$ 2,763
Deferred tax liabilities	(1,228)	(617)
<b>Net deferred tax assets</b>	<b>\$ 2,101</b>	<b>\$ 2,146</b>

### Movement in the net deferred tax assets (liabilities)

For the year ended	Real estate	Securities and other investments	Sale of invested assets	Goodwill and intangible assets	Actuarial liabilities	Loss carry-forwards	Accrued interest	Tax credits	Pension and post-retirement benefits	Other	Total
<b>December 31, 2014</b>											
Balance, January 1	\$ (1,397)	\$ (260)	\$ (250)	\$ (743)	\$ 3,249	\$ 807	\$ 167	\$ 585	\$ 283	\$ (295)	\$ 2,146
Acquired in business combinations	–	(149)	–	–	–	35	–	–	–	4	(110)
Recognized in net income	337	(4,083)	36	10	2,514	758	(77)	(103)	(34)	544	(98)
Recognized in OCI	(1)	11	–	–	(15)	–	–	–	19	29	43
Recognized in equity	–	–	–	1	3	–	–	–	–	21	25
Translation and other	(101)	(38)	–	(41)	184	45	15	53	9	(31)	95
<b>Balance, December 31</b>	<b>\$ (1,162)</b>	<b>\$ (4,519)</b>	<b>\$ (214)</b>	<b>\$ (773)</b>	<b>\$ 5,935</b>	<b>\$ 1,645</b>	<b>\$ 105</b>	<b>\$ 535</b>	<b>\$ 277</b>	<b>\$ 272</b>	<b>\$ 2,101</b>
<b>For the year ended</b>											
<b>December 31, 2013</b>											
Balance, January 1	\$ (974)	\$ (4,633)	\$ (285)	\$ (701)	\$ 7,723	\$ 455	\$ 416	\$ 309	\$ 390	\$ (126)	\$ 2,574
Acquired in business combinations	–	–	–	(18)	–	–	–	–	–	–	(18)
Recognized in net income	(367)	4,607	35	(3)	(4,935)	342	(274)	250	6	(136)	(475)
Recognized in OCI	–	(26)	–	–	–	–	–	–	(108)	(12)	(146)
Recognized in equity	–	–	–	–	38	–	–	–	–	(5)	33
Translation and other	(56)	(208)	–	(21)	423	10	25	26	(5)	(16)	178
<b>Balance, December 31</b>	<b>\$ (1,397)</b>	<b>\$ (260)</b>	<b>\$ (250)</b>	<b>\$ (743)</b>	<b>\$ 3,249</b>	<b>\$ 807</b>	<b>\$ 167</b>	<b>\$ 585</b>	<b>\$ 283</b>	<b>\$ (295)</b>	<b>\$ 2,146</b>

The total deferred tax assets as at December 31, 2014 of \$3,329 (2013 – \$2,763) include \$3,289 (2013 – \$2,724) where the Company has suffered losses in either the current or preceding year and where the recognition is dependent on future taxable profits in the relevant jurisdictions and feasible management actions.

As at December 31, 2014, tax loss carryforwards available were approximately \$5,812 (2013 – \$2,991) of which \$5,662 expire between the years 2015 and 2034 while \$150 have no expiry date, and capital loss carryforwards available were approximately \$8 (2013 – \$8) and have no expiry date. A \$1,645 (2013 – \$807) tax benefit related to these tax loss carryforwards has been recognized as a deferred tax asset as at December 31, 2014, and a benefit of \$205 (2013 – \$117) has not been recognized. In addition, the Company has approximately \$593 (2013 – \$638) of tax credit carryforwards which will expire between the years 2023 and 2034 of which a benefit of \$58 (2013 – \$53) has not been recognized.

The total deferred tax liability as at December 31, 2014 was \$1,228 (2013 – \$617). This amount includes the deferred tax liability of consolidated entities. The aggregate amount of taxable temporary differences associated with the Company's own investments in subsidiaries is not included in the Consolidated Financial Statements and was \$8,749 (2013 – \$7,195).

### (c) Tax related contingencies

The Company is an investor in a number of leasing transactions and had established provisions for disallowance of the tax treatment and for interest on past due taxes. On August 5, 2013, the U.S. Tax Court issued an opinion effectively ruling in the government's favour in the litigation between John Hancock and the Internal Revenue Service involving the tax treatment of leveraged leases. The Company was fully reserved for this result, and the case had no material impact on the Company's 2014 financial results.

The Company is subject to income tax laws in various jurisdictions. Tax laws are complex and potentially subject to different interpretations by the taxpayer and the relevant tax authority. The provision for income taxes and deferred income taxes represents management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the year. The Company may be required to change its provision for income taxes or deferred income tax balances when the ultimate deductibility of certain items is successfully challenged by taxing authorities, or if estimates used in determining the amount of deferred tax asset to recognize change significantly, or when receipt of new information indicates the need for adjustment in the amount of deferred income taxes to be recognized. Additionally, future events, such as changes in tax laws, tax regulations, or interpretations of such laws or regulations, could have an impact on the provision for income taxes, deferred tax balances and the effective tax rate. Any such changes could materially affect the amounts reported in the Consolidated Financial Statements in the period these changes occur.

## Note 7 Goodwill and Intangible Assets

### (a) Carrying amounts of goodwill and intangible assets

As at December 31, 2014	Gross carrying amount	Accumulated amortization	Net carrying amount
<b>Goodwill</b>	<b>\$ 3,181</b>	<b>\$ –</b>	<b>\$ 3,181</b>
<b>Indefinite life intangible assets</b>			
Brand	\$ 696	\$ –	\$ 696
Fund management contracts and other <sup>(1)</sup>	533	–	533
	<b>\$ 1,229</b>	<b>\$ –</b>	<b>\$ 1,229</b>
<b>Finite life intangible assets<sup>(2)</sup></b>			
Distribution network	\$ 815	\$ 207	\$ 608
Software	1,327	1,013	314
Other	240	111	129
	<b>\$ 2,382</b>	<b>\$ 1,331</b>	<b>\$ 1,051</b>
<b>Total intangible assets</b>	<b>\$ 3,611</b>	<b>\$ 1,331</b>	<b>\$ 2,280</b>
<b>Total goodwill and intangible assets</b>	<b>\$ 6,792</b>	<b>\$ 1,331</b>	<b>\$ 5,461</b>

### As at December 31, 2013

<b>Goodwill</b>	\$ 3,110	\$ –	\$ 3,110
<b>Indefinite life intangible assets</b>			
Brand	\$ 638	\$ –	\$ 638
Fund management contracts and other <sup>(1)</sup>	505	–	505
	<b>\$ 1,143</b>	<b>\$ –</b>	<b>\$ 1,143</b>
<b>Finite life intangible assets<sup>(2)</sup></b>			
Distribution network	\$ 764	\$ 157	\$ 607
Software	1,181	869	312
Other	230	104	126
	<b>\$ 2,175</b>	<b>\$ 1,130</b>	<b>\$ 1,045</b>
<b>Total intangible assets</b>	<b>\$ 3,318</b>	<b>\$ 1,130</b>	<b>\$ 2,188</b>
<b>Total goodwill and intangible assets</b>	<b>\$ 6,428</b>	<b>\$ 1,130</b>	<b>\$ 5,298</b>

<sup>(1)</sup> For the fund management contracts, the significant CGUs to which these were allocated and their carrying values were U.S. Mutual Funds and Retirement Plan Services with \$340 (2013 – \$312) and Canadian Wealth (excluding Manulife Bank of Canada) with \$150 (2013 – \$150).

<sup>(2)</sup> Amortization expense was \$165 for the year ended December 31, 2014 (2013 – \$158).

### (b) Impairment testing of goodwill

In the fourth quarter of 2014, the Company completed its annual goodwill impairment testing by determining the recoverable amounts of its businesses based on the 2015 five-year business plan and in-force and new business embedded values.

The Company has determined that there is no impairment of goodwill in 2014 and 2013.

The Company has 15 CGUs or groups of CGUs. Factors considered when identifying the Company's CGUs include how the Company is organized to interact with customers, how products are presented and sold, and where interdependencies exist. The carrying value of goodwill for all CGUs with goodwill balances is shown in the table below.

As at December 31, 2014 CGU or Group of CGUs	Balance, January 1	Additions/ disposals	Effect of changes in foreign exchange rates	Balance, December 31
Asia (excluding Hong Kong and Japan)	\$ 134	\$ –	\$ 9	\$ 143
Japan Insurance and Wealth	355	–	(16)	339
Canadian Individual Life	155	–	–	155
Canadian Affinity Markets	83	–	–	83
Canadian Wealth (excluding Manulife Bank)	750	–	–	750
Canadian Group Benefits and Group Retirement Savings	826	–	–	826
International Group Program	71	–	7	78
U.S. Life	4	–	1	5
U.S. Long-Term Care	286	–	26	312
U.S. Mutual Funds and Retirement Plan Services	385	–	35	420
Corporate and Other	61	3	6	70
<b>Total</b>	<b>\$ 3,110</b>	<b>\$ 3</b>	<b>\$ 68</b>	<b>\$ 3,181</b>

As at December 31, 2013	Balance, January 1	Additions/ disposals	Effect of changes in foreign exchange rates	Balance, December 31
Asia (excluding Hong Kong and Japan)	\$ 132	\$ (5)	\$ 7	\$ 134
Japan Insurance and Wealth	403	–	(48)	355
Canadian Individual Life	155	–	–	155
Canadian Affinity Markets	83	–	–	83
Canadian Wealth (excluding Manulife Bank)	750	–	–	750
Canadian Group Benefits and Group Retirement Savings	826	–	–	826
International Group Program	67	–	4	71
U.S. Life	–	4	–	4
U.S. Long-Term Care	268	–	18	286
U.S. Mutual Funds and Retirement Plan Services	360	–	25	385
Corporate and Other	56	–	5	61
<b>Total</b>	<b>\$ 3,100</b>	<b>\$ (1)</b>	<b>\$ 11</b>	<b>\$ 3,110</b>

The valuation techniques, significant assumptions and sensitivities applied in the goodwill impairment testing are described below.

### (c) Valuation techniques

The recoverable value of each CGU or group of CGUs as at December 31, 2014 was based on value-in-use (“VIU”) for all of the U.S. based CGUs, the Canadian Individual Life CGU and the Japan CGU and fair value less costs to sell (“FVLCS”) for all other CGUs. The recoverable values as at December 31, 2013 were based on VIU for all the U.S. based CGUs and the Japan CGU and FVLCS for all other CGUs. When determining if a CGU is impaired, the Company compares its recoverable amount to the allocated capital for that unit, which is aligned with the Company’s internal reporting practices.

### (i) Income approach (value-in-use)

The Company has used an actuarial appraisal method for the purposes of goodwill testing. Under this approach, an appraisal value is determined from a projection of future distributable earnings derived from both the in-force business and new business expected to be sold in the future, and therefore, reflects the economic value for each CGU’s or group of CGUs’ profit potential under a set of assumptions. This approach requires assumptions including sales and revenue growth rates, capital requirements, interest rates, equity returns, mortality, morbidity, policyholder behaviour, tax rates and discount rates.

## Significant assumptions

### Growth

The assumptions used were based on the Company’s internal plan and Canadian actuarial valuation basis. To calculate the embedded value, the Company discounted projected earnings from each in-force contract and valued 10 years of new business growing at expected plan levels, consistent with the periods used for forecasting long-term businesses such as insurance. In arriving at its projections, the Company considered past experience, economic trends such as interest rates, equity returns and product mix as well as industry and market trends. Where growth rate assumptions for new business cash flows were used in the embedded value calculations, they ranged from zero per cent to 17 per cent (2013 – zero per cent to 26 per cent).

### Interest rates

The Company uses a similar methodology for measuring insurance contracts in determining projected expected interest rates based on prevailing market rates at the valuation date.

## Tax rates

Tax rates applied to the projections reflected intercompany transfer pricing agreements currently in effect which were assumed to be transferable to another market participant and amounted to 26.5 per cent, 35 per cent and 30.78 per cent (2013 – 26.5 per cent, 35 per cent and 30.78 per cent) for the Canadian, U.S. and Japan jurisdictions, respectively. Tax assumptions are sensitive to changes in tax laws as well as assumptions about the jurisdictions in which profits are earned. It is possible that actual tax rates could differ from those assumed.

## Discount rates

Discount rates assumed in determining the value-in-use for applicable CGUs or groups of CGUs ranged from nine per cent to 14 per cent on an after-tax basis or 11 per cent to 15 per cent on a pre-tax basis (2013 – seven per cent to 10 per cent on an after-tax basis or nine per cent to 15 per cent on a pre-tax basis).

## (ii) Fair values

Where applicable, the Company determined the fair value of the CGU or group of CGUs using an earnings-based approach which incorporated forecasted earnings, excluding interest and equity market impacts and normalized new business expenses multiplied by an earnings multiple derived from the observable price-to-earnings multiples of comparable financial institutions. The price-to-earnings multiples used by the Company for testing ranged from 10 to 14.9 (2013 – 10 to 22.2).

The key assumptions described above may change as economic and market conditions change, which may lead to impairment charges in the future. Changes in discount rates and cash flow projections used in the determination of embedded values or reductions in market-based earnings multiples may result in impairment charges in the future which could be material.

## Note 8 Insurance Contract Liabilities and Reinsurance Assets

### (a) Insurance contract liabilities and reinsurance assets

Insurance contract liabilities are reported gross of reinsurance ceded and the ceded liabilities are reported separately as a reinsurance asset. Insurance contract liabilities include actuarial liabilities as well as benefits payable, provision for unreported claims and policyholder amounts on deposit. The components of gross and net insurance contract liabilities are shown below.

As at December 31,	2014	2013
Gross insurance contract liabilities	\$ 219,600	\$ 184,336
Gross benefits payable and provision for unreported claims	2,433	2,072
Gross policyholder amounts on deposit	7,480	6,834
Gross insurance contract liabilities	\$ 229,513	\$ 193,242
Reinsurance assets	(18,525)	(17,443)
<b>Net insurance contract liabilities</b>	<b>\$ 210,988</b>	<b>\$ 175,799</b>

Net insurance contract liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends and refunds, taxes (other than income taxes) and expenses on policies in-force net of reinsurance premiums and recoveries.

Net insurance contract liabilities under IFRS retain the existing valuation methodology that was used under previous Canadian generally accepted accounting principles. Net actuarial liabilities are determined using CALM, as required by the Canadian Institute of Actuaries.

The determination of net insurance liabilities is based on an explicit projection of cash flows using current assumptions for each material cash flow item. Investment returns are projected using the current asset portfolios and projected reinvestment strategies.

Each assumption is based on the best estimate adjusted by a margin for adverse deviation. For fixed income returns, this margin is established by scenario testing a range of prescribed and company-developed scenarios consistent with Canadian Actuarial Standards of Practice. For all other assumptions, this margin is established by directly adjusting the best estimate assumption.

Cash flows used in the net insurance contract liabilities valuation adjust the gross policy cash flows to reflect the projected cash flows from ceded reinsurance. The cash flow impact of ceded reinsurance varies depending upon the amount of reinsurance, the structure of the reinsurance treaties, the expected economic benefit from the treaty cash flows and the impact of margins for adverse deviation. The gross insurance contract liabilities are determined by discounting the gross policy cash flows using the same discount rate as the net CALM model discount rate.

The reinsurance asset is determined by taking the difference between the gross insurance contract liabilities and the net insurance contract liabilities. The reinsurance asset represents the benefit derived from reinsurance arrangements in-force at the date of the Consolidated Statements of Financial Position.

The period used for the projection of cash flows is the policy lifetime for most individual insurance contracts. For other types of contracts, a shorter projection period may be used, with the contract generally ending at the earlier of the first renewal date at or after the Consolidated Statements of Financial Position date where the Company can exercise discretion in renewing its contractual obligations or terms of those obligations and the renewal or adjustment date that maximizes the insurance contract liabilities. For segregated fund products with guarantees, the projection period is generally set as the period that leads to the largest insurance

contract liability. Where the projection period is less than the policy lifetime, insurance contract liabilities may be reduced by an allowance for acquisition expenses expected to be recovered from policy cash flows beyond the projection period used for the liabilities. Such allowances are tested for recoverability using assumptions that are consistent with other components of the actuarial valuation.

## (b) Composition

The composition of insurance contract liabilities and reinsurance assets by line of business and reporting segment is as follows.

### Gross insurance contract liabilities

As at December 31, 2014	Individual insurance			Other insurance contract liabilities <sup>(1)</sup>	Total, net of reinsurance ceded	Total reinsurance ceded	Total, gross of reinsurance ceded
	Participating	Non-participating	Annuities and pensions				
Asia division	\$ 22,404	\$ 7,047	\$ 2,521	\$ 1,690	\$ 33,662	\$ 700	\$ 34,362
Canadian division	10,287	22,001	13,028	9,172	54,488	520	55,008
U.S. division	21,074	42,545	27,035	32,535	123,189	16,887	140,076
Corporate and Other	–	(645)	73	221	(351)	418	67
<b>Total, net of reinsurance ceded</b>	<b>\$ 53,765</b>	<b>\$ 70,948</b>	<b>\$ 42,657</b>	<b>\$ 43,618</b>	<b>\$ 210,988</b>	<b>\$ 18,525</b>	<b>\$ 229,513</b>
<b>Total reinsurance ceded</b>	<b>523</b>	<b>8,885</b>	<b>8,097</b>	<b>1,020</b>	<b>18,525</b>		
<b>Total, gross of reinsurance ceded</b>	<b>\$ 54,288</b>	<b>\$ 79,833</b>	<b>\$ 50,754</b>	<b>\$ 44,638</b>	<b>\$ 229,513</b>		

### As at December 31, 2013

Asia division	\$ 18,577	\$ 5,155	\$ 2,308	\$ 1,407	\$ 27,447	\$ 568	\$ 28,015
Canadian division	9,558	17,923	13,026	8,596	49,103	1,711	50,814
U.S. division	19,808	32,163	21,209	26,162	99,342	14,683	114,025
Corporate and Other	–	(505)	140	272	(93)	481	388
<b>Total, net of reinsurance ceded</b>	<b>\$ 47,943</b>	<b>\$ 54,736</b>	<b>\$ 36,683</b>	<b>\$ 36,437</b>	<b>\$ 175,799</b>	<b>\$ 17,443</b>	<b>\$ 193,242</b>
<b>Total reinsurance ceded</b>	<b>493</b>	<b>7,995</b>	<b>7,911</b>	<b>1,044</b>	<b>17,443</b>		
<b>Total, gross of reinsurance ceded</b>	<b>\$ 48,436</b>	<b>\$ 62,731</b>	<b>\$ 44,594</b>	<b>\$ 37,481</b>	<b>\$ 193,242</b>		

<sup>(1)</sup> Other insurance contract liabilities include group insurance and individual and group health including long-term care insurance.

Separate sub-accounts were established for participating policies in-force at the demutualization of MLI and John Hancock Life Insurance Company. These sub-accounts permit this participating business to be operated as separate "closed blocks" of participating policies. As at December 31, 2014, \$32,361 (2013 – \$29,048) of both assets and insurance contract liabilities related to these closed blocks of participating policies.

## (c) Assets backing insurance contract liabilities, other liabilities and capital

Assets are segmented and matched to liabilities with similar underlying characteristics by product line and major currency. The Company has established target investment strategies and asset mixes for each asset segment supporting insurance contract liabilities which take into account the risk attributes of the liabilities supported by the assets and expectations of market performance. Liabilities with rate and term guarantees are predominantly backed by fixed-rate instruments on a cash flow matching basis for a targeted duration horizon. Longer duration cash flows on these liabilities as well as on adjustable products such as participating life insurance are backed by a broader range of asset classes, including equity and alternative long-duration investments. The Company's capital is invested in a range of debt and equity investments, both public and private.

Changes in the fair value of assets backing net insurance contract liabilities that are not judged by the Company to be other than temporary would have a limited impact on the Company's net income wherever there is an effective matching of the assets and liabilities, as these changes would be substantially offset by corresponding changes in the value of the actuarial liabilities. The fair value of assets backing net insurance contract liabilities as at December 31, 2014, excluding reinsurance assets, was estimated at \$214,804 (2013 – \$178,232).

The fair value of assets backing capital and other liabilities as at December 31, 2014 was estimated at \$369,545 (2013 – \$338,881).

The carrying value of total assets backing net insurance contract liabilities, other liabilities and capital was as follows.

As at December 31, 2014	Individual insurance			Other insurance		Capital <sup>(3)</sup>	Total
	Participating	Non-participating	Annuities and pensions	contract liabilities <sup>(1)</sup>	Other liabilities <sup>(2)</sup>		
<b>Assets</b>							
Debt securities	\$ 29,223	\$ 37,365	\$ 22,190	\$ 20,149	\$ 7,556	\$ 17,963	\$ 134,446
Public equities	7,165	3,340	188	176	494	3,180	14,543
Mortgages	3,897	6,929	5,606	4,322	18,497	207	39,458
Private placements	4,288	7,709	5,413	4,394	1,017	463	23,284
Real estate	2,385	3,767	1,278	2,318	353	–	10,101
Other	6,807	11,838	7,982	12,259	300,938	17,750	357,574
<b>Total</b>	<b>\$ 53,765</b>	<b>\$ 70,948</b>	<b>\$ 42,657</b>	<b>\$ 43,618</b>	<b>\$ 328,855</b>	<b>\$ 39,563</b>	<b>\$ 579,406</b>

#### As at December 31, 2013

<b>Assets</b>							
Debt securities	\$ 25,963	\$ 28,058	\$ 20,538	\$ 16,574	\$ 7,664	\$ 16,160	\$ 114,957
Public equities	6,295	3,010	144	119	534	2,973	13,075
Mortgages	3,865	4,859	6,324	4,248	18,059	203	37,558
Private placements	3,464	6,166	5,768	4,142	1,012	463	21,015
Real estate	2,013	4,237	817	2,305	336	–	9,708
Other	6,343	8,406	3,092	9,049	276,722	13,703	317,315
<b>Total</b>	<b>\$ 47,943</b>	<b>\$ 54,736</b>	<b>\$ 36,683</b>	<b>\$ 36,437</b>	<b>\$ 304,327</b>	<b>\$ 33,502</b>	<b>\$ 513,628</b>

<sup>(1)</sup> Other insurance contract liabilities include group insurance and individual and group health including long-term care insurance.

<sup>(2)</sup> Other liabilities are non-insurance contract liabilities which include segregated funds, bank deposits, long-term debt, deferred tax liabilities, derivatives, investment contracts, non-exempt embedded derivatives and other miscellaneous liabilities.

<sup>(3)</sup> Capital is defined in note 15.

### (d) Significant insurance contract liability valuation assumptions

The determination of insurance contract liabilities involves the use of estimates and assumptions. Insurance contract liabilities have two major components: a best estimate amount and a provision for adverse deviation. In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions are designed to minimize the Company's exposure to measurement uncertainty.

#### Best estimate assumptions

Best estimate assumptions are made with respect to mortality and morbidity, investment returns, rates of policy termination, operating expenses and certain taxes. Actual experience is monitored to ensure that the assumptions remain appropriate and assumptions are changed as warranted. Assumptions are discussed in more detail in the following table.

Nature of factor and assumption methodology		Risk management
<b>Mortality and morbidity</b>	<p>Mortality relates to the occurrence of death. Mortality is a key assumption for life insurance and certain forms of annuities. Mortality assumptions are based on the Company's internal experience as well as past and emerging industry experience. Assumptions are differentiated by sex, underwriting class, policy type and geographic market. Assumptions are made for future mortality improvements.</p> <p>Morbidity relates to the occurrence of accidents and sickness for insured risks. Morbidity is a key assumption for long-term care insurance, disability insurance, critical illness and other forms of individual and group health benefits. Morbidity assumptions are based on the Company's internal experience as well as past and emerging industry experience and are established for each type of morbidity risk and geographic market. Assumptions are made for future morbidity improvements.</p>	<p>The Company maintains underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. Exposure to large claims is managed by establishing policy retention limits, which vary by market and geographic location. Policies in excess of the limits are reinsured with other companies.</p> <p>Mortality is monitored monthly and the overall 2014 experience was favourable (2013 – favourable) when compared to the Company's assumptions. Morbidity is also monitored monthly and the overall 2014 experience was unfavourable (2013 – unfavourable) when compared to the Company's assumptions.</p>

Nature of factor and assumption methodology	Risk management
<p><b>Investment returns</b></p>	<p>The Company segments assets to support liabilities by business segment and geographic market and establishes investment strategies for each liability segment. Projected cash flows from these assets are combined with projected cash flows from future asset purchases/sales to determine expected rates of return on these assets for future years. Investment strategies are based on the target investment policies for each segment and the reinvestment returns are derived from current and projected market rates for fixed income investments and a projected outlook for other alternative long-duration assets.</p> <p>Investment return assumptions include expected future asset credit losses on fixed income investments. Credit losses are projected based on past experience of the Company and industry as well as specific reviews of the current investment portfolio.</p> <p>Investment return assumptions for each asset class and geographic market also incorporate expected investment management expenses that are derived from internal cost studies. The costs are attributed to each asset class to develop unitized assumptions per dollar of asset for each asset class and geographic market.</p>
<p><b>Policyholder behaviour</b></p>	<p>The Company's policy of closely matching asset cash flows with those of the corresponding liabilities is designed to mitigate the Company's exposure to future changes in interest rates. The interest rate risk positions in business segments are monitored on an ongoing basis. Under CALM, the reinvestment rate is developed using interest rate scenario testing and reflects the interest rate risk positions.</p> <p>In 2014, the movement in interest rates positively (2013 – adversely) impacted the Company's net income. This positive impact was driven by the impact of risk free interest rate movements on policy liabilities and surplus assets, increases in corporate spreads, as well as reductions in swap spreads.</p> <p>The exposure to credit losses is managed against policies that limit concentrations by issuer, corporate connections, ratings, sectors and geographic regions. On participating policies and some non-participating policies, credit loss experience is passed back to policyholders through the investment return crediting formula. For other policies, the premiums and benefits reflect the Company's assumed level of future credit losses at contract inception or most recent contract adjustment date. The Company holds explicit provisions in actuarial liabilities for credit risk including provisions for adverse deviation.</p> <p>In 2014, credit loss experience on debt securities and mortgages was favourable (2013 – favourable) when compared to the Company's assumptions.</p> <p>Equities, real estate and other alternative long-duration assets are used to support liabilities where investment return experience is passed back to policyholders through dividends or credited investment return adjustments. Equities, real estate, oil and gas and other alternative long-duration assets are also used to support long-dated obligations in the Company's annuity and pension businesses and for long-dated insurance obligations on contracts where the investment return risk is borne by the Company.</p> <p>In 2014, investment experience on alternative long-duration assets backing policyholder liabilities was unfavourable (2013 – unfavourable) primarily due to losses on oil and gas properties and real estate, partially offset by gains on private equities and timber and agriculture properties. In 2014, alternative long-duration asset origination exceeded (2013 – exceeded) valuation requirements.</p> <p>In 2014, investment experience for segregated fund businesses from changes in the market value of assets under management was unfavourable (2013 – favourable).</p> <p>In 2014, investment expense experience was favourable (2013 – favourable) when compared to the Company's assumptions.</p>
<p>Policies are terminated through lapses and surrenders, where lapses represent the termination of policies due to non-payment of premiums and surrenders represent the voluntary termination of policies by policyholders. Premium persistency represents the level of ongoing deposits on contracts where there is policyholder discretion as to the amount and timing of deposits. Policy termination and premium persistency assumptions are primarily based on the Company's recent experience adjusted for expected future conditions. Assumptions reflect differences by type of contract within each geographic market.</p>	<p>The Company seeks to design products that minimize financial exposure to lapse, surrender and other policyholder behaviour risk. The Company monitors lapse, surrender and other policyholder behaviour experience.</p> <p>In aggregate, 2014 policyholder behaviour experience was unfavourable (2013 – unfavourable) when compared to the Company's assumptions used in the computation of actuarial liabilities.</p>



Nature of factor and assumption methodology		Risk management
<b>Expenses and taxes</b>	<p>Operating expense assumptions reflect the projected costs of maintaining and servicing in-force policies, including associated overhead expenses. The expenses are derived from internal cost studies projected into the future with an allowance for inflation. For some developing businesses, there is an expectation that unit costs will decline as these businesses grow.</p> <p>Taxes reflect assumptions for future premium taxes and other non-income related taxes. For income taxes, policy liabilities are adjusted only for temporary tax timing and permanent tax rate differences on the cash flows available to satisfy policy obligations.</p>	<p>The Company prices its products to cover the expected costs of servicing and maintaining them. In addition, the Company monitors expenses monthly, including comparisons of actual expenses to expense levels allowed for in pricing and valuation.</p> <p>Maintenance expenses for 2014 were unfavourable (2013 – unfavourable) when compared to the Company's assumptions used in the computation of actuarial liabilities.</p> <p>The Company prices its products to cover the expected cost of taxes.</p>
<b>Policyholder dividends, experience rating refunds, and other adjustable policy elements</b>	<p>The best estimate projections for policyholder dividends and experience rating refunds, and other adjustable elements of policy benefits are determined to be consistent with management's expectation of how these elements will be managed should experience emerge consistently with the best estimate assumptions used for mortality and morbidity, investment returns, rates of policy termination, operating expenses and taxes.</p>	<p>The Company monitors policy experience and adjusts policy benefits and other adjustable elements to reflect this experience.</p> <p>Policyholder dividends are reviewed annually for all businesses under a framework of Board-approved policyholder dividend policies.</p>
<b>Foreign currency</b>	<p>Foreign currency risk results from a mismatch of the currency of liabilities and the currency of the assets designated to support these obligations. Where a currency mismatch exists, the assumed rate of return on the assets supporting the liabilities is reduced to reflect the potential for adverse movements in foreign exchange rates.</p>	<p>The Company generally matches the currency of its assets with the currency of the liabilities they support, with the objective of mitigating the risk of loss arising from movements in currency exchange rates.</p>

The Company's practice is to review actuarial assumptions on an annual basis as part of its review of methods and assumptions. Where changes are made to assumptions (refer to note 8(h)), the full impact is recognized in income immediately.

### (e) Sensitivity of insurance contract liabilities to changes in non-economic assumptions

The sensitivity of net income attributed to shareholders to changes in non-economic assumptions underlying policy liabilities is shown below, assuming that there is a simultaneous change in the assumption across all business units.

In practice, experience for each assumption will frequently vary by geographic market and business and assumption updates are made on a business/geographic specific basis. Actual results can differ materially from these estimates for a variety of reasons including the interaction among these factors when more than one changes: changes in actuarial and investment return and future investment activity assumptions; changes in business mix, effective tax rates and other market factors; and the general limitations of internal models.

The participating policy funds are largely self-supporting and generate no material impact on net income attributed to shareholders as a result of changes in non-economic assumptions. Experience gains or losses would generally result in changes to future dividends, with no direct impact to shareholders.

### Potential impact on net income attributed to shareholders arising from changes to non-economic assumptions

As at December 31,	Decrease in net income attributable to shareholders	
	2014	2013
<b>Policy related assumptions</b>		
2% adverse change in future mortality rates <sup>(1),(3)</sup>		
Products where an increase in rates increases insurance contract liabilities	\$ (300)	\$ (300)
Products where a decrease in rates increases insurance contract liabilities	(400)	(300)
5% adverse change in future morbidity rates <sup>(2),(3),(4)</sup>	(2,400)	(2,000)
10% adverse change in future termination rates <sup>(3)</sup>	(1,500)	(1,300)
5% increase in future expense levels	(400)	(300)

<sup>(1)</sup> An increase in mortality rates will generally increase policy liabilities for life insurance contracts whereas a decrease in mortality rates will generally increase policy liabilities for policies with longevity risk such as payout annuities.

<sup>(2)</sup> No amounts related to morbidity risk are included for policies where the policy liability provides only for claims costs expected over a short period, generally less than one year, such as Group Life and Health.

<sup>(3)</sup> The impacts of the sensitivities on long-term care for morbidity, mortality and lapse are assumed to be moderated by partial offsets from the Company's ability to contractually raise premium rates in such events, subject to state regulatory approval.

<sup>(4)</sup> The increase in morbidity sensitivity between December 31, 2013 and December 31, 2014 is largely due to modeling refinements and the strengthening of the U.S. dollar compared to the Canadian dollar during 2014. This sensitivity is shown in Canadian dollars and most of the Company's morbidity sensitivity arises from U.S. dollar denominated liabilities.

## (f) Provision for adverse deviation assumptions

The assumptions made in establishing insurance contract liabilities reflect expected best estimates of future experience. To recognize the uncertainty in these best estimate assumptions, to allow for possible mis-estimation of and deterioration in experience and to provide a greater degree of assurance that the insurance contract liabilities are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

Under IFRS reporting, new business profits are capitalized at issue of a policy using assumptions which include a margin for adverse deviation. The margins held for each assumption decrease the income that would have been recognized at inception of the policy and are released into future earnings as the policy is released from risk. Margins for interest rate risk are included by testing a number of scenarios of future interest rates. The margin can be established by testing a limited number of scenarios, some of which are prescribed by the Canadian Actuarial Standards of Practice, and determining the liability based on the worst outcome. Alternatively, the margin can be set by testing many scenarios, which are developed according to actuarial guidance. Under this approach, the liability would be the average of the outcomes above a percentile in the range prescribed by the Canadian Actuarial Standards of Practice.

Specific guidance is also provided for other risks such as market, credit, mortality and morbidity risks. For other risks which are not specifically addressed by the Canadian Institute of Actuaries, a range is provided of five per cent to 20 per cent of the expected experience assumption. The Company uses assumptions within the permissible ranges, with the determination of the level set taking into account the risk profile of the business. On occasion, in specific circumstances for additional prudence, a margin may exceed the high end of the range, which is permissible under the Canadian Actuarial Standards of Practice. This additional margin would be released if the specific circumstances which led to it being established were to change.

Each margin is reviewed annually for continued appropriateness.

## (g) Change in insurance contract liabilities

The change in insurance contract liabilities was a result of the following business activities and changes in actuarial estimates.

	Net actuarial liabilities	Other insurance contract liabilities <sup>(1)</sup>	Net insurance contract liabilities	Reinsurance assets	Gross insurance contract liabilities
<b>For the year ended December 31, 2014</b>					
Balance, January 1	\$ 167,298	\$ 8,501	\$ 175,799	\$ 17,443	\$ 193,242
New policies <sup>(2)</sup>	807	–	807	151	958
Normal in-force movement <sup>(2)</sup>	23,379	209	23,588	78	23,666
Changes in methods and assumptions <sup>(2)</sup>	240	18	258	(625)	(367)
Impact of changes in foreign exchange rates	10,000	536	10,536	1,478	12,014
<b>Balance, December 31</b>	<b>\$ 201,724</b>	<b>\$ 9,264</b>	<b>\$ 210,988</b>	<b>\$ 18,525</b>	<b>\$ 229,513</b>
<b>For the year ended December 31, 2013</b>					
Balance, January 1	\$ 171,364	\$ 8,350	\$ 179,714	\$ 18,681	\$ 198,395
New policies <sup>(3)</sup>	1,181	–	1,181	286	1,467
Normal in-force movement <sup>(3)</sup>	(10,965)	(49)	(11,014)	(2,986)	(14,000)
Impact of sale of Taiwan insurance business (note 3)	(1,527)	(8)	(1,535)	(75)	(1,610)
Changes in methods and assumptions <sup>(3)</sup>	1,036	(85)	951	470	1,421
Impact of changes in foreign exchange rates	6,209	293	6,502	1,067	7,569
<b>Balance, December 31</b>	<b>\$ 167,298</b>	<b>\$ 8,501</b>	<b>\$ 175,799</b>	<b>\$ 17,443</b>	<b>\$ 193,242</b>

<sup>(1)</sup> Other insurance contract liabilities are comprised of benefits payable and provision for unreported claims and policyholder amounts on deposit.

<sup>(2)</sup> In 2014, the \$24,185 increase reported as the change in insurance contract liabilities on the Consolidated Statements of Income primarily consists of changes due to normal in-force movements, new policies and changes in methods and assumptions. These three items in the gross insurance contract liabilities column of this table net to an increase of \$24,257, of which \$23,835 is included in the Consolidated Statements of Income increase in insurance contract liabilities, \$451 is included in gross claims and benefits and \$(29) is related to Life Retrocession insurance contract liabilities sold through a reinsurance agreement in 2011 and is offset in the change in reinsurance assets. The Consolidated Statements of Income change in insurance contract liabilities also includes the change in embedded derivatives associated with insurance contracts.

<sup>(3)</sup> In 2013, the \$10,130 decrease reported as the change in insurance contract liabilities on the Consolidated Statements of Income primarily consists of changes due to normal in-force movements, new policies and changes in methods and assumptions. These three items in the gross insurance contract liabilities column of this table net to a decrease of \$11,112, of which \$10,211 is included in the Consolidated Statements of Income increase in insurance contract liabilities, \$489 is included in gross claims and benefits and \$412 is related to Life Retrocession insurance contract liabilities sold through a reinsurance agreement in 2011 and is offset in the change in reinsurance assets. The Consolidated Statements of Income change in insurance contract liabilities also includes the change in embedded derivatives associated with insurance contracts.

## (h) Actuarial methods and assumptions

A comprehensive review of valuation assumptions and methods is performed annually. The review is designed to reduce the Company's exposure to uncertainty by ensuring assumptions for both asset related and liability related risks remain appropriate. This is accomplished by monitoring experience and updating assumptions which represent a best estimate view of future experience, and margins that are appropriate for the risks assumed. While the assumptions selected represent the Company's current best estimates and assessment of risk, the ongoing monitoring of experience and the economic environment is likely to result in future changes to the valuation assumptions, which could be material.

## 2014 review

In 2014, the completion of the annual review of actuarial methods and assumptions resulted in an increase in insurance and investment contract liabilities of \$258, net of reinsurance. Net of the income attributed to participating policyholders and non-controlling interests, net income attributed to shareholders decreased by \$198.

For the year ended December 31, 2014

	Change in gross insurance and investment contract liabilities	Change in net insurance and investment contract liabilities	Change in net income attributed to shareholders
<b>Assumptions:</b>			
Mortality and morbidity updates	\$ (127)	\$ (74)	\$ 73
Lapses and policyholder behaviour	455	405	(314)
Updates to actuarial standards			
Segregated fund bond calibration	219	217	(157)
Economic reinvestment assumptions	(530)	(75)	65
Other updates	(384)	(215)	135
<b>Net impact</b>	<b>\$ (367)</b>	<b>\$ 258</b>	<b>\$ (198)</b>

### Updates to mortality and morbidity

Mortality assumptions were updated across several business units to reflect recent experience. Updates to the Canadian Retail Insurance mortality led to a \$248 increase in net income attributed to shareholders. Other mortality and morbidity updates led to a \$135 increase in net income attributed to shareholders, and were primarily related to the John Hancock Annuities business where in aggregate the Company benefited from updates to mortality assumptions. These increases were partially offset by updates in John Hancock Life insurance, primarily for policies issued at older ages, which led to a \$310 decrease in net income attributed to shareholders.

### Updates to lapses and policyholder behaviour

Lapse rates for several of the Canadian Retail Insurance non-participating whole life and universal life products were updated to reflect recent experience which led to a \$214 decrease in net income attributed to shareholders.

Other updates to lapse and policyholder behaviour assumptions were made across several business units including Indonesia, and Canadian and U.S. variable annuities to reflect updated experience results which led to a \$100 decrease in net income attributed to shareholders.

### Updates to actuarial standards

Updates to actuarial standards related to bond parameter calibration for stochastic models used to value segregated fund liabilities resulted in a \$157 decrease in net income attributed to shareholders.

Updates to actuarial standards related to economic reinvestment assumptions resulted in a \$65 increase in net income attributed to shareholders. The increase in net income was due to changes to fixed income reinvestment assumptions, which included allowance for the use of credit spread assets for all durations, a change from deterministic to stochastically generated scenarios for most North American business, and changes to risk free interest rate scenarios. This increase in net income attributed to shareholders was partially offset by a decrease in net income attributed to shareholders due to a new margin for adverse deviation for alternative long-duration assets and public equities.

### Other updates

The Company performed an in depth review of the modelling of future tax cash flows for its U.S. Insurance business resulting in an increase in net income attributed to shareholders of \$473.

The Company made a number of model refinements related to the projection of both asset and liability cash flows across several business units which led to a \$338 decrease in net income attributed to shareholders.

## 2013 review

In 2013, the review of actuarial assumptions and methods resulted in an increase in policy liabilities of \$948, net of reinsurance. The impact of the changes in actuarial assumptions and methods increased reinsurance assets by \$447. Net of the impacts on participating surplus and non-controlling interests, net income attributable to shareholders decreased by \$489.

The following table represents the impact of the 2013 changes in actuarial assumptions and models on policy liabilities and net income attributed to shareholders.

For the year ended December 31, 2013	Change in net insurance and investment contract liabilities	Change in net income attributed to shareholders
<b>Assumptions:</b>		
Lapses and policyholder behaviour		
U.S. Insurance premium persistency update	\$ 320	\$ (208)
Insurance lapse updates	472	(233)
Variable annuity lapse update	101	(80)
U.S. Long-Term Care triennial review	18	(12)
Segregated fund parameters update	(220)	203
Other updates	257	(159)
<b>Net impact</b>	<b>\$ 948</b>	<b>\$ (489)</b>

### (i) Insurance contracts contractual obligations

Insurance contracts give rise to obligations fixed by agreement. As at December 31, 2014, the Company's contractual obligations and commitments relating to insurance contracts are as follows.

Payments due by period	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Insurance contract liabilities <sup>(1)</sup>	<b>\$ 8,701</b>	<b>\$ 9,512</b>	<b>\$ 13,229</b>	<b>\$ 523,242</b>	<b>\$ 554,684</b>

<sup>(1)</sup> Insurance contract liability cash flows include estimates related to the timing and payment of death and disability claims, policy surrenders, policy maturities, annuity payments, minimum guarantees on segregated fund products, policyholder dividends, commissions and premium taxes offset by contractual future premiums on in-force contracts. These estimated cash flows are based on the best estimate assumptions used in the determination of insurance contract liabilities. These amounts are undiscounted and reflect recoveries from reinsurance agreements. Due to the use of assumptions, actual cash flows may differ from these estimates. Cash flows include embedded derivatives measured separately at fair value.

### (j) Gross claims and benefits

The following table presents a breakdown of gross claims and benefits.

For the years ended December 31,	2014	2013
Death, disability and other claims	<b>\$ 10,878</b>	\$ 10,005
Maturity and surrender benefits	<b>5,759</b>	4,683
Annuity payments	<b>3,370</b>	3,504
Policyholder dividends and experience rating refunds	<b>1,047</b>	1,103
Net transfers from segregated funds	<b>(602)</b>	(624)
<b>Total</b>	<b>\$ 20,452</b>	\$ 18,671

## Note 9 Investment Contract Liabilities

Investment contract liabilities are contractual obligations made by the Company that do not contain significant insurance risk and are measured either at fair value or at amortized cost.

### (a) Investment contract liabilities measured at fair value

Investment contract liabilities measured at fair value comprise certain investment savings and pension products sold primarily in Hong Kong and China. Carrying value of investment contract liabilities measured at fair value as at December 31, 2014 was \$680 (2013 – \$671).

The change in investment contract liabilities measured at fair value was a result of the following.

For the years ended December 31,	2014	2013
Balance, January 1	<b>\$ 671</b>	\$ 649
New policies	<b>53</b>	1
Changes in market conditions	<b>2</b>	1
Redemptions, surrenders and maturities	<b>(104)</b>	(23)
Impact of changes in foreign exchange rates	<b>58</b>	43
<b>Balance, December 31</b>	<b>\$ 680</b>	\$ 671

## (b) Investment contract liabilities measured at amortized cost

Investment contract liabilities measured at amortized cost comprise funding agreements issued by JHUSA to JHGF II and several fixed annuity products sold in Canada and the U.S. Fixed annuity products considered investment contracts are those that provide guaranteed income payments for a contractually determined period of time and are not contingent on survivorship.

Investment contract liabilities measured at amortized cost are shown below. The fair value associated with these contracts is also shown for comparative purposes.

As at December 31,	2014		2013	
	Amortized cost	Fair value	Amortized cost	Fair value
Funding agreements issued by JHUSA to JHGF II	\$ 349	\$ 349	\$ 355	\$ 355
U.S. fixed annuity products	1,280	1,427	1,210	1,234
Canadian fixed annuity products	335	354	288	307
<b>Investment contract liabilities</b>	<b>\$ 1,964</b>	<b>\$ 2,130</b>	<b>\$ 1,853</b>	<b>\$ 1,896</b>

The change in investment contract liabilities measured at amortized cost was a result of the following business activities.

For the years ended December 31,	2014	2013
Balance, January 1	\$ 1,853	\$ 1,771
New policy deposits	86	96
Interest	70	69
Withdrawals	(190)	(197)
Fees	(1)	–
Other	8	10
Impact of changes in foreign exchange rates	138	104
<b>Balance, December 31</b>	<b>\$ 1,964</b>	<b>\$ 1,853</b>

Medium-term notes offer a specified guaranteed fixed or floating rate of return based on external market indices and are comprised of the following contractual terms.

As at December 31,	Issue date	Maturity date	2014	2013
			Carrying value	Carrying value
Funding agreements issued by JHUSA to JHGF II:				
4.670% HKD Funding agreement	March 16, 2004	March 17, 2014	\$ –	\$ 34
5.250% USD Funding agreement	February 18, 2003	February 25, 2015	349	321
<b>Total carrying value</b>			<b>\$ 349</b>	<b>\$ 355</b>
<b>Fair value</b>			<b>\$ 349</b>	<b>\$ 355</b>

The carrying value of the funding agreements issued by JHUSA to JHGF II is amortized at the effective interest rates which exactly discount the contractual cash flows to the net carrying amount of the liabilities at the date of issue.

The fair value of the funding agreements issued by JHUSA to JHGF II is determined using a discounted cash flow approach based on current market interest rates adjusted for the Company's own credit standing.

The carrying value of fixed annuity products is amortized at a rate that exactly discounts the projected actual cash flows to the net carrying amount of the liability at the date of issue.

The fair value of fixed annuity products is determined by projecting cash flows according to the contract terms and discounting the cash flows at current market rates adjusted for the Company's own credit standing. All investment contracts were categorized in Level 2 of the fair value hierarchy (2013 – Level 2).

## (c) Investment contracts contractual obligations

Investment contracts give rise to obligations fixed by agreement. As at December 31, 2014, the Company's contractual obligations and commitments relating to investment contracts are as follows.

Payments due by period	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Investment contract liabilities <sup>(1)</sup>	\$ 564	\$ 395	\$ 368	\$ 2,983	\$ 4,310

<sup>(1)</sup> Due to the nature of the products, the timing of net cash flows may be before contract maturity. Cash flows are undiscounted.

## Note 10 Risk Management

The Company's policies and procedures for managing risk related to financial instruments can be found in the "Risk Management and Risk Factors" section of the Company's 2014 MD&A for the year ended December 31, 2014. Specifically, these disclosures are included in "Market Risk" and "Liquidity Risk" in this section. These disclosures are in accordance with IFRS 7 "Financial Instruments: Disclosures" and therefore, only the shaded text and tables form an integral part of these Consolidated Financial Statements.

### (a) Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a borrower, or counterparty, to fulfill its payment obligations. Worsening regional and global economic conditions could result in defaults or downgrades and could lead to increased provisions or impairments related to the Company's general fund invested assets, derivative financial instruments and reinsurance and an increase in provisions for future credit impairments to be included in actuarial liabilities.

The Company's exposure to credit risk is managed through risk management policies and procedures which include a defined credit evaluation and adjudication process, delegated credit approval authorities and established exposure limits by borrower, corporate connection, credit rating, industry and geographic region. The Company measures derivative counterparty exposure as net potential credit exposure, which takes into consideration mark-to-market values of all transactions with each counterparty, net of any collateral held, and an allowance to reflect future potential exposure. Reinsurance counterparty exposure is measured reflecting the level of ceded liabilities.

The Company also ensures where warranted, that mortgages, private placements and loans to bank clients are secured by collateral, the nature of which depends on the credit risk of the counterparty.

An allowance for losses on loans is established when a loan becomes impaired. Provisions for loan losses are calculated to reduce the carrying value of the loans to estimated net realizable value. The establishment of such provisions takes into consideration normal historical credit loss levels and future expectations, with an allowance for adverse deviations. In addition, policy liabilities include general provisions for credit losses from future asset impairments. Impairments are identified through regular monitoring of all credit related exposures, considering such information as general market conditions, industry and borrower specific credit events and any other relevant trends or conditions. Allowance for losses on reinsurance contracts is established when a reinsurance counterparty becomes unable or unwilling to fulfill its contractual obligations. The allowance for loss is based on current recoverable amounts and ceded policy liabilities.

Credit risk associated with derivative counterparties is discussed in note 10(d) and credit risk associated with reinsurance counterparties is discussed in note 10(i).

### Credit exposure

The following table outlines the gross carrying amount of financial instruments subject to credit exposure, without taking into account any collateral held or other credit enhancements.

As at December 31,	2014	2013
Debt securities		
FVTPL	\$ 114,700	\$ 97,123
AFS	19,746	17,834
Mortgages	39,458	37,558
Private placements	23,284	21,015
Policy loans	7,876	7,370
Loans to bank clients	1,772	1,901
Derivative assets	19,315	9,673
Accrued investment income	2,003	1,813
Reinsurance assets	18,525	17,443
Other financial assets	3,307	2,916
<b>Total</b>	<b>\$ 249,986</b>	<b>\$ 214,646</b>

### Credit quality

The credit quality of commercial mortgages and private placements is assessed at least annually by using an internal rating based on regular monitoring of credit related exposures, considering both qualitative and quantitative factors.

A write-off is recorded when internal risk ratings indicate that a loss represents the most likely outcome. The assets are designated as non-accrual and an allowance is established based on an analysis of the security and repayment sources.

The following table summarizes the credit quality and carrying value of commercial mortgages and private placements.

As at December 31, 2014	AAA	AA	A	BBB	BB	B and lower	Total
<b>Commercial mortgages</b>							
Retail	\$ 130	\$ 815	\$ 3,354	\$ 2,050	\$ 6	\$ 4	\$ 6,359
Office	83	706	2,644	2,460	149	118	6,160
Multi-family residential	1,189	657	1,087	930	–	–	3,863
Industrial	38	267	693	1,080	27	22	2,127
Other	515	221	586	899	–	–	2,221
<b>Total commercial mortgages</b>	<b>\$ 1,955</b>	<b>\$ 2,666</b>	<b>\$ 8,364</b>	<b>\$ 7,419</b>	<b>\$ 182</b>	<b>\$ 144</b>	<b>\$ 20,730</b>
Agricultural mortgages	\$ –	\$ 189	\$ 238	\$ 522	\$ 160	\$ –	\$ 1,109
Private placements	985	3,195	6,565	10,244	1,269	1,026	23,284
<b>Total</b>	<b>\$ 2,940</b>	<b>\$ 6,050</b>	<b>\$ 15,167</b>	<b>\$ 18,185</b>	<b>\$ 1,611</b>	<b>\$ 1,170</b>	<b>\$ 45,123</b>

As at December 31, 2013

<b>Commercial mortgages</b>							
Retail	\$ 136	\$ 704	\$ 2,744	\$ 2,277	\$ 29	\$ 11	\$ 5,901
Office	90	628	2,204	2,376	221	128	5,647
Multi-family residential	1,159	594	747	1,033	–	–	3,533
Industrial	52	269	645	1,059	55	23	2,103
Other	582	198	425	894	42	2	2,143
<b>Total commercial mortgages</b>	<b>\$ 2,019</b>	<b>\$ 2,393</b>	<b>\$ 6,765</b>	<b>\$ 7,639</b>	<b>\$ 347</b>	<b>\$ 164</b>	<b>\$ 19,327</b>
Agricultural mortgages	\$ –	\$ 170	\$ 253	\$ 657	\$ 153	\$ –	\$ 1,233
Private placements	791	3,200	5,845	8,949	1,112	1,118	21,015
<b>Total</b>	<b>\$ 2,810</b>	<b>\$ 5,763</b>	<b>\$ 12,863</b>	<b>\$ 17,245</b>	<b>\$ 1,612</b>	<b>\$ 1,282</b>	<b>\$ 41,575</b>

The credit quality of residential mortgages and loans to bank clients is assessed at least annually using the key credit quality indicator of whether the loan is performing or non-performing.

Full or partial write-offs of loans are recorded when management believes there is no realistic prospect of full recovery. Write-offs, net of recoveries, are deducted from the allowance for credit losses. All impairments are captured in the allowance for credit losses.

The following table summarizes the carrying value of residential mortgages and loans to bank clients.

As at December 31,	2014			2013		
	Insured	Uninsured	Total	Insured	Uninsured	Total
<b>Residential mortgages</b>						
Performing	\$ 8,577	\$ 9,024	\$ 17,601	\$ 9,139	\$ 7,828	\$ 16,967
Non-performing <sup>(1)</sup>	5	13	18	17	14	31
<b>Loans to bank clients</b>						
Performing	n/a	1,771	1,771	n/a	1,901	1,901
Non-performing <sup>(1)</sup>	n/a	1	1	n/a	–	–
<b>Total</b>	<b>\$ 8,582</b>	<b>\$ 10,809</b>	<b>\$ 19,391</b>	<b>\$ 9,156</b>	<b>\$ 9,743</b>	<b>\$ 18,899</b>

<sup>(1)</sup> Non-performing refers to assets that are 90 days or more past due if uninsured and 365 days or more if insured.

The carrying value of government-insured mortgages was 25% of the total mortgage portfolio as at December 31, 2014 (2013 – 28%). The majority of these insured mortgages are residential loans as classified in the table above.

### Past due or credit impaired financial assets

The Company provides for credit risk by establishing allowances against the carrying value of impaired loans and recognizing impairment losses on AFS debt securities. In addition, the Company reports as an impairment certain declines in the fair value of debt securities designated as FVTPL which it deems represent an impairment.

The following table summarizes the carrying value or impaired value, in the case of impaired debt securities, of the Company's financial assets that are considered past due or impaired.

	Past due but not impaired			Total impaired
	Less than 90 days	90 days and greater	Total	
<b>As at December 31, 2014</b>				
Debt securities				
FVTPL	\$ 7	\$ –	\$ 7	\$ 48
AFS	–	6	6	10
Private placements	88	5	93	117
Mortgages and loans to bank clients	53	25	78	48
Other financial assets	35	18	53	1
<b>Total</b>	<b>\$ 183</b>	<b>\$ 54</b>	<b>\$ 237</b>	<b>\$ 224</b>
<b>As at December 31, 2013</b>				
Debt securities				
FVTPL	\$ –	\$ –	\$ –	\$ 127
AFS	–	–	–	12
Private placements	53	–	53	115
Mortgages and loans to bank clients	55	31	86	53
Other financial assets	7	31	38	–
<b>Total</b>	<b>\$ 115</b>	<b>\$ 62</b>	<b>\$ 177</b>	<b>\$ 307</b>

The following table summarizes the Company's loans that are considered impaired.

	Gross carrying value	Allowances for losses	Net carrying value
<b>As at December 31, 2014</b>			
Private placements	\$ 189	\$ 72	\$ 117
Mortgages and loans to bank clients	85	37	48
<b>Total</b>	<b>\$ 274</b>	<b>\$ 109</b>	<b>\$ 165</b>
<b>As at December 31, 2013</b>			
Private placements	\$ 196	\$ 81	\$ 115
Mortgages and loans to bank clients	78	25	53
<b>Total</b>	<b>\$ 274</b>	<b>\$ 106</b>	<b>\$ 168</b>

## Allowance for loan losses

For the years ended December 31,	2014			2013		
	Private placements	Mortgages and loans to bank clients	Total	Private placements	Mortgages and loans to bank clients	Total
<b>Balance, January 1</b>	<b>\$ 81</b>	<b>\$ 25</b>	<b>\$ 106</b>	\$ 35	\$ 54	\$ 89
Provisions	24	24	48	55	22	77
Recoveries	(15)	(8)	(23)	–	(17)	(17)
Write-offs <sup>(1)</sup>	(18)	(4)	(22)	(9)	(34)	(43)
<b>Balance, December 31</b>	<b>\$ 72</b>	<b>\$ 37</b>	<b>\$ 109</b>	\$ 81	\$ 25	\$ 106

<sup>(1)</sup> Includes disposals and impact of changes in foreign exchange rates.

## (b) Securities lending, repurchase and reverse repurchase transactions

The Company engages in securities lending to generate fee income. Collateral, which exceeds the market value of the loaned securities, is retained by the Company until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the underlying loaned securities fluctuates. As at December 31, 2014, the Company had loaned securities (which are included in invested assets) with a market value of \$1,004 (2013 – \$1,422). The Company holds collateral with a current market value that exceeds the value of securities lent in all cases.

The Company engages in reverse repurchase transactions to generate fee income and to take possession of securities to cover short positions in similar instruments and undertakes repurchase transactions for short-term funding purposes. As at December 31, 2014, the Company had engaged in reverse repurchase transactions of \$1,183 (2013 – \$6) which are recorded as short-term receivables. There were outstanding repurchase agreements of \$481 as at December 31, 2014 (2013 – \$200) which are recorded as payables.



### (c) Credit default swaps

The Company replicates exposure to specific issuers by selling credit protection via credit default swaps (“CDSs”) in order to complement its cash debt securities investing. The Company will not write CDS protection in excess of its government debt securities holdings. A CDS is a derivative instrument representing an agreement between two parties to exchange the credit risk of a single specified entity or an index based on the credit risk of a group of entities (all commonly referred to as the “reference entity” or a portfolio of “reference entities”), in return for a periodic premium. CDS contracts typically have a five-year term.

The following table provides details of the credit default swap protection sold by type of contract and external agency rating for the underlying reference security.

	Notional amount <sup>(2)</sup>	Fair value	Weighted average maturity (in years) <sup>(3)</sup>
<b>As at December 31, 2014</b>			
<b>Single name CDSs<sup>(1)</sup></b>			
Corporate debt			
AAA	\$ 41	\$ 1	2
AA	110	2	2
A	263	5	3
BBB	63	1	5
Total single name CDSs	\$ 477	\$ 9	3
<b>Total CDS protection sold</b>	<b>\$ 477</b>	<b>\$ 9</b>	<b>3</b>

### As at December 31, 2013

<b>Single name CDSs<sup>(1)</sup></b>			
Corporate debt			
AAA	\$ 37	\$ 1	3
AA	101	3	3
A	197	5	3
Total single name CDSs	\$ 335	\$ 9	3
<b>Total CDS protection sold</b>	<b>\$ 335</b>	<b>\$ 9</b>	<b>3</b>

<sup>(1)</sup> The rating agency designations are based on S&P where available followed by Moody's, DBRS, and Fitch. If no rating is available from a rating agency, then an internally developed rating is used.

<sup>(2)</sup> Notional amounts represent the maximum future payments the Company would have to pay its counterparties assuming a default of the underlying credit and zero recovery on the underlying issuer obligation.

<sup>(3)</sup> The weighted average maturity of the CDS is weighted based on notional amounts.

The Company holds no purchased credit protection as at December 31, 2014 and 2013.

### (d) Derivatives

The Company's point-in-time exposure to losses related to the credit risk of the derivative transactions counterparty of is limited to the amount of any net gains that may have accrued with a particular counterparty. Gross derivative counterparty exposure is measured as the total fair value (including accrued interest) of all outstanding contracts in a gain position excluding any offsetting contracts in a loss position and the impact of collateral on hand. The Company seeks to limit the risk of credit losses from derivative counterparties by: establishing a minimum acceptable counterparty credit rating of A- from external rating agencies; entering into master netting arrangements which permit the offsetting of contracts in a loss position in the case of a counterparty default; and entering into Credit Support Annex agreements, whereby collateral must be provided when the exposure exceeds a certain threshold. All contracts are held with counterparties rated A- or higher. As at December 31, 2014, the percentage of the Company's derivative exposure which was with counterparties rated AA- or higher amounted to 15 per cent (2013 – 12 per cent). The Company's exposure to credit risk was mitigated by \$10,400 fair value of collateral held as security as at December 31, 2014 (2013 – \$3,656).

As at December 31, 2014, the largest single counterparty exposure, without taking into account the impact of master netting agreements or the benefit of collateral held, was \$3,436 (2013 – \$2,138). The net exposure to this counterparty, after taking into account master netting agreements and the fair value of collateral held, was \$5 (2013 – nil). As at December 31, 2014, the total maximum credit exposure related to derivatives across all counterparties, without taking into account the impact of master netting agreements and the benefit of collateral held, was \$20,126 (2013 – \$10,021).

### (e) Offsetting financial assets and financial liabilities

Certain derivatives, securities lending and purchase agreements have conditional offset rights. The Company does not offset these financial instruments in the Consolidated Statements of Financial Position, as the rights of offset are conditional.

In the case of derivatives, collateral is collected from and pledged to counterparties and clearing houses to manage credit risk exposure in accordance with Credit Support Annexes to swap agreements and clearing agreements. Under master netting agreements, the Company has a right of offset in the event of default, insolvency, bankruptcy or other early termination.

In the case of reverse repurchase and repurchase transactions, additional collateral may be collected from or pledged to counterparties to manage credit exposure according to bilateral reverse repurchase or repurchase agreements. In the event of default by a counterparty, the Company is entitled to liquidate the assets the Company holds as collateral to offset against obligations to the same counterparty.

The following table presents the effect of conditional master netting and similar arrangements. Similar arrangements may include global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral.

	Related amounts not set off in the Consolidated Statements of Financial Position				
	Gross amounts of financial instruments presented in the Consolidated Statements of Financial Position <sup>(1)</sup>	Amounts subject to an enforceable master netting arrangement or similar agreements	Financial and cash collateral pledged (received) <sup>(2)</sup>	Net amount including financing trusts <sup>(3)</sup>	Net amounts excluding financing trusts
<b>As at December 31, 2014</b>					
<b>Financial assets</b>					
Derivative assets	\$ 20,126	\$ (9,688)	\$ (10,161)	\$ 277	\$ 277
Securities lending	1,004	–	(1,004)	–	–
Reverse repurchase agreements	1,183	(481)	(702)	–	–
<b>Total financial assets</b>	<b>\$ 22,313</b>	<b>\$ (10,169)</b>	<b>\$ (11,867)</b>	<b>\$ 277</b>	<b>\$ 277</b>
<b>Financial liabilities</b>					
Derivative liabilities	\$ (11,996)	\$ 9,688	\$ 2,044	\$ (264)	\$ (34)
Repurchase agreements	(481)	481	–	–	–
<b>Total financial liabilities</b>	<b>\$ (12,477)</b>	<b>\$ 10,169</b>	<b>\$ 2,044</b>	<b>\$ (264)</b>	<b>\$ (34)</b>
<b>As at December 31, 2013</b>					
<b>Financial assets</b>					
Derivative assets	\$ 10,021	\$ (6,734)	\$ (3,267)	\$ 20	\$ 20
Securities lending	1,422	–	(1,422)	–	–
Reverse repurchase agreements	6	–	(6)	–	–
<b>Total financial assets</b>	<b>\$ 11,449</b>	<b>\$ (6,734)</b>	<b>\$ (4,695)</b>	<b>\$ 20</b>	<b>\$ 20</b>
<b>Financial liabilities</b>					
Derivative liabilities	\$ (9,162)	\$ 6,734	\$ 2,250	\$ (178)	\$ (39)
Repurchase agreements	(200)	–	200	–	–
<b>Total financial liabilities</b>	<b>\$ (9,362)</b>	<b>\$ 6,734</b>	<b>\$ 2,450</b>	<b>\$ (178)</b>	<b>\$ (39)</b>

<sup>(1)</sup> Financial assets and liabilities in the table above include accrued interest of \$814 and \$713, respectively (2013 – \$352 and \$233, respectively).

<sup>(2)</sup> Financial and cash collateral excludes over-collateralization. As at December 31, 2014, the Company was over-collateralized on OTC derivative assets, OTC derivative liabilities, securities lending and reverse purchase agreements and repurchase agreements in the amounts of \$239, \$280, \$55 and nil, respectively (2013 – \$390, \$297, \$75 and nil, respectively). As at December 31, 2014, collateral pledged (received) does not include collateral in transit on OTC instruments or include initial margin on exchange traded contracts or cleared contracts.

<sup>(3)</sup> The net amount includes derivative contracts entered into between the Company and its financing trusts which it does not consolidate. The Company does not exchange collateral on derivative contracts entered into with these trusts.

## (f) Risk concentrations

The Company establishes enterprise-wide investment portfolio level targets and limits with the objective of ensuring that portfolios are diversified across asset classes and individual investment risks. The Company monitors actual investment positions and risk exposures for concentration risk and reports such findings to the Executive Risk Committee and the Risk Committee of the Board of Directors.

<b>As at December 31,</b>	<b>2014</b>	<b>2013</b>
Debt securities and private placements rated as investment grade BBB or higher <sup>(1)</sup>	<b>97%</b>	96%
Government debt securities as a per cent of total debt securities	<b>43%</b>	44%
Government private placements as a per cent of total private placements	<b>10%</b>	10%
Highest exposure to a single non-government debt security and private placement issuer	<b>\$ 1,017</b>	\$ 643
Largest single issuer as a per cent of the total equity portfolio	<b>2%</b>	2%
Income producing commercial office properties (2014 – 70% of real estate, 2013 – 74%)	<b>\$ 7,077</b>	\$ 7,149
Largest concentration of mortgages and real estate <sup>(2)</sup> – Ontario Canada (2014 – 26%, 2013 – 26%)	<b>\$ 12,809</b>	\$ 12,324

<sup>(1)</sup> Investment grade debt securities and private placements include 32% rated A, 20% rated AA and 25% rated AAA (2013 – 31%, 18% and 26%) based on external ratings where available.

<sup>(2)</sup> Mortgages and real estate are diversified geographically and by property type.

The following table shows the distribution of the debt securities and private placements portfolio by sector and industry.

### Debt securities and private placements

As at December 31,	2014		2013	
	Carrying value	% of total	Carrying value	% of total
Government and agency	\$ 60,195	38	\$ 52,510	39
Utilities	28,826	18	22,612	17
Financial	21,684	14	20,150	15
Energy	11,979	8	10,142	7
Consumer (non-cyclical)	9,190	6	7,695	6
Industrial	8,537	5	7,239	5
Basic materials	4,015	3	3,704	3
Consumer (cyclical)	3,739	2	3,181	2
Securitized	3,439	2	3,441	3
Telecommunications	2,577	2	2,411	2
Technology	1,800	1	1,493	1
Media and internet	1,329	1	1,075	–
Diversified and miscellaneous	420	–	319	–
<b>Total</b>	<b>\$ 157,730</b>	<b>100</b>	<b>\$ 135,972</b>	<b>100</b>

### (g) Insurance risk

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to mortality and morbidity claims, policyholder behaviour and expenses. A variety of assumptions are made related to the future level of claims, policyholder behaviour, expenses and sales levels when products are designed and priced as well as in the determination of insurance contract liabilities. Assumptions for future claims are generally based on Company and industry experience and assumptions for policyholder behaviours are generally based on Company experience. Such assumptions require a significant amount of professional judgment and, therefore, actual experience may be materially different than the assumptions made by the Company. Claims may be impacted by the unusual onset of disease or illness, natural disasters, large-scale man-made disasters and acts of terrorism. Policyholder premium payment patterns, policy renewal, withdrawal and surrender activity is influenced by many factors including market and general economic conditions, and the availability and price of other products in the marketplace.

The Company manages insurance risk through global policies, standards and best practices with respect to product design, pricing, underwriting and claim adjudication, and a global life underwriting manual. Each business unit has underwriting procedures, including criteria for approval of risks and claims adjudication procedures. The Company has a global retention limit of US\$30 and US\$35, respectively, for individual and survivorship life insurance. Lower limits are applied in some markets and jurisdictions. The Company further reduces exposure to claims concentrations by applying geographical aggregate retention limits for certain covers.

### (h) Concentration risk

The geographic concentration of the Company's insurance and investment contract liabilities, including embedded derivatives, is shown below. The disclosure is based on the countries in which the business is written.

As at December 31, 2014	Gross liabilities	Reinsurance assets	Net liabilities
U.S. and Canada	\$ 193,554	\$ (18,436)	\$ 175,118
Asia and Other	38,910	(89)	38,821
<b>Total</b>	<b>\$ 232,464</b>	<b>\$ (18,525)</b>	<b>\$ 213,939</b>

### As at December 31, 2013

U.S. and Canada	\$ 164,352	\$ (17,344)	\$ 147,008
Asia and Other	31,594	(99)	31,495
<b>Total</b>	<b>\$ 195,946</b>	<b>\$ (17,443)</b>	<b>\$ 178,503</b>

### (i) Reinsurance risk

In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. In order to minimize losses from reinsurer insolvency, the Company monitors the concentration of credit risk both geographically and with any one reinsurer. In addition, the Company selects reinsurers with high credit ratings.

As at December 31, 2014, the Company had \$18,525 (2013 – \$17,443) of reinsurance assets. Of this 89 per cent (2013 – 90 per cent) were ceded to reinsurers with Standard and Poor's ratings of A- or above. The Company's exposure to credit risk was mitigated by \$8,269 fair value of collateral held as security as at December 31, 2014 (2013 – \$8,078). Net exposure after taking into account offsetting agreements and the benefit of the fair value of collateral held was \$10,256 as at December 31, 2014 (2013 – \$9,365).

## Note 11 Long-Term Debt

### (a) Carrying value of long-term debt

As at December 31,	Maturity date	Par value	2014	2013
4.90% Senior notes <sup>(1)</sup>	September 17, 2020	US\$ 500	\$ 577	\$ 529
7.768% Medium-term notes <sup>(2)</sup>	April 8, 2019	\$ 600	599	598
5.505% Medium-term notes <sup>(2)</sup>	June 26, 2018	\$ 400	399	399
Promissory note to Manulife Finance (Delaware), L.P. ("MFLP") <sup>(3)</sup>	December 15, 2016	\$ 150	150	150
3.40% Senior notes <sup>(1)</sup>	September 17, 2015	US\$ 600	695	637
4.079% Medium-term notes <sup>(2)</sup>	August 20, 2015	\$ 900	900	899
5.161% Medium-term notes <sup>(2)</sup>	June 26, 2015	\$ 550	550	549
4.896% Medium-term notes <sup>(2),(4)</sup>	June 2, 2014	\$ 1,000	–	999
Other notes payable	n/a	n/a	15	15
<b>Total</b>			<b>\$ 3,885</b>	<b>\$ 4,775</b>

<sup>(1)</sup> US\$ senior notes have been designated as a hedge of the Company's net investment in its U.S. operations to reduce the earnings volatility that would otherwise arise from the translation of the U.S. denominated debt into Canadian dollars. The senior notes may be redeemed in whole or in part at the option of MFC at any time, at a redemption price equal to the greater of par and a price based on the yield of a corresponding U.S. Treasury bond plus a specified number of basis points. The number of basis points is 30 basis points for the 3.40% senior notes and 35 basis points for the 4.90% senior notes.

<sup>(2)</sup> The medium-term notes may be redeemed in whole or in part at the option of MFC at any time, at a redemption price equal to the greater of par and price based on the yield of a corresponding Government of Canada bond plus a specified number of basis points. The numbers of basis points for the 4.079%, 4.896%, 7.768%, 5.161% and 5.505% medium-term notes are 46, 57.5, 125, 36 and 39, respectively.

<sup>(3)</sup> The note bears interest at the 90-day Bankers' Acceptance rate plus 2.33%, payable quarterly.

<sup>(4)</sup> On June 2, 2014, the 4.896% medium-term notes which were issued on June 2, 2009 matured.

The cash amount of interest paid during the year ended December 31, 2014 was \$214 (2013 – \$243). Issue costs are amortized over the term of the debt.

### (b) Fair value measurement

Fair value of the long-term debt is determined using quoted market prices where available (Level 1). When quoted market prices are not available, fair value is determined with reference to quoted prices of a debt instrument with similar characteristics or estimated using discounted cash flows using observable market rates (Level 2).

Long-term debt is measured at amortized cost in the Consolidated Statements of Financial Position. As at December 31, 2014, the fair value of long-term debt was \$4,162 (2013 – \$5,105). Long-term debt was categorized in Level 2 of the fair value hierarchy (2013 – Level 2).

### (c) Aggregate maturities of long-term debt

As at December 31,	2014	2013
Less than one year	\$ 2,145	\$ 1,000
One to two years	150	2,085
Two to three years	14	150
Three to four years	399	14
Four to five years	599	399
Greater than five years	578	1,127
<b>Total</b>	<b>\$ 3,885</b>	<b>\$ 4,775</b>

## Note 12 Liabilities for Preferred Shares and Capital Instruments

### (a) Carrying value of liabilities for preferred shares and capital instruments

As at December 31,	Issuance date	Maturity date	Par value	2014	2013
Senior debenture notes – 7.535% fixed/floating <sup>(1)</sup>	July 10, 2009	December 31, 2108	\$ 1,000	\$ 1,000	\$ 1,000
Subordinated note – floating <sup>(2)</sup>	December 14, 2006	December 15, 2036	\$ 650	647	647
Subordinated debentures – 2.64% fixed/floating <sup>(3)</sup>	December 1, 2014	January 15, 2025	\$ 500	498	–
Subordinated debentures – 2.811% fixed/floating <sup>(4)</sup>	February 21, 2014	February 21, 2024	\$ 500	498	–
Surplus notes – 7.375% U.S. dollar <sup>(5)</sup>	February 25, 1994	February 15, 2024	US\$ 450	545	501
Subordinated debentures – 2.926% fixed/floating <sup>(6)</sup>	November 29, 2013	November 29, 2023	\$ 250	249	249
Subordinated debentures – 2.819% fixed/floating <sup>(7)</sup>	February 25, 2013	February 26, 2023	\$ 200	199	199
Subordinated debentures – 4.165% fixed/floating <sup>(8)</sup>	February 17, 2012	June 1, 2022	\$ 500	498	498
Subordinated note – floating <sup>(9)</sup>	December 14, 2006	December 15, 2021	\$ 400	399	399
Subordinated debentures – 4.21% fixed/floating <sup>(10)</sup>	November 18, 2011	November 18, 2021	\$ 550	549	548
Preferred shares – Class A Shares, Series 1 <sup>(11)</sup>	June 19, 2003	n/a	\$ 350	344	344
<b>Total</b>				<b>\$ 5,426</b>	<b>\$ 4,385</b>

<sup>(1)</sup> Issued by MLI to Manulife Financial Capital Trust II, interest is payable semi-annually. On December 31, 2019 and on every fifth anniversary after December 31, 2019 (the "Interest Reset Date"), the rate of interest will be reset to the yield on five-year Government of Canada bonds plus 5.2%. On or after December 31, 2014, with regulatory approval, MLI may redeem the debenture, in whole or in part, at the greater of par or the fair value of the debt based on the yield on uncalled Government of Canada bonds to the next Interest Reset Date plus (a) 1.0325% if the redemption date is prior to December 31, 2019, or (b) 2.065% if the redemption date is after December 31, 2019, together with accrued and unpaid interest.

- (2) Issued by Manulife Holdings (Delaware) LLC (“MHDLL”), now John Hancock Financial Corporation (“JHFC”), a wholly owned subsidiary of MFC, to Manulife Finance (Delaware) LLC (“MFLLC”), a subsidiary of Manulife Financial (Delaware) L.P. (“MFLP”). MFLP and its subsidiaries are non-consolidated related parties to the Company. The note bears interest at the 90-day Bankers’ Acceptance rate plus 0.72% and is payable semi-annually. With regulatory approval, JHFC may redeem the note, in whole or in part, at any time, at par, together with accrued and unpaid interest.
- (3) Issued by MLI, interest is payable semi-annually. After January 15, 2020, the interest rate is the 90-day Bankers’ Acceptance rate plus 0.73% and is payable quarterly. With regulatory approval, MLI may redeem the debentures, in whole or in part, on or after January 15, 2020, at par, together with accrued and unpaid interest.
- (4) Issued by MLI, interest is payable semi-annually. After February 21, 2019, the interest rate is the 90-day Bankers’ Acceptance rate plus 0.80% and is payable quarterly. With regulatory approval, MLI may redeem the debentures, in whole or in part, on or after February 21, 2019, at par, together with accrued and unpaid interest.
- (5) Issued by John Hancock Mutual Life Insurance Company, now John Hancock Life Insurance Company (U.S.A.). Any payment of interest or principal on the surplus notes requires prior approval from the Commissioner of the Office of Financial and Insurance Regulation of the State of Michigan. The carrying value of the surplus notes reflects an unamortized fair value increment of US\$32 (2013 – US\$34), which arose as a result of the acquisition of John Hancock Financial Services, Inc. The amortization of the fair value adjustment is recorded in interest expense.
- (6) Issued by MLI, interest is payable semi-annually. After November 29, 2018, the interest rate is the 90-day Bankers’ Acceptance rate plus 0.85% and is payable quarterly. With regulatory approval, MLI may redeem the debentures, in whole or in part, on or after November 29, 2018, at par, together with accrued and unpaid interest.
- (7) Issued by MLI, interest is payable semi-annually. After February 26, 2018, the interest rate is the 90-day Bankers’ Acceptance rate plus 0.95% and is payable quarterly. With regulatory approval, MLI may redeem the debentures, in whole or in part, on or after February 26, 2018, at par, together with accrued and unpaid interest.
- (8) Issued by MLI, interest is payable semi-annually. After June 1, 2017, the interest rate is the 90-day Bankers’ Acceptance rate plus 2.45% and is payable quarterly. With regulatory approval, MLI may redeem the debentures, in whole or in part, on or after June 1, 2017, at par, together with accrued and unpaid interest.
- (9) Issued by MHDLL, now JHFC, a wholly owned subsidiary of MFC, to MFLLC, a subsidiary of MFLP. MFLP and its subsidiaries are non-consolidated related parties to the Company. The original note bore interest at 90-day Bankers’ Acceptance rate plus 0.552% and was payable semi-annually. With regulatory approval, JHFC may redeem the note, in whole or in part, at any time, at par, together with accrued and unpaid interest. On March 28, 2014, MHDLL and JHFC agreed to extend the maturity of the subordinated note to December 15, 2021 from January 15, 2019, while increasing the interest to 3-month Bankers’ Acceptance rate plus 0.74%.
- (10) Issued by MLI, interest is payable semi-annually. After November 18, 2016, the interest rate is the 90-day Bankers’ Acceptance rate plus 2.65% and is payable quarterly. With regulatory approval, MLI may redeem the debentures, in whole or in part, on or after November 18, 2016, at par, together with accrued and unpaid interest.
- (11) The 14 million Class A Shares, Series 1 (“Series 1 Preferred Shares”) were issued by MFC at a price of \$25.00 per share and are non-voting and are entitled to non-cumulative preferential cash dividends payable quarterly, if and when declared, at a per annum rate of 4.10%. With regulatory approval, the Series 1 Preferred Shares may be redeemed by MFC, in whole or in part, at declining premiums that range from \$1.25 to nil per Series 1 Preferred Share, by either payment of cash or the issuance of MFC common shares. On or after December 19, 2015, the Series 1 Preferred Shares will be convertible at the option of the holder into MFC common shares, the number of which is determined by a prescribed formula, and is subject to the right of MFC prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares. The prescribed formula is the face amount of the Series 1 Preferred Shares divided by the greater of \$2.00 and 95% of the then market price of MFC common shares.

## (b) Fair value measurement

Fair value of preferred shares and capital instruments is determined using quoted market prices where available (Level 1). When quoted market prices are not available, fair value is determined with reference to quoted prices of a debt instrument with similar characteristics or estimated using discounted cash flows using observable market rates (Level 2).

The following table discloses fair value information categorized by the fair value hierarchy. These amounts are measured at amortized cost in the Consolidated Statements of Financial Position.

As at December 31,	2014	2013
Fair value hierarchy:		
Level 1	\$ 355	\$ 358
Level 2	5,390	4,367
<b>Total fair value</b>	<b>\$ 5,745</b>	<b>\$ 4,725</b>

## Note 13 Liabilities for Subscription Receipts

On September 3, 2014, MLI entered into an agreement with Standard Life Oversea Holdings Limited, a subsidiary of Standard Life plc, to acquire the shares of Standard Life Financial Inc. and of Standard Life Investments Inc., collectively the Canadian-based operations of Standard Life plc, for approximately \$4 billion in cash at closing, subject to certain adjustments and subject to certain regulatory and other approvals. All approvals were received by early 2015 and the transaction closed on January 30, 2015.

On September 15, 2014, as part of the financing of the transaction, MFC issued 105,647,334 subscription receipts through a combination of a public offering and a private placement with the Caisse de dépôt et placement du Québec. The public offering price was \$21.50 per subscription receipt and the private offering price was the public offering price less a \$0.48 private placement fee per subscription receipt for total gross proceeds of \$2.26 billion. The Caisse de dépôt et placement du Québec has agreed not to transfer any subscription receipts prior to closing of the acquisition. Issuance costs of approximately \$36 million pre-tax (\$26 million post-tax) were paid in 2014 and approximately \$28 million pre-tax (\$21 million post-tax) were paid at closing.

The net cash proceeds from the sale of the subscription receipts were held by an escrow agent, in a restricted account, until closing of the transaction on January 30, 2015. As at December 31, 2014, the escrow account was consolidated and included in invested assets.

Each subscription receipt entitles the holder to automatically receive, without payment of additional consideration or further action, one common share of the Company together with an amount equal to the per share dividends the Company declares on its common shares, if any, for record dates which occur in the period from September 15, 2014 up to January 29, 2015, net of any applicable withholding taxes. Dividends of 15.5 cents per common share were declared on November 13, 2014 for shares with a record date of November 25, 2014.

As at December 31, 2014	Public offering	Private placement	Total
Subscription receipts (number outstanding)	<b>81,860,464</b>	<b>23,786,870</b>	<b>105,647,334</b>
<b>Gross proceeds</b>	<b>\$ 1,760</b>	<b>\$ 500</b>	<b>\$ 2,260</b>
Interest earned on escrowed proceeds	5	2	7
Less issuance costs, net of tax	(47)	–	(47)
Less return of capital for dividends declared	(12)	(4)	(16)
Sub-total (carrying value of the common stock at close of the transaction)	<b>\$ 1,706</b>	<b>\$ 498</b>	<b>\$ 2,204</b>
Accrued payable for dividends declared	12	4	16
<b>Liabilities for subscription receipts<sup>(1)</sup></b>	<b>\$ 1,718</b>	<b>\$ 502</b>	<b>\$ 2,220</b>

<sup>(1)</sup> Fair value of the subscription receipts as at December 31, 2014 was \$2.3 billion.

## Note 14 Share Capital and Earnings Per Share

The authorized capital of MFC consists of:

- an unlimited number of common shares without nominal or par value; and
- an unlimited number of Class A, Class B and Class 1 preferred shares without nominal or par value, issuable in series.

### (a) Preferred shares

The changes in issued and outstanding preferred shares are as follows.

For the years ended December 31,	2014		2013	
	Number of shares (in millions)	Amount	Number of shares (in millions)	Amount
Balance, January 1	110	\$ 2,693	102	\$ 2,497
Issued, Class 1 shares, Series 13	–	–	8	200
Issued, Class 1 shares, Series 15	8	200	–	–
Issued, Class 1 shares, Series 17	14	350	–	–
Issued, Class 1 shares, Series 19	10	250	–	–
Redeemed, Class A shares, Series 4 <sup>(1)</sup>	(18)	(450)	–	–
Redeemed, Class 1 shares, Series 1 <sup>(2)</sup>	(14)	(350)	–	–
Par redemption value in excess of carrying value for preferred shares redeemed	–	16	–	–
Issuance costs, net of tax	–	(16)	–	(4)
<b>Balance, December 31</b>	<b>110</b>	<b>\$ 2,693</b>	<b>110</b>	<b>\$ 2,693</b>

<sup>(1)</sup> On June 19, 2014, MFC redeemed in full the \$450 of Class A Shares Series 4 at par.

<sup>(2)</sup> On September 19, 2014, MFC redeemed in full the \$350 of Class 1 Shares Series 1 at par.

Further information on the preferred shares outstanding is as follows.

As at December 31, 2014	Issue date	Annual dividend rate	Earliest redemption date <sup>(1)</sup>	Number of shares (in millions)	Face amount	Net amount <sup>(2)</sup>
Class A preferred shares						
Series 2	February 18, 2005	4.65%	n/a	14	\$ 350	\$ 344
Series 3	January 3, 2006	4.50%	March 19, 2015	12	300	294
Class 1 preferred shares						
Series 3 <sup>(3),(4)</sup>	March 11, 2011	4.20%	June 19, 2016	8	200	196
Series 5 <sup>(3),(4)</sup>	December 6, 2011	4.40%	December 19, 2016	8	200	195
Series 7 <sup>(3),(4)</sup>	February 22, 2012	4.60%	March 19, 2017	10	250	244
Series 9 <sup>(3),(4)</sup>	May 24, 2012	4.40%	September 19, 2017	10	250	244
Series 11 <sup>(3),(4)</sup>	December 4, 2012	4.00%	March 19, 2018	8	200	196
Series 13 <sup>(3),(4)</sup>	June 21, 2013	3.80%	September 19, 2018	8	200	196
Series 15 <sup>(3),(4),(5)</sup>	February 25, 2014	3.90%	June 19, 2019	8	200	195
Series 17 <sup>(3),(4),(6)</sup>	August 15, 2014	3.90%	December 19, 2019	14	350	343
Series 19 <sup>(3),(4),(7)</sup>	December 3, 2014	3.80%	March 19, 2020	10	250	246
<b>Total</b>				<b>110</b>	<b>\$ 2,750</b>	<b>\$ 2,693</b>

<sup>(1)</sup> Redemption of all preferred shares is subject to regulatory approval. With the exception of Class A Series 2 and Series 3 preferred shares, MFC may redeem each series in whole or in part at par, on the earliest redemption date or every five years thereafter. Class A Series 2 and Series 3 may be redeemed on or after the earliest redemption date in whole or in part for cash at declining premiums that range from \$1.00 to nil per share.

<sup>(2)</sup> Net of after-tax issuance costs.

<sup>(3)</sup> For all Class 1 preferred shares, on the earliest redemption date and every five-years thereafter, the annual dividend rate will be reset to the five year Government of Canada bond yield plus a yield specified for each series. The specified yield for Class 1 shares is: Series 3 – 1.41%, Series 5 – 2.90%, Series 7 – 3.13%, Series 9 – 2.86%, Series 11 – 2.61%, Series 13 – 2.22%, Series 15 – 2.16%, Series 17 – 2.36% and Series 19 – 2.30%.

<sup>(4)</sup> On the earliest date and every five years thereafter, Class 1 preferred shares are convertible at the option of the holder into a new series that is one number higher than their existing series, and the holders are entitled to non-cumulative preferential cash dividends, payable quarterly if and when declared by the Board of Directors, at a rate equal to the three-month Government of Canada treasury bill yield plus the rate specified in footnote 3 above.

<sup>(5)</sup> On February 25, 2014, MFC issued eight million of Class 1 Shares Series 15 at a price of \$25 per share for an aggregate amount of \$200.

<sup>(6)</sup> On August 15, 2014, MFC issued 14 million of Class 1 Shares Series 17 at a price of \$25 per share for an aggregate amount of \$350.

<sup>(7)</sup> On December 3, 2014, MFC issued 10 million of Class 1 Shares Series 19 at a price of \$25 per share for an aggregate amount of \$250.

## (b) Common shares

The changes in common shares issued and outstanding are as follows.

For the years ended December 31,	2014		2013	
	Number of shares (in millions)	Amount	Number of shares (in millions)	Amount
<b>Common shares</b>				
Balance, January 1	1,848	\$ 20,234	1,828	\$ 19,886
Issued on exercise of stock options and deferred share units	3	43	1	17
Issued under dividend reinvestment and share purchase plans	13	279	19	331
<b>Total</b>	<b>1,864</b>	<b>\$ 20,556</b>	<b>1,848</b>	<b>\$ 20,234</b>

## (c) Earnings per share

The following table presents basic and diluted earnings per share of the Company.

For the years ended December 31,	2014	2013
Basic earnings per common share <sup>(1)</sup>	\$ 1.82	\$ 1.63
Diluted earnings per common share <sup>(1)</sup>	1.80	1.62

<sup>(1)</sup> As at December 31, 2014, the subscription receipts were not included in the calculation of basic or diluted earnings per share as the conditions required to exchange the receipts to common shares were not met until January 30, 2015. Refer to note 13 for further details.

The following is a reconciliation of the denominator (number of shares) in the calculation of basic and diluted earnings per share.

For the years ended December 31,	2014	2013
Weighted average number of common shares (in millions)	1,857	1,836
Dilutive stock-based awards <sup>(1)</sup> (in millions)	7	4
Dilutive convertible instruments <sup>(2)</sup> (in millions)	17	22
<b>Weighted average number of diluted common shares (in millions)</b>	<b>1,881</b>	<b>1,862</b>

<sup>(1)</sup> The dilutive effect of stock-based awards was calculated using the treasury stock method. This method calculates the number of incremental shares by assuming the outstanding stock-based awards are (i) exercised and (ii) then reduced by the number of shares assumed to be repurchased from the issuance proceeds, using the average market price of MFC common shares for the year. Excluded from the calculation was an average of 31 million (2013 – 34 million) anti-dilutive stock-based awards.

<sup>(2)</sup> The holders of the convertible preferred shares have the right to redeem those instruments for MFC shares prior to the conversion date.

## (d) Quarterly dividend

On February 12, 2015, the Company's Board of Directors approved a quarterly dividend of \$0.155 per share on the common shares of MFC, payable on or after March 19, 2015 to shareholders of record at the close of business on February 25, 2015.

The Board also declared dividends on the following non-cumulative preferred shares, payable on or after March 19, 2015 to shareholders of record at the close of business on February 25, 2015.

Class A Shares Series 1 – \$0.25625 per share  
Class A Shares Series 2 – \$0.29063 per share  
Class A Shares Series 3 – \$0.28125 per share  
Class 1 Shares Series 3 – \$0.2625 per share  
Class 1 Shares Series 5 – \$0.275 per share  
Class 1 Shares Series 7 – \$0.2875 per share

Class 1 Shares Series 9 – \$0.275 per share  
Class 1 Shares Series 11 – \$0.25 per share  
Class 1 Shares Series 13 – \$0.2375 per share  
Class 1 Shares Series 15 – \$0.24375 per share  
Class 1 Shares Series 17 – \$0.24375 per share  
Class 1 Shares Series 19 – \$0.27589 per share

## Note 15 Capital Management

### (a) Capital Management

Manulife Financial seeks to manage its capital with the objectives of:

- Operating with sufficient capital to be able to honour commitments to its policyholders and creditors with a high degree of confidence;
- Securing the stability and flexibility to pursue the Company's business objectives by ensuring best access to capital markets and retaining the ongoing confidence of regulators, policyholders, rating agencies, investors and other creditors; and
- Optimizing return on capital to meet shareholders expectations subject to constraints and considerations of adequate levels of capital established to meet the first two objectives.

Capital is managed and monitored in accordance with the Capital Management Policy. The Policy is reviewed and approved by the Board of Directors annually and is integrated with the Company's risk and financial management frameworks. It establishes guidelines regarding the quantity and quality of capital, internal capital mobility, and proactive management of ongoing and future capital requirements.

The capital management framework takes into account the requirements of the Company as a whole as well as the needs of each of the Company's subsidiaries. The capital adequacy assessment considers expectations of key external stakeholders such as regulators and rating agencies, results of sensitivity testing as well as a comparison to the Company's peers. The Company sets its internal capital targets above the regulatory requirements, monitors against these internal targets and initiates actions appropriate to achieving its business objectives.

The following measure of consolidated capital serves as the foundation of the Company's capital management activities at the MFC level.

### Consolidated capital

As at December 31,	2014	2013
Total equity	\$ 33,926	\$ 29,033
Less AOCI (loss) on cash flow hedges	(211)	(84)
Total equity less AOCI (loss) on cash flow hedges	\$ 34,137	\$ 29,117
Liabilities for preferred shares and qualifying capital instruments	5,426	4,385
<b>Total capital</b>	<b>\$ 39,563</b>	<b>\$ 33,502</b>

#### (b) Restrictions on dividends and capital distributions

Dividends and capital distributions are restricted under the Insurance Company Act ("ICA"). These restrictions apply to both the Company and its primary operating subsidiary MLI. The ICA prohibits the declaration or payment of any dividend on shares of an insurance company if there are reasonable grounds for believing a company does not have adequate capital and adequate and appropriate forms of liquidity or the declaration or the payment of the dividend would cause the company to be in contravention of any regulation made under the ICA respecting the maintenance of adequate capital and adequate and appropriate forms of liquidity, or of any direction made to the company by the Superintendent. The ICA also requires an insurance company to notify the Superintendent of the declaration of a dividend at least 15 days prior to the date fixed for its payment. Similarly, the ICA prohibits the purchase for cancellation of any shares issued by an insurance company or the redemption of any redeemable shares or other similar capital transactions, if there are reasonable grounds for believing that the company does not have adequate capital and adequate and appropriate forms of liquidity or the payment would cause the company to be in contravention of any regulation made under the ICA respecting the maintenance of adequate capital and adequate and appropriate forms of liquidity, or any direction made to the company by the Superintendent. These latter transactions would require the prior approval of the Superintendent.

The ICA requires Canadian non-operating insurance companies to maintain, at all times, adequate levels of capital which are assessed by comparing capital available to a risk metric in accordance with Capital Regime for Regulated Insurance Holding Companies and Non-Operating Life Companies, issued by OSFI. OSFI expects holding companies to manage their capital in a manner commensurate with the group risk profile and control environment.

Since the Company is a holding company that conducts all of its operations through regulated insurance subsidiaries (or companies owned directly or indirectly by these subsidiaries), its ability to pay future dividends will depend on the receipt of sufficient funds from its regulated insurance subsidiaries. These subsidiaries are also subject to certain regulatory restrictions under laws in Canada, the United States and certain other countries that may limit their ability to pay dividends or make other upstream distributions.

The Company and MLI have covenanted for the benefit of holders of the outstanding Trust II Notes – Series I (the "Notes") that, if interest is not paid in full in cash on the Notes on any interest payment date or if MLI elects that holders of Notes invest interest payable on the Notes on any interest payment date in a new series of Manufacturers Life Class 1 Shares, MLI will not declare or pay cash dividends on any MLI Public Preferred Shares (as defined below), if any are outstanding, and if no MLI Public Preferred Shares are outstanding, MFC will not declare or pay cash dividends on its Preferred Shares and Common Shares, in each case, until the sixth month following such deferral date. "MLI Public Preferred Shares" means, at any time, preferred shares of MLI which at that time: (a) have been issued to the public (excluding any preferred shares of MLI held beneficially by affiliates of MLI); (b) are listed on a recognized stock exchange; and (c) have an aggregate liquidation entitlement of at least \$200, however, if at any time, there is more than one class of MLI Public Preferred Shares outstanding, then the most senior class or classes of outstanding MLI Public Preferred Shares shall, for all purposes, be the MLI Public Preferred Shares.

## Note 16 Stock-Based Compensation

### (a) Stock options plans

Under MFC's Executive Stock Option Plan ("ESOP"), deferred share units and stock options are granted to selected individuals. Options provide the holder with the right to purchase common shares of MFC at an exercise price equal to the higher of the prior day or prior five-day average closing market price of common shares on the Toronto Stock Exchange on the date the options were granted. The options vest over a period not exceeding four years and expire not more than 10 years from the grant date. A total of 73,600,000 common shares have been reserved for issuance under the ESOP.



	2014		2013	
	Number of options (in millions)	Weighted average exercise price	Number of options (in millions)	Weighted average exercise price
<b>Options outstanding</b>				
<b>For the years ended December 31,</b>				
Outstanding, January 1	32	\$ 21.14	32	\$ 21.93
Granted	3	21.20	4	15.52
Exercised	(2)	16.49	(1)	15.21
Expired	(2)	28.06	(2)	20.09
Forfeited	(1)	26.33	(1)	28.72
<b>Outstanding, December 31</b>	<b>30</b>	<b>\$ 20.82</b>	<b>32</b>	<b>\$ 21.14</b>
<b>Exercisable, December 31</b>	<b>21</b>	<b>\$ 22.67</b>	<b>21</b>	<b>\$ 24.27</b>

	Options outstanding			Options exercisable		
	Number of options (in millions)	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of options (in millions)	Weighted average exercise price	Weighted average remaining contractual life (in years)
<b>For the year ended December 31, 2014</b>						
\$11.08 – \$20.99	20	\$ 16.10	5.73	14	\$ 16.74	5.05
\$21.00 – \$29.99	5	\$ 23.55	5.98	2	\$ 27.02	1.28
\$30.00 – \$40.38	5	\$ 38.26	2.03	5	\$ 38.26	2.03
<b>Total</b>	<b>30</b>	<b>\$ 20.82</b>	<b>5.19</b>	<b>21</b>	<b>\$ 22.67</b>	<b>3.99</b>

The weighted average fair value of each option granted in 2014 has been estimated at \$4.83 (2013 – \$3.24) using the Black-Scholes option-pricing model. The pricing model uses the following assumptions for these options: risk-free interest rate of 2.00% (2013 – 1.25%), dividend yield of 3.00% (2013 – 3.70%), expected volatility of 30.0% (2013 – 32.0%) and expected life of 6.7 (2013 – 6.7) years. Expected volatility is estimated by evaluating a number of factors including historical volatility of the share price over multi-year periods.

### (b) Deferred share units plans

In 2000, MFC granted deferred share units (“DSUs”) to certain employees under the ESOP. These DSUs vest over a three-year period and each DSU entitles the holder to receive one common share on retirement or termination of employment. When dividends are paid on common shares, holders of DSUs are deemed to receive dividends at the same rate, payable in the form of additional DSUs. The number of DSUs outstanding was 838,000 as at December 31, 2014 (2013 – 1,322,000).

In addition, for certain employees and pursuant to the Company’s deferred compensation program, MFC grants DSUs under the ESOP which entitle the holder to receive payment in cash equal to the value of the same number of common shares plus credited dividends on retirement or termination of employment. In 2014, the Company granted 101,000 DSUs (2013 – nil) to certain employees who vest after five years. In 2014, 34,000 DSUs (2013 – 86,000) were granted to certain employees who elected to defer receipt of all or part of their annual bonus. These DSUs vested immediately. Also, in 2014, 126,000 DSUs (2013 – 52,000) were granted to certain employees to defer payment of all or part of their Restricted Share Units (“RSUs”) and/or Performance Share Units (“PSUs”). These DSUs also vested immediately.

The fair values of the 354,000 DSUs issued in the year were \$22.18 per unit, as at December 31, 2014 (253,000 issued at \$20.96 per unit on December 31, 2013).

Under the Stock Plan for Non-Employee Directors, each eligible director may elect to receive his or her annual director’s retainer and fees in DSUs or common shares in lieu of cash. Upon termination of Board service, an eligible director who has elected to receive DSUs will be entitled to receive cash equal to the value of the DSUs accumulated in his or her account, or at his or her direction, an equivalent number of common shares. A total of one million common shares have been reserved for issuance under this plan.

#### For the years ended December 31,

	2014	2013
Number of DSUs (in thousands)		
Outstanding, January 1	2,780	2,715
Issued	354	253
Reinvested	63	83
Redeemed	(865)	(271)
<b>Outstanding, December 31</b>	<b>2,332</b>	<b>2,780</b>

Of the DSUs outstanding as at December 31, 2014, 837,000 (2013 – 1,322,000) entitle the holder to receive common shares, 858,000 (2013 – 723,000) entitle the holder to receive payment in cash and 637,000 (2013 – 735,000) entitle the holder to receive payment in cash or common shares, at the option of the holder.

### **(c) Restricted share units and performance share units plans**

For the year ended December 31, 2014, 4.5 million RSUs (2013 – 6.1 million) and 0.7 million PSUs (2013 – 0.9 million) were granted to certain eligible employees under MFC's Restricted Share Unit Plan. The fair values of the RSUs and PSUs granted in the year were \$22.18 per unit as at December 31, 2014 (2013 – \$20.96 per unit). Each RSU/PSU entitles the recipient to receive payment equal to the market value of one common share, plus credited dividends, at the time of vesting, subject to any performance conditions.

RSUs and PSUs granted in February 2014 vest on the date that is 34 months from the grant date (December 15, 2016), and the related compensation expense is recognized over this period, except where the employee is eligible to retire prior to a vesting date, in which case the cost is recognized over the period between the grant date and the date on which the employee is eligible to retire. Compensation expense related to RSUs and PSUs was \$78 and \$16, respectively, for the year ended December 31, 2014 (2013 – \$72 and \$11, respectively).

The carrying amount of the liability relating to the RSU and PSU as at December 31, 2014 is \$188 (2013 – \$184) and is included within other liabilities.

Compensation expenses related to stock options was \$14 for the year ended December 31, 2014 (2013 – \$15).

Compensation expenses related to DSUs was \$2 for the year ended December 31, 2014 (2013 – nil).

### **(d) Global share ownership plan**

MFC's Global Share Ownership Plan ("GSOP") allows qualifying employees to choose to apply up to five per cent of their annual base earnings toward the purchase of common shares. The Company matches a percentage of the employee's eligible contributions up to a maximum amount. The Company's contributions vest immediately. All contributions are used to purchase common shares in the open market.

## **Note 17 Employee Future Benefits**

The Company maintains pension plans, both defined contribution and defined benefit, and other post-employment plans for eligible employees and agents. These plans include broad-based pension plans for employees that are typically funded, as well as supplemental non-registered (non-qualified) pension plans for executives, retiree welfare plans and disability welfare plans that are typically not funded.

The Company has long been aware of the financial exposure associated with traditional defined benefit pension plans (i.e. final average pay plans and annuitized cash balance accounts) and retiree welfare plans. As such, the Company has been closing these plans to new members and, in the case of pension plans, has been replacing them with capital accumulation-type retirement plans. Capital accumulation plans include defined benefit cash balance plans, 401(k) plans and defined contribution plans under which the Company's approach is to allocate a fixed percentage of each employee's eligible earnings taking median market practice into account. To the extent that pension benefits delivered through registered or tax qualified pension plans limit the benefit that would otherwise be provided to executives, the Company may sponsor supplemental arrangements, which are for the most part unfunded.

### **(a) Plan characteristics**

Most of the Company's traditional defined benefit pension plans and retiree welfare plans are closed. New employees join cash balance or defined contribution pension programs, depending on the geography of employment, and are not eligible to participate in the retiree welfare plans. Reflecting the shift away from traditional defined benefit pension plans to capital accumulation plans, less than 2% of plan members continue to accrue final average pay benefits. Traditional defined benefit pension obligations comprise less than 50% of the Company's global pension obligations, with the bulk of these obligations being in respect of inactive and retired members who no longer accrue defined benefit pensions but have not yet been paid their entire pension entitlements.

All pension arrangements are governed by local pension committees or management but significant plan changes require approval from the Company's Board of Directors.

The Company's funding policy for defined benefit pension plans is to make at least the minimum annual contributions required by regulations in the countries in which the plans are offered. Assumptions and methods prescribed for regulatory funding purposes typically differ from those used for accounting purposes. The Company measures its defined benefit obligations and fair value of plan assets for accounting purposes as at December 31 each year.

The Company has defined benefit pension and/or retiree welfare plan obligations in the U.S., Canada, Japan, U.K. and Taiwan. There are also disability welfare plans in Canada and the U.S.

The largest of these pension and retiree welfare plans are the main defined benefit plans for employees in the U.S. and Canada. These are considered to be the material plans that are the subject and focus of the disclosures in the balance of this note.

### **U.S. defined benefit and retiree welfare plans**

The Company operates a qualified cash balance plan that is open to new members, a non-qualified cash balance plan, under which benefit accruals ceased as of December 31, 2011, and a retiree welfare plan that was closed in 2005.

Actuarial valuations to determine the Company's minimum funding contributions for the qualified cash balance plan are required annually. Deficits revealed in the funding valuations must generally be funded over a period of up to seven years. It is expected that there will be no required funding for this plan in 2015. There are no plan assets set aside for the non-qualified cash balance plan; these benefits are to be funded as they come due.

The retiree welfare plan subsidizes the cost of life insurance and medical benefits for eligible retirees. The majority of those who retired after 1991 receive a fixed-dollar subsidy from the Company based on service. Employees who did not meet certain age and service criteria in 2002 generally receive access to the plan upon retirement but pay the full cost. The plan was closed to all employees hired after 2004. While assets have been set aside in a qualified trust to pay a portion of future retiree welfare benefits, this funding is optional. Retiree welfare benefits offered under the plan coordinate with the U.S. Medicare program to make optimal use of available federal financial support.

The qualified pension and retiree welfare plans are governed by the U.S. Benefits Committee, while the non-qualified pension plan is governed by the U.S. Non-qualified Plans Subcommittee.

### **Canadian defined benefit and retiree welfare plans**

The Company's defined benefit plans in Canada include a registered final average pay pension plan, a non-registered supplemental final average pay pension arrangement and a retiree welfare plan that was closed to new members in 2005. While both pension programs have been closed to new members since 1998, there remain 367 members under the registered plan who continue to accrue final average pay pensions.

Actuarial valuations to determine the Company's minimum funding contributions for the registered plan are required at least once every three years. Deficits revealed in the funding valuation must generally be funded over a period of up to five years. For 2015, the required funding for this plan is expected to be \$34. The supplemental non-registered pension plan is not funded; these benefits are to be funded as they come due.

The retiree welfare plan subsidizes the cost of life insurance, medical and dental benefits for eligible retirees. In 2013, the Company subsidies were changed to a fixed dollar amount for those who retire after April 30, 2013 and will be eliminated for those who retire after 2019. There are no assets set aside for the retiree welfare plan.

The registered pension plan is governed by the Canadian Pension Committee, while the supplemental non-registered arrangement is governed by the Board of Directors. The retiree welfare plan is governed by management.

### **(b) Risks**

In final average pay pension plans and retiree welfare plans, the Company generally bears the material risks which include interest rate, investment, longevity and health care cost inflation risks. In defined contribution plans, these risks are typically borne by the employee. In cash balance plans, the interest rate, investment (where applicable) and longevity risks are partially transferred to the employee.

Material sources of risk to the Company for all plans include:

- A decline in discount rates that increases the defined benefit obligations by more than the change in value of plan assets;
- Lower than expected rates of mortality; and
- For retiree welfare plans, higher than expected health care costs.

Historically, the Company has managed risks through plan design and eligibility changes which limit the size and growth of the defined benefit obligations. For funded plans, investment risks are managed through strategies aimed at improving the alignment between movements in the invested assets and movements in the obligations.

In the U.S., delegated committee representatives and management review the financial status of the qualified defined benefit pension plan at least monthly, and steps are taken in accordance with an established dynamic investment policy to reduce the risk in the plan as the funded status improves. As at December 31, 2014, the target asset allocation for the plan was 35% return-seeking assets and 65% liability-hedging assets.

In Canada, internal committees and management review the financial status of the registered defined benefit pension plan on at least a quarterly basis. As at December 31, 2014, the target asset allocation for the plan was 26% return-seeking assets and 74% liability-hedging assets with an ultimate target of 20% return-seeking assets and 80% liability-hedging assets by 2017.

### (c) Pension and retiree welfare plans

For the years ended December 31,	Pension plans		Retiree welfare plans	
	2014	2013	2014	2013
<b>Changes in defined benefit obligation:</b>				
Ending balance prior year	\$ 3,567	\$ 3,596	\$ 600	\$ 603
Current service cost	32	32	1	2
Past service cost	–	8	–	3
Interest cost	167	141	27	24
Plan participants' contributions	–	1	4	4
Actuarial losses (gains) due to:				
Experience	19	8	(26)	4
Demographic assumption changes	36	164	(8)	25
Economic assumption changes	292	(285)	56	(46)
Benefits paid	(256)	(274)	(47)	(51)
Impact of changes in foreign exchange rates	232	176	41	32
<b>Defined benefit obligation, December 31</b>	<b>\$ 4,089</b>	<b>\$ 3,567</b>	<b>\$ 648</b>	<b>\$ 600</b>

For the years ended December 31,	Pension plans		Retiree welfare plans	
	2014	2013	2014	2013
<b>Change in plan assets:</b>				
Fair value of plan assets, ending balance prior year	\$ 2,990	\$ 2,774	\$ 467	\$ 382
Interest income	141	109	22	15
Employer contributions	77	82	31	38
Plan participants' contributions	–	1	4	4
Benefits paid	(256)	(274)	(47)	(51)
Administration costs	(4)	(3)	–	–
Actuarial gains	285	161	17	52
Impact of changes in foreign exchange rates	209	140	44	27
<b>Fair value of plan assets, December 31</b>	<b>\$ 3,442</b>	<b>\$ 2,990</b>	<b>\$ 538</b>	<b>\$ 467</b>

### (d) Amounts recognized in the Consolidated Statements of Financial Position

As at December 31,	Pension plans		Retiree welfare plans	
	2014	2013	2014	2013
<b>Development of net defined benefit liability</b>				
Defined benefit obligation	\$ 4,089	\$ 3,567	\$ 648	\$ 600
Fair value of plan assets <sup>(1)</sup>	3,442	2,990	538	467
<b>Deficit and net defined benefit liability<sup>(2)</sup></b>	<b>\$ 647</b>	<b>\$ 577</b>	<b>\$ 110</b>	<b>\$ 133</b>
<b>Deficit is comprised of:</b>				
Funded or partially funded plans	\$ (156)	\$ (136)	\$ (29)	\$ (5)
Unfunded plans <sup>(1)</sup>	803	713	139	138
<b>Deficit and net defined benefit liability</b>	<b>\$ 647</b>	<b>\$ 577</b>	<b>\$ 110</b>	<b>\$ 133</b>

<sup>(1)</sup> The fair value of plan assets does not include the rabbi trust assets that support the non-qualified U.S. retirement plan obligations for certain executives and retired executives, in respect of service prior to May 1, 2007. In the event of insolvency of the Company, the rabbi trust assets can be used to satisfy claims of general creditors. As at December 31, 2014, assets in the rabbi trust with respect to these defined benefit obligations were \$366 (2013 – \$347) compared to the defined benefit obligations under the merged plan of \$402 (2013 – \$351).

<sup>(2)</sup> No reconciliation has been provided for the effect of the asset limit since there was no effect in either year. For the funded pension plans, the present value of the economic benefits available in the form of reductions in future contributions to the plans is significantly greater than the surplus that would be expected to develop.

### (e) Disaggregation of defined benefit obligation

As at December 31,	U.S. Plans				Canadian Plans			
	Pension plans		Retiree welfare plans		Pension plans		Retiree welfare plans	
	2014	2013	2014	2013	2014	2013	2014	2013
Active members	\$ 636	\$ 615	\$ 34	\$ 39	\$ 193	\$ 261	\$ 24	\$ 48
Inactive and retired members	2,367	1,969	475	423	893	722	115	90
<b>Total</b>	<b>\$ 3,003</b>	<b>\$ 2,584</b>	<b>\$ 509</b>	<b>\$ 462</b>	<b>\$ 1,086</b>	<b>\$ 983</b>	<b>\$ 139</b>	<b>\$ 138</b>

## (f) Fair value measurements

The major categories of plan assets and the actual per cent allocation to each category are as follows.

	U.S. Plans <sup>(1)</sup>				Canadian Plans <sup>(2)</sup>			
	Pension plans		Retiree welfare plans		Pension plans		Retiree welfare plans	
	Fair value	% of total	Fair value	% of total	Fair value	% of total	Fair value	% of total
<b>As at December 31, 2014</b>								
Cash and cash equivalents	\$ 31	1%	\$ 7	1%	\$ –	–	\$ –	–
Equity securities <sup>(3)</sup>	752	28%	251	47%	206	28%	–	–
Debt securities	1,744	64%	274	51%	523	71%	–	–
Other investments <sup>(4)</sup>	179	7%	6	1%	7	1%	–	–
<b>Total</b>	<b>\$ 2,706</b>	<b>100%</b>	<b>\$ 538</b>	<b>100%</b>	<b>\$ 736</b>	<b>100%</b>	<b>\$ –</b>	<b>–</b>
<b>As at December 31, 2013</b>								
Cash and cash equivalents	\$ 25	1%	\$ 10	2%	\$ –	–	\$ –	–
Equity securities <sup>(3)</sup>	813	35%	254	54%	199	30%	–	–
Debt securities	1,318	57%	198	43%	457	69%	–	–
Other investments <sup>(4)</sup>	171	7%	5	1%	7	1%	–	–
<b>Total</b>	<b>\$ 2,327</b>	<b>100%</b>	<b>\$ 467</b>	<b>100%</b>	<b>\$ 663</b>	<b>100%</b>	<b>\$ –</b>	<b>–</b>

<sup>(1)</sup> All of the U.S. pension and retiree welfare plan assets have daily quoted prices in active markets, except for the private equity, timber and agriculture assets. In the aggregate, the latter assets represent approximately 6% and 6% of all U.S. pension and retiree welfare plan assets as at December 31, 2014 and 2013, respectively.

<sup>(2)</sup> All of the Canadian pension plan assets have daily quoted prices in active markets.

<sup>(3)</sup> Equity securities include direct investments in MFC common shares of \$1.1 (2013 – \$1.0) in the U.S. retiree welfare plan and nil (2013 – nil) in Canada.

<sup>(4)</sup> Other U.S. plan assets include investment in private equity, timberland and agriculture.

## (g) Net benefit cost recognized in the Consolidated Statements of Income

Components of the net benefit cost for the pension plans and retiree welfare plans were as follows.

For the years ended December 31,	Pension plans		Retiree welfare plans	
	2014	2013	2014	2013
Defined benefit current service cost	\$ 32	\$ 32	\$ 1	\$ 2
Defined benefit administrative expenses	4	3	–	–
Past service cost – plan amendments <sup>(1)</sup>	–	–	–	3
Past service cost – curtailments <sup>(2)</sup>	–	8	–	–
Service cost	\$ 36	\$ 43	\$ 1	\$ 5
Interest on net defined benefit (asset) liability	26	32	5	9
Defined benefit cost	\$ 62	\$ 75	\$ 6	\$ 14
Defined contribution cost	55	52	–	–
<b>Net benefit cost</b>	<b>\$ 117</b>	<b>\$ 127</b>	<b>\$ 6</b>	<b>\$ 14</b>

<sup>(1)</sup> 2013 past service cost of \$3 relates to a one month deferral of the effective date of the planned changes to the Canadian retiree welfare benefits for employees affected by the organizational design initiative.

<sup>(2)</sup> 2013 past service cost of \$8 relates to the payment of pension benefits earlier than previously expected to employees affected by the organizational design initiative.

## (h) Re-measurement effects recognized in Other Comprehensive Income

For the years ended December 31,	Pension plans		Retiree welfare plans	
	2014	2013	2014	2013
Actuarial (gains) losses on defined benefit obligations:				
Experience	\$ 19	\$ 8	\$ (26)	\$ 4
Demographic assumption changes	36	164	(8)	25
Economic assumption changes	292	(285)	56	(46)
Return on plan assets (greater) less than discount rate	(285)	(161)	(17)	(52)
<b>Total re-measurement effects</b>	<b>\$ 62</b>	<b>\$ (274)</b>	<b>\$ 5</b>	<b>\$ (69)</b>

### (i) Assumptions

The key assumptions used by the Company to determine the defined benefit obligation and net benefit cost for defined benefit pension plans and retiree welfare plans were as follows.

For the years ended December 31,	U.S. Plans				Canadian Plans			
	Pension plans		Retiree welfare plans		Pension plans		Retiree welfare plans	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>To determine the defined benefit obligation at end of year<sup>(1)</sup>:</b>								
Discount rate	4.0%	4.7%	3.9%	4.7%	3.9%	4.8%	4.0%	4.9%
Initial health care cost trend rate <sup>(2)</sup>	n/a	n/a	8.3%	8.5%	n/a	n/a	6.3%	6.5%
<b>To determine the defined benefit cost for the year<sup>(1)</sup>:</b>								
Discount rate	4.7%	3.9%	4.7%	3.9%	4.8%	4.2%	4.9%	4.4%
Initial health care cost trend rate <sup>(2)</sup>	n/a	n/a	8.3%	8.5%	n/a	n/a	6.5%	6.7%

<sup>(1)</sup> Inflation and salary increase assumptions are not shown as they do not materially affect obligations and cost.

<sup>(2)</sup> The health care cost trend rate used to measure the U.S. based retiree welfare obligation was 8.3% grading to 5.0% for 2028 and years thereafter (2013 – 8.5% grading to 5.0% for 2028) and to measure the net benefit cost was 8.5% grading to 5.0% for 2028 and years thereafter (2013 – 8.5% grading to 5.0% for 2028). In Canada, the rate used to measure the retiree welfare obligation was 6.3% grading to 4.8% for 2026 and years thereafter (2013 – 6.5% grading to 4.8% for 2026) and to measure the net benefit cost was 6.5% grading to 4.8% for 2026 and years thereafter (2013 – 6.7% grading to 4.8% for 2026).

Assumptions regarding the future mortality are based on published statistics and mortality tables. The current life expectancies underlying the values of the obligations in the defined benefit pension and retiree welfare plans are as follows.

As at December 31, 2014	U.S.	Canada
<b>Life expectancy (in years) for those currently age 65</b>		
Males	23.2	22.6
Females	24.9	24.5
<b>Life expectancy (in years) at age 65 for those currently age 45</b>		
Males	24.7	23.7
Females	26.5	25.5

### (j) Sensitivity of assumptions on obligation

Assumptions used can have a significant effect on the obligations reported for defined benefit pension and retiree welfare plans. The potential impact on the obligations arising from changes in the key assumptions is set out in the following table. The sensitivities assume all other assumptions are held constant. In reality interrelationships with other assumptions may exist.

As at December 31, 2014	Pension plans	Retiree welfare plans
<b>Discount rate:</b>		
Impact of a 1% increase	\$ (385)	\$ (65)
Impact of a 1% decrease	457	79
<b>Health care cost trend rate:</b>		
Impact of a 1% increase	n/a	26
Impact of a 1% decrease	n/a	(23)
<b>Mortality rates<sup>(1)</sup></b>		
Impact of a 10% decrease	95	14

<sup>(1)</sup> If the actuarial estimates of mortality are adjusted in the future to reflect unexpected decreases in mortality, the effect of a 10% decrease in mortality rates at each future age would be an increase in life expectancy at age 65 of 0.9 and 0.9 years for U.S. males and females, respectively, and 0.8 and 0.8 years for Canadian males and females, respectively.

### (k) Maturity profile

The weighted average duration (in years) of the defined benefit obligations is as follows.

As at December 31,	Pension plans		Retiree welfare plans	
	2014	2013	2014	2013
U.S. plans	10.0	8.6	9.6	8.8
Canadian plans	11.3	11.6	14.2	14.4

### (l) Cash flows – contributions

Total cash payments for all employee future benefits, comprised of cash contributed by the Company to funded defined benefit pension and retiree welfare plans, cash payments directly to beneficiaries in respect of unfunded pension and retiree welfare plans, and cash contributed to defined contribution pension plans, were as follows.

For the years ended December 31,	Pension plans		Retiree welfare plans	
	2014	2013	2014	2013
Defined benefit plans	\$ 77	\$ 82	\$ 31	\$ 38
Defined contribution plans	55	52	–	–
<b>Total</b>	<b>\$ 132</b>	<b>\$ 134</b>	<b>\$ 31</b>	<b>\$ 38</b>

The Company's best estimate of expected cash payments for employee future benefits for the year ending December 31, 2015 is \$103 for defined benefit pension plans, \$56 for defined contribution pension plans and \$22 for retiree welfare plans.

## Note 18 Interests in Structured Entities

In its capacities as an investor and as an investment manager, the Company has relationships with various types of entities designed to generate investment returns and/or fees. The Company also has relationships with entities that are used to facilitate financing for the Company. Some of these entities may have some or all of the following features: control is not readily identified based on voting rights; restricted activities designed to achieve a narrow objective; high amount of leverage; and/or highly structured capital. Such entities are identified as structured entities (individually "SE" or collectively "SEs").

In assessing the significance of a SE for disclosure purposes, the Company considers the nature of the Company's relationship with the SEs including whether they are sponsored by the Company (i.e. initially organized and managed by the Company). In addition, the significance of the relationship with the SE to the Company is assessed including consideration of factors such as the Company's investment in the SE as a percentage of the Company's total investments, returns from it as a percentage of total net investment income, its size as a percentage of total assets under management and the Company's exposure to any other risks from its involvement with the SE.

The Company does not provide financial or other support to its SEs, without having a contractual obligation to do so.

The Company does not disclose its interests in Mezzanine Funds and Collateralized Debt Obligations within this note as these interests are not significant.

### (a) Consolidated SEs

#### Investment SEs

The Company acts as an investment manager of timberlands and timber companies. The Company's general fund and segregated funds invest in many of them. The Company has control over one timberland company which it manages, Hancock Victoria Plantations Holdings PTY Limited ("HVPH"), based on acquiring majority ownership of voting rights in 2014. HVPH is an SE primarily because the Company's employees exercise voting rights over it on behalf of other investors. Refer to note 4(a). As at December 31, 2014, the Company's consolidated timber assets relating to HVPH was \$832. HVPH was an unconsolidated SE in 2013. The Company does not provide guarantees to other parties against the risks of loss from HVPH.

#### Financing SEs

The Company securitizes certain insured and variable rate commercial and residential mortgages and HELOC. This activity is facilitated by consolidated entities that are SEs because their operations are limited to issuing and servicing the Company's capital. Further information regarding the Company's mortgage securitization program is included in note 4.

### (b) Unconsolidated SEs

#### Investment SEs

The table below presents the Company's investment and maximum exposure to loss from significant unconsolidated investment SEs, some of which are sponsored by the Company. The Company does not provide guarantees to other parties against the risk of loss from these SEs.

As at December 31,	Company's investment <sup>(1)</sup>		Company's maximum exposure to loss <sup>(2)</sup>	
	2014	2013	2014	2013
Leveraged leases <sup>(3)</sup>	\$ 2,925	\$ 2,629	\$ 2,925	\$ 2,629
Timberland companies <sup>(4)</sup>	548	588	611	630
Affordable housing companies <sup>(5)</sup>	244	278	245	279
<b>Total</b>	<b>\$ 3,717</b>	<b>\$ 3,495</b>	<b>\$ 3,781</b>	<b>\$ 3,538</b>

<sup>(1)</sup> The Company's investments in these unconsolidated SEs are included in invested assets and the Company's returns from them are included in net investment income and other comprehensive income.

<sup>(2)</sup> The Company's maximum exposure to loss from each SE is limited to amounts invested in each, plus unfunded capital commitments, if any. The Company's investment commitments are disclosed in note 19. The maximum loss is expected to occur only upon the entity's bankruptcy / liquidation, or as a result of a natural disaster in the case of the timber companies, or foreclosure in the case of affordable housing companies.

<sup>(3)</sup> These entities are statutory business trusts which use capital provided by the Company and senior debt provided by other parties to finance the acquisition of assets. These assets are leased to third-party lessees under long-term leases. The Company owns equity capital in these business trusts. The Company does not consolidate any of the trusts that are party to the lease arrangements because the Company does not have decision power over them.

(4) These entities own and operate timberlands. The Company invests in their equity and debt. The Company's returns include investment income, investment advisory fees, forestry management fees and performance advisory fees. The Company does not control these entities because it either does not have the power to govern their financial and operating policies or does not have significant variable returns from them, or both.

(5) These entities own and manage residential and commercial real estate that qualifies for affordable housing and/or historic tax credits. The Company's investments are in limited partner or investor member units and the Company's returns include investment income, tax credits and other tax benefits. The Company does not control these entities because the Company does not have power to govern their financial and operating policies.

## Financing SEs

The following table presents the Company's interests and maximum exposure to loss from significant unconsolidated financing SEs.

As at December 31,	Company's interest <sup>(1)</sup>	
	2014	2013
Manulife Financial (Delaware), L.P. <sup>(2)</sup>	\$ 1,412	\$ 1,306
Manulife Financial Capital Trust II <sup>(3)</sup>	1,000	998
John Hancock Global Funding II, Ltd. <sup>(4)</sup>	357	376
<b>Total</b>	<b>\$ 2,769</b>	<b>\$ 2,680</b>

(1) The Company's interests include amounts borrowed from the SEs and the Company's investment in their subordinate capital, if any, and foreign currency and interest swaps with them, if any.

(2) This entity is a wholly owned partnership used to facilitate the Company's financing and group risk management. Refer to notes 11, 12 and 19.

(3) This entity is an open ended trust that is used to facilitate the Company's financing. Refer to note 12.

(4) This entity is a Delaware Trust that is used to facilitate the issuance of medium-term notes. Refer to note 8.

### (i) Other invested assets

The Company has investment relationships with a variety of other entities ("Other Entities"), which result from its direct investment in their debt and/or equity and which have been assessed for control. This category includes, but is not limited to investments in power and infrastructure, oil and gas, private equity, real estate and agriculture, organized as limited partnerships and limited liability companies. These Other Entities are not sponsored by the Company. The Company believes that its relationships with these Other Entities are not individually significant. As such, the Company neither provides summary financial data for these entities nor individually assesses whether they are SEs. The Company's maximum exposure to losses as a result of its relationships with Other Entities is limited to its investment in them and amounts committed to be invested but not yet funded. The income that the Company generates from these entities is recorded in net investment income and other comprehensive income. The Company does not provide guarantees to other parties against the risk of loss from these Other Entities.

### (ii) Interest in securitized assets

The Company invests in mortgage/asset-backed securities issued by numerous securitization vehicles sponsored by other parties, including private issuers and government sponsored issuers, in order to generate investment returns which are recorded in net investment income. The Company does not own a controlling financial interest in any of the issuers. These securitization vehicles are SEs based on their narrow scope of activities and highly leveraged capital structures. Investments in mortgage/asset-backed securities are reported on the Consolidated Statements of Financial Position as debt securities and private placements, and their fair value and carrying value are disclosed in note 4. The Company's maximum loss from these investments is limited to amounts invested.

Commercial mortgage-backed securities ("CMBS") are secured by commercial mortgages and residential mortgage-backed securities ("RMBS") are secured by residential mortgages. Asset-backed securities ("ABS") may be secured by various underlying assets including credit card receivables, automobile loans and aviation leases. The mortgage/asset-backed securities that the Company invests in are primarily originated in North America.

The following table outlines the securitized holdings by type and asset quality.

As at December 31,	2014				2013
	CMBS	RMBS	ABS	Total	Total
AAA	\$ 644	\$ 88	\$ 1,554	\$ 2,286	\$ 2,339
AA	23	8	39	70	59
A	58	22	487	567	494
BBB	55	26	152	233	178
BB and below	153	105	25	283	371
<b>Total company exposure</b>	<b>\$ 933</b>	<b>\$ 249</b>	<b>\$ 2,257</b>	<b>\$ 3,439</b>	<b>\$ 3,441</b>

### (iii) Mutual funds

The Company sponsors and may invest in a range of public mutual funds with a broad range of investment styles. As sponsor, the Company organizes mutual funds that implement investment strategies on behalf of future investors. The Company earns fees which are at market rates for providing advisory and administrative services to the mutual funds. The Company does not control its sponsored mutual funds because either the Company does not have power to govern their financial and operating policies, or its returns in the form of fees and ownership interests are not significant, or both. Certain mutual funds are SEs because their decision-making rights are not vested in voting equity interests and their investors are provided with redemption rights.



The Company believes that its relationships with these mutual funds are not individually significant. As such, the Company neither provides summary financial data for these mutual funds nor individually assesses whether they are SEs. The Company's interest in mutual funds is limited to capital it invests and fees earned, if any. The Company's investments in mutual funds are recorded as part of its investment in public equities within the Consolidated Statements of Financial Position. For information regarding the Company's invested assets, refer to note 4. The Company does not provide guarantees to other parties against the risk of loss from these mutual funds.

As sponsor, the Company's investment in startup capital of mutual funds as at December 31, 2014 was \$1,305 (2013 – \$1,198). The Company's retail mutual fund assets under management as at December 31, 2014 were \$119,593 (2013 – \$91,118).

## **Note 19 Commitments and Contingencies**

### **(a) Legal proceedings**

The Company is regularly involved in legal actions, both as a defendant and as a plaintiff. The legal actions naming the Company as a defendant ordinarily involve its activities as a provider of insurance protection and wealth management products, as well as an investment adviser, employer and taxpayer. In addition, government and regulatory bodies in Canada, the United States, Asia and other jurisdictions where the Company conducts business regularly make inquiries and, from time to time, require the production of information or conduct examinations concerning the Company's compliance with, among other things, insurance laws, securities laws, and laws governing the activities of broker-dealers.

Two class actions against the Company have been certified and are pending in Quebec (on behalf of Quebec residents only) and Ontario (on behalf of investors in Canada other than Quebec). The decisions to grant leave and certification have been of a procedural nature only and there has been no determination on the merits of either claim to date. The actions in Ontario and Quebec are based on allegations that the Company failed to meet its disclosure obligations related to its exposure to market price risk in its segregated funds and variable annuity guaranteed products.

The Company believes that its disclosure satisfied applicable disclosure requirements and intends to vigorously defend itself against any claims based on these allegations. Due to the nature and status of these proceedings, it is not practicable to provide an estimate of the financial effect of these proceedings, an indication of the uncertainties relating to the amount or timing of any outflow, nor the possibility of any reimbursement.

### **(b) Investment commitments**

In the normal course of business, various investment commitments are outstanding which are not reflected in the Consolidated Financial Statements. There were \$5,663 (2013 – \$5,070) of outstanding investment commitments as at December 31, 2014, of which \$280 (2013 – \$348) mature in 30 days, \$2,176 (2013 – \$1,602) mature in 31 to 365 days and \$3,207 (2013 – \$3,120) mature after one year.

### **(c) Letters of credit**

In the normal course of business, third party relationship banks issue letters of credit on the Company's behalf. The Company's businesses utilize letters of credit for which third parties are the beneficiaries, as well as for affiliate reinsurance transactions between subsidiaries of MFC. As at December 31, 2014, letters of credit for which third parties are beneficiary, in the amount of \$65 (2013 – \$73), were outstanding.

### **(d) Guarantees**

#### **(i) Guarantees regarding Manulife Finance (Delaware), L.P. ("MFLP")**

MFC has guaranteed the payment of amounts on the \$550 senior debentures due on December 15, 2026 and the \$650 subordinated debentures due on December 15, 2041 issued by MFLP, a wholly owned unconsolidated partnership.

#### **(ii) Guarantees regarding The Manufacturers Life Insurance Company**

On January 29, 2007, MFC provided a subordinated guarantee of Class A and Class B Shares of MLI and any other class of preferred shares that rank on a parity with Class A Shares or Class B Shares of MLI. For the following subordinated debentures issued by MLI, MFC has provided a subordinated guarantee on the day of issuance: \$550 issued on November 18, 2011; \$500 issued on February 17, 2012; \$200 issued on February 25, 2013; \$250 issued on November 29, 2013; \$500 issued on February 21, 2014 and \$500 issued on December 1, 2014.

The following table sets forth certain condensed consolidating financial information for MFC and MFLP.

	MFC (Guarantor)	MFLP	MLI consolidated	Other subsidiaries of MFC on a combined basis	Consolidating adjustments	Total consolidated amounts <sup>(1)</sup>
<b>For the year ended December 31, 2014</b>						
Total revenue	\$ 418	\$ 77	\$ 53,435	\$ 4,163	\$ (3,571)	\$ 54,522
Net income (loss) attributed to shareholders	3,501	13	3,657	(354)	(3,316)	3,501
<b>For the year ended December 31, 2013</b>						
Total revenue	\$ 244	\$ 84	\$ 18,506	\$ (487)	\$ 292	\$ 18,639
Net income (loss) attributed to shareholders	3,130	17	3,399	(287)	(3,129)	3,130
<b>As at December 31, 2014</b>						
Invested assets	\$ 2,260	\$ 2	\$ 262,406	\$ 4,644	\$ (2)	\$ 269,310
Total other assets	37,825	1,598	67,422	13,338	(66,619)	53,564
Segregated funds net assets	–	–	256,532	–	–	256,532
Insurance contract liabilities	–	–	229,087	15,526	(15,100)	229,513
Investment contract liabilities	–	–	2,644	–	–	2,644
Segregated funds net liabilities	–	–	256,532	–	–	256,532
Total other liabilities	6,780	1,419	61,009	1,393	(13,810)	56,791
<b>As at December 31, 2013</b>						
Invested assets	\$ 28	\$ 2	\$ 228,933	\$ 3,748	\$ (2)	\$ 232,709
Total other assets	34,072	1,480	51,853	9,603	(55,960)	41,048
Segregated funds net assets	–	–	239,871	–	–	239,871
Insurance contract liabilities	–	–	192,824	11,923	(11,505)	193,242
Investment contract liabilities	–	–	2,524	–	–	2,524
Segregated funds net liabilities	–	–	239,871	–	–	239,871
Total other liabilities	5,577	1,313	52,078	461	(10,471)	48,958

<sup>(1)</sup> Since MFLP is not consolidated into the results of MFC consolidated, the results of MFLP have been eliminated in the consolidating adjustments column.

### (iii) Guarantees regarding John Hancock Life Insurance Company (U.S.A.) ("JHUSA")

Details of guarantees regarding certain securities issued or to be issued by JHUSA are outlined in note 24.

#### (e) Pledged assets

In the normal course of business, the Company pledges its assets in respect of liabilities incurred, strictly for the purpose of providing collateral for the counterparty. In the event of the Company's default, the counterparty is entitled to apply the collateral in order to settle the liability. The pledged assets are returned to the Company if the underlying transaction is terminated or, in the case of derivatives, if the net exposure moves to an asset position due to market value changes.

The amounts pledged were as follows.

As at December 31,	2014		2013	
	Debt securities	Other	Debt securities	Other
In respect of:				
Derivatives	\$ 2,920	\$ 16	\$ 3,401	\$ 10
Regulatory requirements	401	77	375	64
Real estate	–	54	–	52
Repurchase agreements	480	–	199	–
Non-registered retirement plans in trust	–	385	–	366
Other	2	114	2	70
<b>Total</b>	<b>\$ 3,803</b>	<b>\$ 646</b>	<b>\$ 3,977</b>	<b>\$ 562</b>

#### (f) Lease obligations

The Company has a number of operating lease obligations, primarily for the use of office space. The aggregate future minimum lease payments under non-cancelable operating leases are \$803 (2013 – \$795). Payments by year are included in the "Risk Management and Risk Factors" section of the Company's 2014 MD&A under Liquidity Risk.

#### (g) Participating business

In some territories where the Company maintains participating accounts, there are regulatory restrictions on the amounts of profit that can be transferred to shareholders. Where applicable, these restrictions generally take the form of a fixed percentage of the policyholder dividends. For participating businesses operating as separate "closed blocks", transfers are governed by the terms of MLI's and John Hancock Mutual Life Insurance Company's plans of demutualization.

## (h) Transaction with New York Life

On December 23, 2014, John Hancock Financial entered into an agreement with New York Life under which John Hancock will acquire New York Life's Retirement Plan Services ("RPS") business. In addition, New York Life has agreed to assume, on a reinsurance basis, 60 per cent of John Hancock's in-force participating life insurance closed block, which was written prior to John Hancock's demutualization in 2000. Subject to the receipt of all necessary approvals and other customary closing conditions, the transaction is anticipated to close in the first half of 2015.

## Note 20 Segmented Information

The Company's reporting segments are Asia, Canadian and U.S. Divisions and the Corporate and Other segment. Each division has profit and loss responsibility and develops products, services and distribution strategies based on the profile of its business and the needs of its market. The significant product and service offerings of each segment are as follows:

**Protection (Asia, Canadian and U.S. Divisions).** Offers a variety of individual life insurance and individual and group long-term care insurance. Products are distributed through multiple distribution channels, including insurance agents, brokers, banks, financial planners and direct marketing.

**Wealth Management (Asia, Canadian and U.S. Divisions).** Offers annuities, pension contracts, and mutual fund products and services. These businesses also offer a variety of retirement products to group benefit plans and Manulife Bank offers a variety of deposit and credit products to Canadian customers. Annuity contracts provide non-guaranteed, partially guaranteed and fully guaranteed investment options through general and separate account products. These businesses distribute products through multiple distribution channels, including insurance agents and brokers affiliated with the Company, securities brokerage firms, financial planners, pension plan sponsors, pension plan consultants and banks.

**Corporate and Other Segment.** Comprised of investment performance on assets backing capital, net of amounts allocated to operating division and financing costs; External asset management business; Property and Casualty ("P&C") Reinsurance Business; as well as run-off reinsurance operations including variable annuities and accident and health.

Certain allocation methodologies are employed in the preparation of segmented financial information. Indirect expenses are allocated to business segments using allocation formulas applied on a consistent basis, while capital is apportioned to the Company's business segments using a risk based methodology. The Consolidated Statements of Income impact of changes in actuarial methods and assumptions (refer to note 8) is reported in the Corporate and Other segment.

As at and for the year ended December 31, 2014	Asia Division	Canadian Division	U.S. Division	Corporate and Other	Total
<b>Revenue</b>					
<b>Premium income</b>					
Life and health insurance	\$ 6,473	\$ 3,325	\$ 5,984	\$ 77	\$ 15,859
Annuities and pensions	802	403	819	–	2,024
<b>Net premium income</b>	\$ 7,275	\$ 3,728	\$ 6,803	\$ 77	\$ 17,883
Net investment income (loss)	3,349	7,434	17,533	(416)	27,900
Other revenue	1,334	2,611	4,531	263	8,739
<b>Total revenue</b>	\$ 11,958	\$ 13,773	\$ 28,867	\$ (76)	\$ 54,522
<b>Contract benefits and expenses</b>					
Life and health insurance	\$ 6,951	\$ 4,984	\$ 14,980	\$ 470	\$ 27,385
Annuities and pensions	1,057	3,673	6,384	–	11,114
<b>Net benefits and claims</b>	\$ 8,008	\$ 8,657	\$ 21,364	\$ 470	\$ 38,499
Interest expense	95	486	80	470	1,131
Other expenses	2,370	3,358	4,417	483	10,628
<b>Total contract benefits and expenses</b>	\$ 10,473	\$ 12,501	\$ 25,861	\$ 1,423	\$ 50,258
Income (loss) before income taxes	\$ 1,485	\$ 1,272	\$ 3,006	\$ (1,499)	\$ 4,264
Income tax recovery (expense)	(126)	(301)	(859)	615	(671)
<b>Net income (loss)</b>	\$ 1,359	\$ 971	\$ 2,147	\$ (884)	\$ 3,593
Less net income (loss) attributed to:					
Non-controlling interests	56	–	–	15	71
Participating policyholders	56	(32)	–	(3)	21
<b>Net income (loss) attributed to shareholders</b>	\$ 1,247	\$ 1,003	\$ 2,147	\$ (896)	\$ 3,501
<b>Total assets</b>	\$ 67,733	\$ 146,321	\$ 333,726	\$ 31,626	\$ 579,406

As at and for the year ended December 31, 2013	Asia Division	Canadian Division	U.S. Division	Corporate and Other	Total
<b>Revenue</b>					
<b>Premium income</b>					
Life and health insurance	\$ 5,769	\$ 3,208	\$ 6,294	\$ 82	\$ 15,353
Annuities and pensions	561	566	1,030	–	2,157
<b>Net premium income</b>	<b>\$ 6,330</b>	<b>\$ 3,774</b>	<b>\$ 7,324</b>	<b>\$ 82</b>	<b>\$ 17,510</b>
Net investment income (loss)	605	(358)	(5,620)	(2,374)	(7,747)
Other revenue	1,963	2,644	4,035	234	8,876
<b>Total revenue</b>	<b>\$ 8,898</b>	<b>\$ 6,060</b>	<b>\$ 5,739</b>	<b>\$ (2,058)</b>	<b>\$ 18,639</b>
<b>Contract benefits and expenses</b>					
Life and health insurance	\$ 4,171	\$ 2,526	\$ 376	\$ 776	\$ 7,849
Annuities and pensions	(346)	(816)	(2,834)	–	(3,996)
<b>Net benefits and claims</b>	<b>\$ 3,825</b>	<b>\$ 1,710</b>	<b>\$ (2,458)</b>	<b>\$ 776</b>	<b>\$ 3,853</b>
Interest expense	78	460	46	461	1,045
Other expenses	2,105	3,149	4,058	682	9,994
<b>Total contract benefits and expenses</b>	<b>\$ 6,008</b>	<b>\$ 5,319</b>	<b>\$ 1,646</b>	<b>\$ 1,919</b>	<b>\$ 14,892</b>
Income (loss) before income taxes	\$ 2,890	\$ 741	\$ 4,093	\$ (3,977)	\$ 3,747
Income tax recovery (expense)	(265)	8	(1,185)	861	(581)
<b>Net income (loss)</b>	<b>\$ 2,625</b>	<b>\$ 749</b>	<b>\$ 2,908</b>	<b>\$ (3,116)</b>	<b>\$ 3,166</b>
Less net income (loss) attributed to:					
Non-controlling interests	39	–	–	9	48
Participating policyholders	67	(79)	–	–	(12)
<b>Net income (loss) attributed to shareholders</b>	<b>\$ 2,519</b>	<b>\$ 828</b>	<b>\$ 2,908</b>	<b>\$ (3,125)</b>	<b>\$ 3,130</b>
<b>Total assets</b>	<b>\$ 60,708</b>	<b>\$ 137,723</b>	<b>\$ 295,394</b>	<b>\$ 19,803</b>	<b>\$ 513,628</b>

The results of the Company's business segments differ from geographic segmentation primarily as a consequence of segmenting the results of the Company's Corporate and Other segment into the different geographic segments to which its businesses pertain.

#### By geographic location

For the year ended December 31, 2014	Asia	Canada	U.S.	Other	Total
<b>Revenue</b>					
<b>Premium income</b>					
Life and health insurance	\$ 6,538	\$ 2,862	\$ 5,987	\$ 472	\$ 15,859
Annuities and pensions	802	403	819	–	2,024
<b>Net premium income</b>	<b>\$ 7,340</b>	<b>\$ 3,265</b>	<b>\$ 6,806</b>	<b>\$ 472</b>	<b>\$ 17,883</b>
Net investment income	3,336	7,547	16,839	178	27,900
Other revenue	1,352	2,512	4,852	23	8,739
<b>Total revenue</b>	<b>\$ 12,028</b>	<b>\$ 13,324</b>	<b>\$ 28,497</b>	<b>\$ 673</b>	<b>\$ 54,522</b>

#### For the year ended December 31, 2013

<b>Revenue</b>					
<b>Premium income</b>					
Life and health insurance	\$ 5,828	\$ 2,725	\$ 6,297	\$ 503	\$ 15,353
Annuities and pensions	561	566	1,030	–	2,157
<b>Net premium income</b>	<b>\$ 6,389</b>	<b>\$ 3,291</b>	<b>\$ 7,327</b>	<b>\$ 503</b>	<b>\$ 17,510</b>
Net investment income (loss)	(911)	(311)	(6,536)	11	(7,747)
Other revenue	1,973	2,607	4,268	28	8,876
<b>Total revenue</b>	<b>\$ 7,451</b>	<b>\$ 5,587</b>	<b>\$ 5,059</b>	<b>\$ 542</b>	<b>\$ 18,639</b>

## Note 21 Related Parties

### (a) Transactions with related parties

Related party transactions have been in the normal course of business and taken place at terms that would exist in arm's length transactions.

### (b) Transactions with MFLP

Transactions with MFLP, a wholly owned unconsolidated partnership, are described in note 19.

### (c) Compensation of key management personnel

Key management personnel of the Company are those that have the authority and responsibility for planning, directing and controlling the activities of the Company. Directors (both executive and non-executive) and senior management are considered key personnel. Accordingly, the summary of compensation of key management personnel is as follows.

For the years ended December 31,	2014	2013
Short-term employee benefits	\$ 25	\$ 21
Post-employment benefits	3	2
Share-based payments	30	23
Other long-term benefits	2	2
<b>Total</b>	<b>\$ 60</b>	<b>\$ 48</b>

## Note 22 Subsidiaries

The following is a list of the directly and indirectly held major operating subsidiaries of Manulife Financial Corporation.

### As at December 31, 2014

(100% owned unless otherwise noted in brackets beside company name)

	Address	Description
<b>The Manufacturers Life Insurance Company</b>	Toronto, Canada	Leading Canadian-based financial services company that offers a diverse range of financial protection products and wealth management services
Manulife Holdings (Alberta) Limited	Calgary, Canada	Holding company
John Hancock Financial Corporation	Wilmington, Delaware, U.S.A.	Holding company
The Manufacturers Investment Corporation	Michigan, U.S.A.	Holding company
John Hancock Life Insurance Company (U.S.A.)	Michigan, U.S.A.	U.S. life insurance company licensed in all states, except New York
John Hancock Subsidiaries LLC	Wilmington, Delaware, U.S.A.	Holding company
John Hancock Financial Network, Inc.	Boston, Massachusetts, U.S.A.	Financial services distribution organization
The Berkeley Financial Group, LLC	Boston, Massachusetts, U.S.A.	Holding company
John Hancock Advisers, LLC	Boston, Massachusetts, U.S.A.	Investment advisor
John Hancock Funds, LLC	Boston, Massachusetts, U.S.A.	Broker-dealer
Hancock Natural Resource Group, Inc.	Boston, Massachusetts, U.S.A.	Manager of globally diversified timberland and agricultural portfolios
John Hancock Life Insurance Company of New York	New York, U.S.A.	U.S. life insurance company licensed in New York
John Hancock Investment Management Services, LLC	Boston, Massachusetts, U.S.A.	Investment advisor
John Hancock Life & Health Insurance Company	Boston, Massachusetts, U.S.A.	U.S. life insurance company licensed in all states
John Hancock Distributors LLC	Wilmington, Delaware, U.S.A.	Broker-dealer
John Hancock Insurance Agency, Inc.	Wilmington, Delaware, U.S.A.	Insurance agency

**As at December 31, 2014**

(100% owned unless otherwise noted in brackets beside company name)

	<b>Address</b>	<b>Description</b>
Manulife Reinsurance Limited	Hamilton, Bermuda	Provides life and financial reinsurance to affiliates
Manulife Reinsurance (Bermuda) Limited	Hamilton, Bermuda	Provides life and annuity reinsurance to affiliates
Manulife Bank of Canada	Waterloo, Canada	Provides integrated banking products and service options not available from an insurance company
FNA Financial Inc.	Toronto, Canada	Holding company
Manulife Asset Management Limited	Toronto, Canada	Provides investment counseling, portfolio and mutual fund management in Canada
First North American Insurance Company	Toronto, Canada	Property and casualty insurance company
NAL Resources Management Limited	Calgary, Canada	Management company for oil and gas properties
Manulife Resources Limited	Calgary, Canada	Holds oil and gas properties
Manulife Property Limited Partnership	Toronto, Canada	Holds oil and gas royalties and European equities
Manulife Western Holdings Limited Partnership	Calgary, Canada	Holds oil and gas properties
Manulife Securities Investment Services Inc.	Oakville, Canada	Mutual fund dealer for Canadian operations
Manulife Holdings (Bermuda) Limited	Hamilton, Bermuda	Holding company
Manufacturers P & C Limited	St. Michael, Barbados	Provides property, casualty and financial reinsurance
Manulife Financial Asia Limited	Hong Kong, China	Holding company
Manulife (Cambodia) PLC	Phnom Penh, Cambodia	Life insurance company
Manufacturers Life Reinsurance Limited	St. Michael, Barbados	Provides life and annuity reinsurance to affiliates
Manulife (Vietnam) Limited	Ho Chi Minh City, Vietnam	Life insurance company
Manulife Asset Management (Vietnam) Company Limited	Ho Chi Minh City, Vietnam	Fund management company
Manulife International Holdings Limited	Hong Kong, China	Holding company
Manulife (International) Limited	Hong Kong, China	Life insurance company
Manulife-Sinochem Life Insurance Co. Ltd. (51%)	Shanghai, China	Life insurance company
Manulife Asset Management International Holdings Limited	Hong Kong, China	Holding company
Manulife Asset Management (Hong Kong) Limited	Hong Kong, China	Investment management and advisory company marketing mutual funds
Manulife Asset Management (Taiwan) Co., Ltd.	Taipei, Taiwan	Asset management company
Manulife Life Insurance Company	Tokyo, Japan	Life insurance company
Manulife Asset Management (Japan) Limited	Tokyo, Japan	Investment management and advisory company
Manulife Investments Japan Limited	Tokyo, Japan	Investment management and mutual fund business
Manulife Insurance (Thailand) Public Company Limited (91.5%)(1)	Bangkok, Thailand	Life insurance company

**As at December 31, 2014**

(100% owned unless otherwise noted in brackets beside company name)

	<b>Address</b>	<b>Description</b>
Manulife Asset Management (Thailand) Company Limited (93.2%) <sup>(1)</sup>	Bangkok, Thailand	Investment management company
Manulife Holdings Berhad (59.5%)	Kuala Lumpur, Malaysia	Holding company
Manulife Insurance Berhad (59.5%)	Kuala Lumpur, Malaysia	Life insurance company
Manulife Asset Management Services Berhad (59.5%)	Kuala Lumpur, Malaysia	Asset management company
Manulife (Singapore) Pte. Ltd.	Singapore	Life insurance company
Manulife Asset Management (Singapore) Pte. Ltd.	Singapore	Asset management company
The Manufacturers Life Insurance Co. (Phils.), Inc.	Makati City, Philippines	Life insurance company
Manulife Chinabank Life Assurance Corporation (60%)	Makati City, Philippines	Life insurance company
PT Asuransi Jiwa Manulife Indonesia	Jakarta, Indonesia	Life insurance company
PT Manulife Asset Manajemen Indonesia	Jakarta, Indonesia	Investment management company marketing mutual funds and discretionary funds
Manulife Asset Management (Europe) Limited	London, England	Investment management company for Manulife Financial's international funds
EIS Services (Bermuda) Limited	Hamilton, Bermuda	Investment holding company
Berkshire Insurance Services Inc.	Toronto, Canada	Investment holding company
JH Investments (Delaware) LLC	Boston, Massachusetts, U.S.A.	Investment holding company
Manulife Securities Incorporated	Oakville, Canada	Investment dealer
Manulife Asset Management (North America) Limited	Toronto, Canada	Investment advisor
Regional Power Inc.	Mississauga, Canada	Developer and operator of hydro-electric power projects
<b>John Hancock Reassurance Company Ltd.</b>	Hamilton, Bermuda	Provides life, annuity and long-term care reinsurance to affiliates

<sup>(1)</sup> MFC voting rights percentages are the same as the ownership percentages except for Manulife Insurance (Thailand) Public Company Limited and Manulife Asset Management (Thailand) Company Limited where MFC's voting rights are 97.4% and 97.9% respectively.

**Note 23 Segregated Funds**

The Company manages a number of segregated funds, which generate fee revenue, on behalf of policyholders. Policyholders are provided the opportunity to invest in different categories of segregated funds that respectively hold a range of underlying investments. The Company retains legal title to the underlying investments; however, returns from these investments belong to the policyholders. Accordingly, the Company does not bear the risk associated with these assets outside of guarantees offered on certain variable life and annuity products. The "Risk Management and Risk Factors" section of the Company's 2014 MD&A provides information regarding variable annuity and segregated fund guarantees.

The composition of net assets by categories of segregated funds was within the following ranges for the years ended December 31, 2014 and 2013.

<b>Type of fund</b>	<b>Ranges in per cent</b>	
	<b>2014</b>	<b>2013</b>
Money market funds	<b>2 to 3%</b>	2 to 3%
Fixed income funds	<b>12 to 13%</b>	12 to 15%
Balanced funds	<b>27 to 30%</b>	29 to 32%
Equity funds	<b>55 to 58%</b>	50 to 56%

Money market funds consist of investments that have a term of maturity of less than one year. Fixed income funds primarily consist of investments in fixed grade income securities and may contain smaller investments in diversified equities or high-yield bonds. Relative

to fixed income funds, balanced funds consist of fixed income securities and a larger equity investment component. The types of equity funds available to policyholders range from low volatility equity funds to aggressive equity funds. Equity funds invest in a varying mix of Canadian, U.S. and global equities.

The underlying investments of the segregated funds consist of both individual securities and mutual funds (collectively "net assets"), some of which may be considered to be structured entities. The carrying value and change in segregated funds net assets are as follows.

### Segregated funds net assets

As at December 31,	2014	2013
<b>Investments at market value</b>		
Cash and short-term securities	\$ 2,790	\$ 2,540
Debt securities	7,246	7,472
Equities	7,386	6,615
Mutual funds	236,880	220,936
Other investments	2,695	2,596
Accrued investment income	127	89
Other liabilities, net	(390)	(202)
<b>Total segregated funds net assets</b>	<b>\$ 256,734</b>	<b>\$ 240,046</b>
<b>Composition of segregated funds net assets</b>		
Held by policyholders	\$ 256,532	\$ 239,871
Held by the Company (seed money reported in other invested assets)	202	175
<b>Total segregated funds net assets</b>	<b>\$ 256,734</b>	<b>\$ 240,046</b>

The total segregated fund net assets are presented separately on the Consolidated Statements of Financial Position. Refer to note 4(g) for the fair value disclosures.

### Changes in segregated funds net assets

For the years ended December 31,	2014	2013
<b>Net policyholder cash flow</b>		
Deposits from policyholders	\$ 24,112	\$ 23,059
Net transfers to general fund	(602)	(624)
Payments to policyholders	(35,636)	(30,032)
	<b>\$ (12,126)</b>	<b>\$ (7,597)</b>
<b>Investment related</b>		
Interest and dividends	\$ 10,743	\$ 8,489
Net realized and unrealized investment gains	6,481	25,720
	<b>\$ 17,224</b>	<b>\$ 34,209</b>
<b>Other</b>		
Management and administration fees	\$ (3,897)	\$ (3,697)
Sale of Taiwan insurance business	-	(522)
Impact of changes in foreign exchange rates	15,487	8,290
	<b>\$ 11,590</b>	<b>\$ 4,071</b>
Net additions	\$ 16,688	\$ 30,683
Segregated funds net assets, beginning of year	240,046	209,363
<b>Segregated funds net assets, end of year</b>	<b>\$ 256,734</b>	<b>\$ 240,046</b>

The net assets may be exposed to a variety of financial and other risks. These risks are primarily mitigated by investment guidelines that are actively monitored by professional and experienced portfolio advisors. The Company is not exposed to these risks beyond the liabilities related to the guarantees associated with certain variable life and annuity products. Accordingly, the Company's exposure to loss from segregated fund products is limited to the value of these guarantees.

These guarantee liabilities are recorded within the Company's insurance contract liabilities. Assets supporting these guarantees are recognized in invested assets according to their investment type. The "Risk Management and Risk Factors" section of the Company's 2014 MD&A provides information regarding the risks associated with variable annuity and segregated fund guarantees.

### Note 24 Information Provided in Connection with Investments in Deferred Annuity Contracts and Signature Notes Issued or Assumed by John Hancock Life Insurance Company (U.S.A.)

The following condensed consolidating financial information, presented in accordance with IFRS, and the related disclosure have been included in these Consolidated Financial Statements with respect to JHUSA in compliance with Regulation S-X and Rule 12h-5 of the United States Securities and Exchange Commission (the "Commission"). These financial statements are incorporated by reference in the registration statements of MFC and its subsidiaries that are described below and which relate to MFC's guarantee of certain securities to be issued by its subsidiaries.



JHUSA sells deferred annuity contracts that feature a market value adjustment and are registered with the Commission. The deferred annuity contracts contain variable investment options and fixed investment period options. The fixed investment period options enable the participant to invest fixed amounts of money for fixed terms at fixed interest rates, subject to a market value adjustment if the participant desires to terminate a fixed investment period before its maturity date. The annuity contract provides for the market value adjustment to keep the parties whole with respect to the fixed interest bargain for the entire fixed investment period. These fixed investment period options that contain a market value adjustment feature are referred to as "MVAs".

JHUSA may also sell medium-term notes to retail investors under its *SignatureNotes* program.

Effective December 31, 2009, John Hancock Variable Life Insurance Company (the "Variable Company") and John Hancock Life Insurance Company (the "Life Company") merged with and into JHUSA. In connection with the mergers, JHUSA assumed the Variable Company's rights and obligations with respect to the MVAs issued by the Variable Company and the Life Company's rights and obligations with respect to the *SignatureNotes* issued by the Life Company.

MFC fully and unconditionally guaranteed the payment obligations of JHUSA under the MVAs and of JHUSA under the *SignatureNotes* (including the MVAs and *SignatureNotes* assumed by JHUSA in the merger), and such MVAs and the *SignatureNotes* were registered with the Commission. The *SignatureNotes* and MVAs assumed or issued by JHUSA are collectively referred to in this note as the "Guaranteed Securities". JHUSA is, and each of the Variable Company and the Life Company was, a wholly owned subsidiary of MFC.

MFC's guarantees of the Guaranteed Securities are unsecured obligations of MFC, and are subordinated in right of payment to the prior payment in full of all other obligations of MFC, except for other guarantees or obligations of MFC which by their terms are designated as ranking equally in right of payment with or subordinate to MFC's guarantees of the Guaranteed Securities.

The laws of the State of New York govern MFC's guarantees of the *SignatureNotes* issued or assumed by JHUSA and the laws of the Commonwealth of Massachusetts govern MFC's guarantees of the MVAs issued or assumed by JHUSA. MFC has consented to the jurisdiction of the courts of New York and Massachusetts. However, because a substantial portion of MFC's assets are located outside the United States, the assets of MFC located in the United States may not be sufficient to satisfy a judgment given by a federal or state court in the United States to enforce the subordinate guarantees. In general, the federal laws of Canada and the laws of the Province of Ontario, where MFC's principal executive offices are located, permit an action to be brought in Ontario to enforce such a judgment provided that such judgment is subsisting and unsatisfied for a fixed sum of money and not void or voidable in the United States and a Canadian court will render a judgment against MFC in a certain dollar amount, expressed in Canadian dollars, subject to customary qualifications regarding fraud, violations of public policy, laws limiting the enforcement of creditor's rights and applicable statutes of limitations on judgments. There is currently no public policy in effect in the Province of Ontario that would support avoiding the recognition and enforcement in Ontario of a judgment of a New York or Massachusetts court on MFC's guarantees of the *SignatureNotes* issued or assumed by JHUSA or a Massachusetts court on guarantees of the MVAs issued or assumed by JHUSA.

MFC is a holding company. The assets of MFC consist primarily of the outstanding capital stock of its subsidiaries and investments in other international subsidiaries. MFC's cash flows primarily consist of dividends and interest payments from its operating subsidiaries, offset by expenses and shareholder dividends and stock repurchases for MFC. As a holding company, MFC's ability to meet its cash requirements, including, but not limited to, paying any amounts due under its guarantees, substantially depends upon dividends from its operating subsidiaries.

These subsidiaries are subject to certain regulatory restrictions under laws in Canada, the United States and certain other countries, which may limit their ability to pay dividends or make contributions or loans to MFC. For example, some of MFC's subsidiaries are subject to restrictions prescribed by the ICA on their ability to declare and pay dividends. The restrictions related to dividends imposed by the ICA are described in note 15.

In the United States, insurance laws in Michigan, New York, Massachusetts and Vermont, the jurisdictions in which certain U.S. insurance company subsidiaries of MFC are domiciled, impose general limitations on the payment of dividends and other upstream distributions or loans by these insurance subsidiaries. These limitations are described in note 15.

In Asia, the insurance laws of the jurisdictions in which MFC operates either provide for specific restrictions on the payment of dividends or other distributions or loans by subsidiaries or impose solvency or other financial tests, which could affect the ability of subsidiaries to pay dividends in certain circumstances.

There can be no assurance that any current or future regulatory restrictions in Canada, the United States or Asia will not impair MFC's ability to meet its cash requirements, including, but not limited to, paying any amounts due under its guarantee.

The following condensed consolidating financial information, presented in accordance with IFRS, reflects the effects of the mergers and is provided in compliance with Regulation S-X and in accordance with Rule 12h-5 of the Commission.

## Condensed Consolidating Statement of Financial Position

As at December 31, 2014	MFC (Guarantor)	JHUSA (Issuer)	Other subsidiaries	Consolidation adjustments	Consolidated MFC
<b>Assets</b>					
Invested assets	\$ 2,260	\$ 104,295	\$ 163,115	\$ (360)	\$ 269,310
Investments in unconsolidated subsidiaries	37,545	5,570	15,013	(58,128)	–
Reinsurance assets	–	34,001	6,062	(21,538)	18,525
Other assets	280	28,251	31,062	(24,554)	35,039
Segregated funds net assets	–	160,789	97,204	(1,461)	256,532
<b>Total assets</b>	<b>\$ 40,085</b>	<b>\$ 332,906</b>	<b>\$ 312,456</b>	<b>\$ (106,041)</b>	<b>\$ 579,406</b>
<b>Liabilities and equity</b>					
Insurance contract liabilities	\$ –	\$ 127,358	\$ 124,406	\$ (22,251)	\$ 229,513
Investment contract liabilities and deposits	–	1,494	1,155	(5)	2,644
Other liabilities	495	27,080	40,950	(23,265)	45,260
Long-term debt	3,720	–	247	(82)	3,885
Liabilities for preferred shares and capital instruments	344	1,173	4,652	(743)	5,426
Liabilities for subscription receipts	2,220	–	–	–	2,220
Segregated funds net liabilities	–	160,789	97,204	(1,461)	256,532
Shareholders' equity	33,306	15,012	43,223	(58,235)	33,306
Participating policyholders' equity	–	–	156	–	156
Non-controlling interests	–	–	463	1	464
<b>Total liabilities and equity</b>	<b>\$ 40,085</b>	<b>\$ 332,906</b>	<b>\$ 312,456</b>	<b>\$ (106,041)</b>	<b>\$ 579,406</b>

## Condensed Consolidating Statement of Financial Position

As at December 31, 2013	MFC (Guarantor)	JHUSA (Issuer)	Other subsidiaries	Consolidation adjustments	Consolidated MFC
<b>Assets</b>					
Invested assets	\$ 28	\$ 89,552	\$ 143,184	\$ (55)	\$ 232,709
Investments in unconsolidated subsidiaries	33,831	4,561	13,269	(51,661)	–
Reinsurance assets	–	25,891	6,454	(14,902)	17,443
Other assets	241	19,258	23,498	(19,392)	23,605
Segregated funds net assets	–	150,448	90,812	(1,389)	239,871
<b>Total assets</b>	<b>\$ 34,100</b>	<b>\$ 289,710</b>	<b>\$ 277,217</b>	<b>\$ (87,399)</b>	<b>\$ 513,628</b>
<b>Liabilities and equity</b>					
Insurance contract liabilities	\$ –	\$ 103,945	\$ 104,847	\$ (15,550)	\$ 193,242
Investment contract liabilities and deposits	–	1,444	1,085	(5)	2,524
Other liabilities	623	19,561	37,925	(18,311)	39,798
Long-term debt	4,610	–	15	150	4,775
Liabilities for preferred shares and capital instruments	344	1,077	3,645	(681)	4,385
Segregated funds net liabilities	–	150,448	90,812	(1,389)	239,871
Shareholders' equity	28,523	13,235	38,379	(51,614)	28,523
Participating policyholders' equity	–	–	134	–	134
Non-controlling interests	–	–	375	1	376
<b>Total liabilities and equity</b>	<b>\$ 34,100</b>	<b>\$ 289,710</b>	<b>\$ 277,217</b>	<b>\$ (87,399)</b>	<b>\$ 513,628</b>

## Condensed Consolidating Statement of Income

For the year ended December 31, 2014	MFC (Guarantor)	JHUSA (Issuer)	Other subsidiaries	Consolidation adjustments	Consolidated MFC
<b>Revenue</b>					
Net premium income	\$ –	\$ 4,971	\$ 12,912	\$ –	\$ 17,883
Net investment income (loss)	422	14,107	14,484	(1,113)	27,900
Net other revenue	(4)	2,228	13,010	(6,495)	8,739
<b>Total revenue</b>	<b>\$ 418</b>	<b>\$ 21,306</b>	<b>\$ 40,406</b>	<b>\$ (7,608)</b>	<b>\$ 54,522</b>
<b>Contract benefits and expenses</b>					
Net benefits and claims	\$ –	\$ 17,852	\$ 25,349	\$ (4,702)	\$ 38,499
Commissions, investment and general expenses	10	2,803	9,345	(1,817)	10,341
Other expenses	263	272	1,972	(1,089)	1,418
<b>Total contract benefits and expenses</b>	<b>\$ 273</b>	<b>\$ 20,927</b>	<b>\$ 36,666</b>	<b>\$ (7,608)</b>	<b>\$ 50,258</b>
<b>Income before income taxes</b>	<b>\$ 145</b>	<b>\$ 379</b>	<b>\$ 3,740</b>	<b>\$ –</b>	<b>\$ 4,264</b>
Income tax (expense) recovery	(43)	143	(771)	–	(671)
<b>Income after income taxes</b>	<b>\$ 102</b>	<b>\$ 522</b>	<b>\$ 2,969</b>	<b>\$ –</b>	<b>\$ 3,593</b>
Equity in net income (loss) of unconsolidated subsidiaries	3,399	603	1,125	(5,127)	–
<b>Net income (loss)</b>	<b>\$ 3,501</b>	<b>\$ 1,125</b>	<b>\$ 4,094</b>	<b>\$ (5,127)</b>	<b>\$ 3,593</b>
Net income (loss) attributed to:					
Non-controlling interests	\$ –	\$ –	\$ 71	\$ –	\$ 71
Participating policyholders	–	(67)	21	67	21
Shareholders	3,501	1,192	4,002	(5,194)	3,501
	<b>\$ 3,501</b>	<b>\$ 1,125</b>	<b>\$ 4,094</b>	<b>\$ (5,127)</b>	<b>\$ 3,593</b>

## Condensed Consolidating Statement of Income

For the year ended December 31, 2013	MFC (Guarantor)	JHUSA (Issuer)	Other subsidiaries	Consolidation adjustments	Consolidated MFC
<b>Revenue</b>					
Net premium income	\$ –	\$ 5,054	\$ 12,322	\$ 134	\$ 17,510
Net investment income (loss)	250	(5,220)	(1,507)	(1,270)	(7,747)
Net other revenue	(6)	1,529	4,956	2,397	8,876
<b>Total revenue</b>	<b>\$ 244</b>	<b>\$ 1,363</b>	<b>\$ 15,771</b>	<b>\$ 1,261</b>	<b>\$ 18,639</b>
<b>Contract benefits and expenses</b>					
Net benefits and claims	\$ –	\$ (2,692)	\$ 2,728	\$ 3,817	\$ 3,853
Commissions, investment and general expenses	22	2,773	8,153	(1,265)	9,683
Other expenses	280	212	2,155	(1,291)	1,356
<b>Total contract benefits and expenses</b>	<b>\$ 302</b>	<b>\$ 293</b>	<b>\$ 13,036</b>	<b>\$ 1,261</b>	<b>\$ 14,892</b>
<b>Income (loss) before income taxes</b>	<b>\$ (58)</b>	<b>\$ 1,070</b>	<b>\$ 2,735</b>	<b>\$ –</b>	<b>\$ 3,747</b>
Income tax (expense) recovery	12	(206)	(387)	–	(581)
<b>Income (loss) after income taxes</b>	<b>\$ (46)</b>	<b>\$ 864</b>	<b>\$ 2,348</b>	<b>\$ –</b>	<b>\$ 3,166</b>
Equity in net income (loss) of unconsolidated subsidiaries	3,176	454	1,318	(4,948)	–
<b>Net income (loss)</b>	<b>\$ 3,130</b>	<b>\$ 1,318</b>	<b>\$ 3,666</b>	<b>\$ (4,948)</b>	<b>\$ 3,166</b>
Net income (loss) attributed to:					
Non-controlling interests	\$ –	\$ –	\$ 49	\$ (1)	\$ 48
Participating policyholders	–	(9)	(14)	11	(12)
Shareholders	3,130	1,327	3,631	(4,958)	3,130
	<b>\$ 3,130</b>	<b>\$ 1,318</b>	<b>\$ 3,666</b>	<b>\$ (4,948)</b>	<b>\$ 3,166</b>

## Consolidating Statement of Cash Flows

For the year ended December 31, 2014	MFC (Guarantor)	JHUSA (Issuer)	Other subsidiaries	Consolidation adjustments	Consolidated MFC
<b>Operating activities</b>					
Net income (loss)	\$ 3,501	\$ 1,125	\$ 4,094	\$ (5,127)	\$ 3,593
Adjustments:					
Equity in net income of unconsolidated subsidiaries	(3,399)	(603)	(1,125)	5,127	-
Increase in insurance contract liabilities	-	13,102	11,083	-	24,185
Increase in investment contract liabilities	-	53	12	-	65
(Increase) decrease in reinsurance assets	-	(5,461)	5,967	-	506
Amortization of (premium) discount on invested assets	-	4	(5)	-	(1)
Other amortization	3	99	360	-	462
Net realized and unrealized (gains) losses and impairments on assets	(56)	(9,497)	(7,759)	-	(17,312)
Deferred income tax expense (recovery)	38	710	(650)	-	98
Stock option expense	-	(2)	16	-	14
Adjusted net income (loss)	\$ 87	\$ (470)	\$ 11,993	\$ -	\$ 11,610
Dividends from unconsolidated subsidiary	2,400	-	571	(2,971)	-
Changes in policy related and operating receivables and payables	113	2,969	(3,886)	-	(804)
<b>Cash provided by (used in) operating activities</b>	<b>\$ 2,600</b>	<b>\$ 2,499</b>	<b>\$ 8,678</b>	<b>\$ (2,971)</b>	<b>\$ 10,806</b>
<b>Investing activities</b>					
Purchases and mortgage advances	\$ -	\$ (26,085)	\$ (36,669)	\$ -	\$ (62,754)
Disposals and repayments	-	26,157	32,714	-	58,871
Changes in investment broker net receivables and payables	-	(54)	70	-	16
Investment in common shares of subsidiaries	(246)	-	-	246	-
Net cash decrease from sale and purchase of subsidiaries and businesses	-	-	(199)	-	(199)
Capital contribution to unconsolidated subsidiaries	(361)	(40)	-	401	-
Return of capital from unconsolidated subsidiaries	-	79	-	(79)	-
Notes receivable from parent	-	-	171	(171)	-
Notes receivable from subsidiaries	73	3	-	(76)	-
<b>Cash provided by (used in) investing activities</b>	<b>\$ (534)</b>	<b>\$ 60</b>	<b>\$ (3,913)</b>	<b>\$ 321</b>	<b>\$ (4,066)</b>
<b>Financing activities</b>					
Increase in repurchase agreements and securities sold but not yet purchased	\$ -	\$ -	\$ 273	\$ -	\$ 273
Repayment of long-term debt	(1,000)	-	-	-	(1,000)
Issue of capital instruments, net	-	-	995	-	995
Reinsurance treaty settlement	-	(39)	39	-	-
Funds borrowed (repaid), net	-	(2)	3	-	1
Changes in deposits from bank clients, net	-	-	(1,526)	-	(1,526)
Shareholder dividends paid in cash	(910)	-	-	-	(910)
Distributions to non-controlling interests, net	-	-	(59)	-	(59)
Common shares issued, net	43	-	246	(246)	43
Preferred shares issued, net	(16)	-	-	-	(16)
Dividends paid to parent	-	(571)	(2,400)	2,971	-
Issue of subscription receipts	2,220	-	-	-	2,220
Capital contributions by parent	-	-	401	(401)	-
Return of capital to parent	-	-	(79)	79	-
Notes payable to parent	-	-	(76)	76	-
Notes payable to subsidiaries	(171)	-	-	171	-
<b>Cash provided by (used in) financing activities</b>	<b>\$ 166</b>	<b>\$ (612)</b>	<b>\$ (2,183)</b>	<b>\$ 2,650</b>	<b>\$ 21</b>
<b>Cash and short-term securities</b>					
Increase during the year	\$ 2,232	\$ 1,947	\$ 2,582	\$ -	\$ 6,761
Effect of foreign exchange rate changes on cash and short-term securities	1	328	461	-	790
Balance, beginning of year	27	3,643	9,216	-	12,886
<b>Balance, end of year</b>	<b>\$ 2,260</b>	<b>\$ 5,918</b>	<b>\$ 12,259</b>	<b>\$ -</b>	<b>\$ 20,437</b>
<b>Cash and short-term securities</b>					
<b>Beginning of year</b>					
Gross cash and short-term securities	\$ 28	\$ 4,091	\$ 9,511	\$ -	\$ 13,630
Net payments in transit, included in other liabilities	(1)	(448)	(295)	-	(744)
<b>Net cash and short-term securities, beginning of year</b>	<b>\$ 27</b>	<b>\$ 3,643</b>	<b>\$ 9,216</b>	<b>\$ -</b>	<b>\$ 12,886</b>
<b>End of year</b>					
Gross cash and short-term securities	\$ 2,260	\$ 6,311	\$ 12,508	\$ -	\$ 21,079
Net payments in transit, included in other liabilities	-	(393)	(249)	-	(642)
<b>Net cash and short-term securities, end of period</b>	<b>\$ 2,260</b>	<b>\$ 5,918</b>	<b>\$ 12,259</b>	<b>\$ -</b>	<b>\$ 20,437</b>
<b>Supplemental disclosures on cash flow information:</b>					
Interest received	\$ 2	\$ 4,121	\$ 4,800	\$ (25)	\$ 8,898
Interest paid	265	127	1,432	(745)	1,079
Income taxes paid	-	213	541	-	754

## Consolidating Statement of Cash Flows

For the year ended December 31, 2013	MFC (Guarantor)	JHUSA (Issuer)	Other subsidiaries	Consolidation adjustments	Consolidated MFC
<b>Operating activities</b>					
Net income (loss)	\$ 3,130	\$ 1,318	\$ 3,666	\$ (4,948)	\$ 3,166
Adjustments:					
Equity in net income of unconsolidated subsidiaries	(3,176)	(454)	(1,318)	4,948	–
Increase (decrease) in insurance contract liabilities	–	(9,025)	(1,105)	–	(10,130)
Increase (decrease) in investment contract liabilities	–	54	108	–	162
(Increase) decrease in reinsurance assets	–	3,904	(2,378)	–	1,526
Amortization of (premium) discount on invested assets	–	(20)	17	–	(3)
Other amortization	3	89	334	–	426
Net realized and unrealized (gains) losses and impairments on assets	20	9,676	8,090	–	17,786
Gain on sale of Taiwan insurance business	–	–	(479)	–	(479)
Deferred income tax expense (recovery)	(76)	632	(81)	–	475
Stock option expense	–	3	12	–	15
Adjusted net income (loss)	\$ (99)	\$ 6,177	\$ 6,866	\$ –	\$ 12,944
Dividends from unconsolidated subsidiary	1,200	–	319	(1,519)	–
Changes in policy related and operating receivables and payables	(57)	(6,139)	2,755	–	(3,441)
<b>Cash provided by (used in) operating activities</b>	<b>\$ 1,044</b>	<b>\$ 38</b>	<b>\$ 9,940</b>	<b>\$ (1,519)</b>	<b>\$ 9,503</b>
<b>Investing activities</b>					
Purchases and mortgage advances	\$ –	\$ (20,974)	\$ (46,827)	\$ –	\$ (67,801)
Disposals and repayments	–	21,032	36,689	–	57,721
Changes in investment broker net receivables and payables	–	61	(169)	–	(108)
Investment in common shares of subsidiaries	(401)	–	–	401	–
Net cash decrease from sale and purchase of subsidiaries and businesses	–	–	(359)	–	(359)
Redemption of preferred shares of subsidiaries	80	–	–	(80)	–
Capital contribution to unconsolidated subsidiaries	(247)	(93)	–	340	–
Return of capital from unconsolidated subsidiaries	–	278	–	(278)	–
Notes receivable from parent	–	–	(222)	222	–
Notes receivable from subsidiaries	205	3	–	(208)	–
<b>Cash provided by (used in) investing activities</b>	<b>\$ (363)</b>	<b>\$ 307</b>	<b>\$ (10,888)</b>	<b>\$ 397</b>	<b>\$ (10,547)</b>
<b>Financing activities</b>					
Decrease in repurchase agreements and securities sold but not yet purchased	\$ –	\$ (464)	\$ (7)	\$ –	\$ (471)
Repayment of long-term debt	(350)	–	–	–	(350)
Issue of capital instruments, net	–	–	448	–	448
Funds repaid, net	–	(5)	(122)	–	(127)
Secured borrowings from securitization transactions	–	–	750	–	750
Changes in deposits from bank clients, net	–	–	981	–	981
Shareholder dividends paid in cash	(761)	–	–	–	(761)
Contributions from non-controlling interests, net	–	–	15	–	15
Common shares issued, net	17	–	401	(401)	17
Preferred shares issued, net	196	–	(80)	80	196
Gain (loss) on intercompany transactions	–	79	(79)	–	–
Dividends paid to parent	–	(319)	(1,200)	1,519	–
Capital contributions by parent	–	–	340	(340)	–
Return of capital to parent	–	–	(278)	278	–
Notes payable to parent	–	–	(208)	208	–
Notes payable to subsidiaries	222	–	–	(222)	–
<b>Cash provided by (used in) financing activities</b>	<b>\$ (676)</b>	<b>\$ (709)</b>	<b>\$ 961</b>	<b>\$ 1,122</b>	<b>\$ 698</b>
<b>Cash and short-term securities</b>					
Increase (decrease) during the year	\$ 5	\$ (364)	\$ 13	\$ –	\$ (346)
Effect of foreign exchange rate changes on cash and short-term securities	1	259	219	–	479
Balance, beginning of year	22	3,747	8,984	–	12,753
<b>Balance, end of year</b>	<b>\$ 28</b>	<b>\$ 3,642</b>	<b>\$ 9,216</b>	<b>\$ –</b>	<b>\$ 12,886</b>
<b>Cash and short-term securities</b>					
<b>Beginning of year</b>					
Gross cash and short-term securities	\$ 22	\$ 4,122	\$ 9,242	\$ –	\$ 13,386
Net payments in transit, included in other liabilities	–	(375)	(258)	–	(633)
<b>Net cash and short-term securities, beginning of period</b>	<b>\$ 22</b>	<b>\$ 3,747</b>	<b>\$ 8,984</b>	<b>\$ –</b>	<b>\$ 12,753</b>
<b>End of period</b>					
Gross cash and short-term securities	\$ 28	\$ 4,091	\$ 9,511	\$ –	\$ 13,630
Net payments in transit, included in other liabilities	–	(449)	(295)	–	(744)
<b>Net cash and short-term securities, end of period</b>	<b>\$ 28</b>	<b>\$ 3,642</b>	<b>\$ 9,216</b>	<b>\$ –</b>	<b>\$ 12,886</b>
<b>Supplemental disclosures on cash flow information:</b>					
Interest received	\$ –	\$ 3,997	\$ 4,619	\$ –	\$ 8,616
Interest paid	290	107	1,137	(488)	1,046
Income taxes paid	–	791	319	–	1,110

## Note 25 Subsequent Event

On January 30, 2015, the Company completed its purchase of 100% of the shares of Standard Life Financial Inc. and of Standard Life Investments Inc., collectively the Canadian-based operations of Standard Life plc, for cash consideration of \$4 billion. On the same day, the Company's outstanding subscription receipts were automatically converted on a one-for-one basis for 105,647,334 MFC common shares with a stated value of approximately \$2.2 billion. The cash consideration included \$2.2 billion from net proceeds of the subscription receipts and \$1.8 billion from the general assets of the Company (refer to note 13).

The following table summarizes the unaudited assets and liabilities of the Canadian-based operations of Standard Life plc as at December 31, 2014.

<b>As at December 31, 2014</b>	<b>unaudited</b>
<b>Assets</b>	
Invested assets	<b>\$ 18,670</b>
Other assets	<b>970</b>
Segregated funds net assets	<b>31,251</b>
<b>Total assets</b>	<b>\$ 50,891</b>
<b>Liabilities</b>	
Insurance and investment contract liabilities	<b>\$ 16,271</b>
Other liabilities	<b>771</b>
Subordinated debentures	<b>403</b>
Segregated funds net liabilities	<b>31,251</b>
<b>Total liabilities</b>	<b>\$ 48,696</b>
<b>Net assets</b>	<b>\$ 2,195</b>

The difference between the purchase price and the determination of the final fair value of tangible net assets acquired as of January 30, 2015 represents goodwill and intangible assets. Due to the recent closing of the acquisition, the fair value determination and the initial purchase price accounting for the business combination have not been completed, and certain disclosures have not been provided. The final allocation of the purchase price as at January 30, 2015 will be determined after completing a comprehensive evaluation of the fair value of assets (including intangibles) and liabilities acquired at that date.

## Note 26 Comparatives

Certain comparative amounts have been reclassified to conform to the current year's presentation.

# Additional Actuarial Disclosures

## Source of Earnings

Manulife uses the Source of Earnings ("SOE") to identify the primary sources of gains or losses in each reporting period. It is one of the key tools the Company uses to understand and manage its business. The SOE is prepared following OSFI's regulatory guidelines, and in accordance with draft guidelines set out by the Canadian Institute of Actuaries ("CIA"). The SOE attributes each component of earnings to one of seven categories: expected profit from in-force business, the impact of new business, experience gains or losses (comparing actual to expected outcomes), the impact of management actions and changes in assumptions, earnings on surplus funds, other, and income taxes. In aggregate, these elements explain the \$3,501 million of net income attributed to shareholders in 2014.

Each of these seven sources is described below:

**Expected profit from in-force business** represents the formula-driven release of Provisions for Adverse Deviation ("PfADs") on the non-fee income insurance businesses, the expected net income on fee businesses, and the planned margins on one-year renewable businesses such as Group Benefits. PfADs are a requirement of the CIA's Standards of Practice, and represent additional amounts held in excess of the expected cost of discharging policy obligations in order to provide a margin of conservatism. These amounts are released over time as the Company is released from the risks associated with the policy obligations. The increase in 2014 over 2013 was driven by higher fee income as a result of growth in mutual fund and segregated fund assets, favourable currency movement, and lower amortization of deferred acquisition costs for our variable annuity business, partially offset by an increase in dynamic hedging costs due to the transfer of equity exposure from the macro to the dynamic hedging program during 2013.

For mutual fund and asset management businesses, starting from the third quarter of 2013, all pre-tax income is reported in expected profit from in-force business except the non-capitalized acquisition expenses which are reported in impact of new business.

**Impact of new business** represents the financial impact of new business written in the period, including acquisition expenses. Writing new business creates economic value, which is offset by PfADs and other limits on capitalization of this economic value in the actuarial liabilities. For business which does not have actuarial reserves, this represents the non-deferrable upfront cost of issuing the business. Consequently, the Company reported an overall loss in the Consolidated Statements of Income from new business in the first year. The new business loss in 2014 was in line with the loss in 2013.

**Experience gains or losses** arise from items such as claims, policy persistency, fee income, and expenses, where the actual experience in the current period differs from the expected results assumed in the insurance and investment contract liabilities. It also includes the experience gains or losses associated with actual investment returns and movements in investment markets differing from those expected on assets supporting the liabilities. For the majority of businesses, the expected future investment returns underlying the valuation are updated quarterly for investment market movements and this impact is also included in the experience gains and losses. This component also includes the impact of currency changes to the extent they are separately quantified. Experience gains do not include the impact of management actions or changes in assumptions during the reporting period, which are reported in "Management actions and changes in assumptions".

The experience gains in 2014 were primarily driven by the favourable impact of interest rate movements and favourable investment-related experience on general fund liabilities. The experience gains in 2013 were primarily driven by the favourable impact of equity market movements on segregated fund guarantees, including gains on the hedged block largely related to favourable fund manager performance, and favourable investment-related experience on general fund liabilities, partially offset by experience losses from macro hedges.

**Management actions and changes in assumptions** reflect the income impact of changes to valuation methods and assumptions for the insurance and investment contract liabilities and other management initiated actions in the year that are outside the normal course of business. All changes in the methods and assumptions impacting the insurance and investment contract liabilities are reported in the Corporate and Other ("Corporate") segment with a total consolidated shareholders' pre-tax earnings impact of a \$382 million charge in 2014 and a \$744 million charge in 2013. The changes in methods and assumptions in 2014 included updates of mortality assumptions in John Hancock Life Insurance, Canadian Retail Insurance, and John Hancock Annuities, updates of lapse and policyholder behaviour assumptions in Canadian Retail Insurance, enhancements to actuarial methods and modelling, and updates for changes made to the Canadian Actuarial Standards of Practice. Note 8 of the Consolidated Financial Statements provides additional details of the changes in actuarial methods and assumptions.

Material management action items reported in the Corporate segment in 2014 include the expected cost of equity macro hedges and losses from the sale of debt securities designated as available-for-sale ("AFS"). Material management action items reported in the Corporate segment in 2013 include the expected cost of equity macro hedges, losses from the sale of debt securities designated as AFS, and severance accrual and associated costs. Macro hedging costs were lower in 2014 than 2013 due to higher equity markets and the transfer of equity exposure from the macro to the dynamic hedging program during 2013.

Management action items reported in business segments are primarily driven by specific business unit actions. Management action items in Canada in 2014 included the beneficial impact of reinsurance recaptures. Management action items in Asia in 2013 included gains on the sale of the Taiwan insurance business and the beneficial impact of a reinsurance recapture in Hong Kong. Management action items in the U.S. in 2013 included the favourable impact of policyholder-approved changes to the investment objectives of separate accounts that support our variable annuity products.

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

**Other** represents pre-tax earnings items not included in any other line of the SOE, including non-controlling interests, and any earnings not otherwise explained in the SOE.

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

Manulife's net income attributed to shareholders for the full year 2014 increased to \$3,501 million from \$3,130 million the previous year.

#### For the year ended December 31, 2014

(C\$ millions)	Asia	Canadian	U.S.	Corporate and Other	Total
Expected profit on in-force business	\$ 931	\$ 1,161	\$ 1,686	\$ 31	\$ 3,809
Impact of new business	(19)	(163)	(71)	(3)	(256)
Experience gains (losses)	222	40	869	(364)	767
Management actions and changes in assumptions	2	62	2	(687)	(621)
Earnings (loss) on surplus funds	213	261	512	(502)	484
Other	24	(57)	8	14	(11)
<b>Income (loss) before income taxes</b>	<b>\$ 1,373</b>	<b>\$ 1,304</b>	<b>\$ 3,006</b>	<b>\$ (1,511)</b>	<b>\$ 4,172</b>
Income tax (expense) recovery	(126)	(301)	(859)	615	(671)
<b>Net income (loss) attributed to shareholders</b>	<b>\$ 1,247</b>	<b>\$ 1,003</b>	<b>\$ 2,147</b>	<b>\$ (896)</b>	<b>\$ 3,501</b>

#### For the year ended December 31, 2013

Expected profit on in-force business	\$ 982	\$ 1,045	\$ 1,648	\$ 16	\$ 3,691
Impact of new business	(80)	(132)	(48)	(3)	(263)
Experience gains (losses)	1,201	(316)	1,698	(1,874)	709
Management actions and changes in assumptions	504	–	297	(1,600)	(799)
Earnings (loss) on surplus funds	174	266	486	(531)	395
Other	3	(43)	12	6	(22)
<b>Income (loss) before income taxes</b>	<b>\$ 2,784</b>	<b>\$ 820</b>	<b>\$ 4,093</b>	<b>\$ (3,987)</b>	<b>\$ 3,711</b>
Income tax (expense) recovery	(265)	8	(1,185)	861	(581)
<b>Net income (loss) attributed to shareholders</b>	<b>\$ 2,519</b>	<b>\$ 828</b>	<b>\$ 2,908</b>	<b>\$ (3,125)</b>	<b>\$ 3,130</b>

## Embedded Value

The Company intends to make changes to its embedded value ("EV") and new business embedded value ("NBEV") disclosures as part of the first quarter of 2015 results. These changes will include several important refinements to the Company's assumptions and methodology which are expected to result in lower EV and NBEV; however, this does not impact the Company's earnings or earnings outlook. The Company also plans to exclude from EV and NBEV its wealth management business which has no material insurance risk (e.g. pension, mutual funds, and bank businesses). The Company is not providing EV as part of its December 31, 2014 results due to these upcoming changes. The EV as of December 31, 2014 will be disclosed with the first quarter of 2015 results on the new basis along with expanded disclosure.



# BOARD OF DIRECTORS

Current as at March 11, 2015

"Director Since" refers to the year of first election to the Board of Directors of The Manufacturers Life Insurance Company.

**Richard B. DeWolfe**

*Chairman of the Board*  
Manulife Financial  
Toronto, ON, Canada  
Director Since: 2004

**Susan F. Dabarno**

*Corporate Director*  
Bracebridge, ON, Canada  
Director Since: 2013

**Luther S. Helms**

*Managing Partner*  
Sonata Capital Group  
Paradise Valley, AZ, U.S.A.  
Director Since: 2007

**C. James Prieur**

*Corporate Director*  
Chicago, IL, U.S.A.  
Director Since: 2013

**Donald A. Guloien**

*President and Chief Executive Officer*  
Manulife Financial  
Toronto, ON, Canada  
Director Since: 2009

**Sheila S. Fraser**

*Corporate Director*  
Ottawa, ON, Canada  
Director Since: 2011

**Tsun-yan Hsieh**

*Chairman*  
Linhart Group Pte Ltd.  
Singapore, Singapore  
Director Since: 2011

**Andrea S. Rosen**

*Corporate Director*  
Toronto, ON, Canada  
Director Since: 2011

**Joseph P. Caron**

*President*  
Joseph Caron Incorporated  
West Vancouver, BC, Canada  
Director Since: 2010

**Scott M. Hand\***

*Executive Chairman of the Board*  
Royal Nickel Corporation  
Toronto, ON, Canada  
Director Since: 2007

**Donald R. Lindsay**

*President and Chief Executive Officer*  
Teck Resources Limited  
Vancouver, BC Canada  
Director Since: 2010

**Lesley D. Webster**

*President*  
Daniels Webster Capital Advisors  
Naples, FL, U.S.A.  
Director Since: 2012

**John M. Cassaday**

*President and Chief Executive Officer*  
Corus Entertainment Inc.  
Toronto, ON, Canada  
Director Since: 1993

**P. Thomas Jenkins**

*Chairman of the Board*  
OpenText Corporation  
Canmore, AB, Canada  
Director Since: 2015

**John R.V. Palmer**

*Corporate Director*  
Toronto, ON, Canada  
Director Since: 2009

\* Retiring from the Board of Directors on May 7, 2015

# CORPORATE OFFICERS

Dated: March 11, 2015

## EXECUTIVE COMMITTEE:

**Donald A. Guloien**

President and Chief Executive Officer

**Craig R. Bromley**

Senior Executive Vice President and General Manager, U.S. Division

**Robert A. Cook**

Senior Executive Vice President

**Cindy L. Forbes**

Executive Vice President and Chief Actuary

**Rocco (Roy) Gori**

Senior Executive Vice President and General Manager, Asia

**Marianne Harrison**

Senior Executive Vice President and General Manager, Canadian Division

**Scott S. Hartz**

Executive Vice President, General Account Investments

**Rahim Hirji**

Executive Vice President and Chief Risk Officer

**Stephani E. Kingsmill**

Executive Vice President, Human Resources

**Stephen B. Roder**

Senior Executive Vice President and Chief Financial Officer

**Paul L. Rooney**

Senior Executive Vice President and Chief Operating Officer

**Stephen P. Sigurdson**

Executive Vice President and General Counsel

**Kai R. Sotorp**

Executive Vice President, Global Business Head, Wealth and Asset Management

**Warren A. Thomson**

Senior Executive Vice President and Chief Investment Officer

## MANAGEMENT COMMITTEE

(includes members of Executive Committee plus):

**Kevin J.E. Adolphe**

Executive Vice President, Private Asset Management, Investment Division

**B. Charles Armstrong**

Senior Vice President, Chief Branding and Communications Officer

**Richard J. Brunet**

Executive Vice President, Institutional

**Joseph M. Cooper**

Executive Vice President, Global Services and Chief Information Officer

**Timothy G. Deacon**

Executive Vice President, Chief Financial Officer, Investment Division

**Michael F. Dommermuth**

Executive Vice President, Head of Wealth and Asset Management Asia

**Michael J. Doughy**

Executive Vice President, John Hancock Insurance, U.S. Division

**Steven A. Finch**

Executive Vice President and Chief Financial Officer, U.S. Division – John Hancock Financial Services

**James D. Gallagher**

Executive Vice President, General Counsel and Chief Administrative Officer, U.S. Division

**Charles Guay**

Executive Vice President and General Manager, Institutional Businesses and CEO of Quebec, Canadian Division

**Michael E. Huddart**

Executive Vice President, Greater China, Asia Division

**Paul R. Lorentz**

Executive Vice President and General Manager Retail (Individual Life and Wealth Management) Canadian Division

**Janice M. Madon**

Executive Vice President, Chief Financial Officer, Canadian Division

**H. Steven Moore**

Senior Vice President, Treasurer and Investor Relations

**Gavin L. Robinson**

Executive Vice President and General Manager of Japan, Asia Division

**Lynda D. Sullivan**

Executive Vice President and Controller

**D. Gregory Taylor**

Executive Vice President, Corporate Development and Strategy

**Peter F. Wilkinson**

Senior Vice President, Industry, Regulatory and Government Affairs

**Philip J. Witherington**

Executive Vice President, Chief Financial Officer, Asia Division

# Office Listing

## Corporate Headquarters

### Manulife Financial Corporation

200 Bloor Street East  
Toronto, ON  
Canada M4W 1E5  
Tel: 416 926-3000

### Canadian Division

**Head Office**  
500 King Street North  
Waterloo, ON  
Canada N2J 4C6  
Tel: 519 747-7000

**Group Benefits**  
600 Weber Street North  
Waterloo, ON  
Canada N2V 1K4  
Tel: 519 747-7000

### Individual Insurance and Group Retirement Solutions

25 Water Street South  
Kitchener, ON  
Canada N2G 4Z4  
Tel: 519 747-7000

### International Group Program

380 Stuart Street  
Boston, MA 02117  
U.S.A.  
Tel: 617 572-6000

### International Group Program—Europe

**John Hancock International Services S.A.**  
Avenue de Tervuren 270-272  
B-1150 Brussels, Belgium  
Tel: +32 02 775-2940

### Manulife Investments

200 Bloor Street East  
Toronto, ON  
Canada M4W 1E5  
Tel: 519 747-7000

### Manulife Bank of Canada

500 King Street North  
Waterloo, ON  
Canada N2J 4C6  
Tel: 519 747-7000

### Manulife Advisory Services

1235 North Service Road West  
Oakville, ON  
Canada L6M 2W2  
Tel: 905 469-2100

### Affinity Markets

2 Queen Street East  
Toronto, ON  
Canada M5C 3G7  
Tel: 519 747-7000

### U.S. Division

#### John Hancock Financial

##### Head Office and U.S. Wealth Management

601 Congress Street  
Boston, MA 02210  
U.S.A.  
Tel: 617 663-3000

##### U.S. Insurance

197 Clarendon Street  
Boston, MA 02117  
U.S.A.  
Tel: 617 572-6000

### Asia Division

**Head Office**  
48/F, The Lee Gardens  
33 Hysan Avenue  
Causeway Bay  
Hong Kong  
Tel: +852 2510-5888

### Cambodia

**Manulife (Cambodia) PLC**  
8/F, Siri Tower  
104 Russian Federation Boulevard  
Sangkat Toeuk Laak I,  
Khan Toul Kork,  
Phnom Penh, Cambodia  
Tel: 855 23 965 999

### China

#### Manulife-Sinochem Life Insurance Co. Ltd.

6/F, Jin Mao Tower  
88 Century Boulevard  
Pudong New Area  
Shanghai 200121  
P.R. China  
Tel: +86 21 2539-4770

#### Manulife-Teda Fund Management Co., Ltd.

3/F, South Block, Winland  
International Financial Center  
No.7 Financial Street  
XiCheng District  
Beijing 100033  
P.R. China  
Tel: +86 10 6657-7777

### Hong Kong

#### Manulife (International) Limited

22/F, Tower A  
Manulife Financial Centre  
223-231 Wai Yip Street  
Kwun Tong, Kowloon  
Hong Kong  
Tel: +852 2510-5600

#### Manulife Provident Funds Trust Company Limited

22/F, Tower A  
Manulife Financial Centre  
223-231 Wai Yip Street  
Kwun Tong, Kowloon  
Hong Kong  
Tel: +852 2510-5600

### Macau

#### Manulife (International) Limited

Avenida De Almeida Ribeiro No. 61  
Circle Square, 14 andar A  
Macau  
Tel: +853 8398-0388

### Indonesia

#### PT. Asuransi Jiwa Manulife Indonesia

3-17/F, South Tower, Sampoerna  
Strategic Square  
Jl. Jend. Sudirman Kav 45  
Jakarta 12930  
Indonesia  
Tel: +62 21 2555-7788

### Japan

#### Manulife Life Insurance Company

30<sup>th</sup> Floor, Tokyo Opera City  
3-20-2 Nishi Shinjuku, Shinjuku-ku  
Tokyo, Japan 163-1430  
Tel: +81 3 6331-7000

#### Manulife Investments Japan Limited

15/F Marunouchi Trust Tower North  
1-8-1 Marunouchi, Chiyoda-ku  
Tokyo, Japan 100-0005  
Tel: +81 3 6267-1900

### Malaysia

**Manulife Holdings Berhad**  
16<sup>th</sup> Floor, Menara Manulife  
No. 6 Jalan Gelenggang  
Damansara Heights  
50490 Kuala Lumpur, Malaysia  
Tel: +60 3 2719-9228

### Philippines

#### The Manufacturers Life Insurance Co. (Phils.), Inc.

LKG Tower  
16/F, 6801 Ayala Avenue  
1226 Makati City  
Philippines  
Tel: +63 2 884-5433

### Singapore

#### Manulife (Singapore) Pte Ltd.

51 Bras Basah Road  
#09-00 Manulife Centre  
Singapore 189554  
Tel: +65 6833-8162

### Thailand

#### Manulife Insurance (Thailand) Public Co. Ltd.

Manulife Place  
364/30 Sri Ayudhaya Road  
Rajthevi, Bangkok 10400  
Thailand  
Tel: +66 2 246-7650

### Vietnam

#### Manulife (Vietnam) Limited

Manulife Plaza  
75 Hoang Van Thai Street  
Tan Phu Ward, District 7  
Ho Chi Minh City  
Vietnam  
Tel: +84 8 5416-6888

### P&C Reinsurance Division

#### Manulife Re

Manufacturers P&C Limited  
The Goddard Building  
Haggatt Hall  
St. Michael, BB-11059  
Barbados, West Indies  
Tel: +246 228-4910

### Investment Division

#### Manulife Asset Management Limited

200 Bloor Street East  
Toronto, ON  
Canada M4W 1E5  
Tel: 416 852-2204

#### Manulife Asset Management (US) LLC

197 Clarendon Street  
Boston, MA 02116  
U.S.A.  
Tel: 617 375-1500

#### Manulife Asset Management (Asia), a division of Manulife Asset Management (Hong Kong) Limited

47/F, The Lee Gardens  
33 Hysan Avenue  
Causeway Bay, Hong Kong  
Tel: +852 2910-2600

#### Manulife Asset Management (Japan) Ltd

15/F Marunouchi Trust  
Tower North Building  
1-8-1 Marunouchi, Chiyoda-ku  
Tokyo, Japan 100-0005  
Tel: +81 3 6267-1940

### PT Manulife Aset Manajemen Indonesia

31/F, Sampoerna Strategic Square  
South Tower,  
Jalan Sudirman Kav. 45-46  
Jakarta, Indonesia 12930  
Tel: +6221 2555 7788

### Manulife Asset Management Services Berhad

16<sup>th</sup> Floor, Menara Manulife  
No. 6 Jalan Gelenggang,  
Damansara Heights  
50490 Kuala Lumpur, Malaysia  
Tel: +60 3 2719-9228

### Manulife Asset Management (Singapore) Pte. Ltd.

51 Bras Basah Road  
#11-02 Manulife Centre  
Singapore 189554  
Tel: +65 6501-5411

### Manulife Asset Management (Taiwan) Co., Ltd

9/F, No.89, Sungren Road, Taipei  
11073  
Taiwan, R.O.C.  
Tel: +886 2 2757 5615

### Manulife Asset Management (Thailand) Co., Ltd

6/F, Manulife Place  
364/30 Sri Ayudhaya Road, Rajthevi  
Bangkok. Thailand 10400  
Tel: +66 2 246 7650

### Manulife Asset Management (Vietnam) Co. Ltd

4/F, Manulife Plaza, 75 Hoang Van  
Thai, Tan Phu Ward,  
District 7, Ho Chi Minh City,  
Vietnam  
Tel: +84 8 5416 6777

### Manulife Asset Management (Europe) Limited

18 St. Swithin's Lane  
London, EC4N 8AD  
United Kingdom  
Tel: +44 20 7256-3500

### Manulife Capital

200 Bloor Street East  
Toronto, ON  
Canada M4W 1E5  
Tel: 416 926-5727

### Mortgage Division

200 Bloor Street East  
Toronto, ON  
Canada M4W 1E5  
Tel: 1 800 286-1909 (Canada)  
1 800 809-3082 (U.S.A.)

### NAL Resources Management Limited

550 6<sup>th</sup> Avenue S.W.  
Calgary, AB  
Canada T2P 0S2  
Tel: 403 294-3600

### Real Estate Division

250 Bloor Street East  
15<sup>th</sup> Floor  
Toronto, ON  
Canada M4W 1E5  
Tel: 416 926-5500

### Hancock Natural Resource Group

99 High Street, 26<sup>th</sup> Floor  
Boston, MA 02110-2320  
U.S.A.  
Tel: 617 747-1600

# Glossary of Terms

**Available-For-Sale (AFS) Financial Assets:** Non-derivative financial assets that are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments, or held for trading.

**Accumulated Other Comprehensive Income (AOCI):** A separate component of shareholders' equity which includes net unrealized gains and losses on AFS securities, net unrealized gains and losses on derivative instruments designated within an effective cash flow hedge, and unrealized foreign currency translation gains and losses. These items have been recognized in other comprehensive income and may be subsequently reclassified to net income. AOCI also includes remeasurement of pension and other post-employment plans, which is recognized in other comprehensive income and will never be reclassified to net income.

**Assets Under Management (AUM):** A measure of the size of the Company. It represents the total of the invested asset base that the Company and its customers invest in. AUM consists of the total of invested assets, segregated fund assets, institutional advisory accounts, mutual fund assets and other fund assets.

**Book Value per Share:** Ratio obtained by dividing common shareholders' equity by the number of common shares outstanding at the end of the period.

**Cash Flow Hedges:** A hedge of the exposure to variability in cash flows associated with a recognized asset or liability, a forecasted transaction or a foreign currency risk in an unrecognized firm commitment that is attributable to a particular risk and could affect reported net income.

**Constant Currency Basis:** Amounts stated on a constant currency basis are calculated by applying the most recent quarter's exchange rates to all prior periods.

**Core Earnings (Loss):** A measure to help investors better understand the long-term earnings capacity and valuation of the business. Core earnings excludes the direct impact of equity markets and interest rates as well as a number of other items that are considered material and exceptional in nature. While this metric is relevant to how we manage our business and offers a consistent methodology, it is not insulated from macro-economic factors, which can have a significant impact.

**Deferred Acquisition Costs (DAC):** Costs directly attributable to the acquisition of new business, principally agents' compensation, which are capitalized on the Company's Consolidated Statements of Financial Position and amortized into income over a specified period.

**Embedded Value:** A measure of shareholders' value embedded in the current balance sheet of the Company, excluding any value associated with future new business.

**Guarantee Value:** Typically within variable annuity products, the guarantee value refers to the level of the policyholder's protected account balance which is unaffected by market fluctuations.

**Hedging:** The practice of making an investment in a market or financial instrument for the purpose of offsetting or limiting potential losses from other investments or financial exposures.

**Dynamic Hedging:** A hedging technique which seeks to limit an investment's market exposure by adjusting the hedge as the underlying security changes (hence, "dynamic").

**Macro hedging:** An investment technique used to offset the risk of an entire portfolio of assets. A macro hedge reflects a more broad-brush approach which is not frequently adjusted to reflect market changes.

**International Financial Reporting Standards (IFRS):** Refers to the international accounting standards in Canada, effective January 1, 2011; this was a change from Canadian Generally Accepted Accounting Principles (CGAAP).

**Impaired Assets:** Mortgages, debt securities and other investment securities in default where there is no longer reasonable assurance of collection.

**In-Force:** Refers to the policies that are currently active.

**Long-Term Care (LTC) Insurance:** Insurance coverage available on an individual or group basis to provide reimbursement for medical and other services to the chronically ill, disabled, or mentally challenged.

**Minimum Continuing Capital and Surplus Requirements (MCCSR):** The ratio of the available capital of a life insurance company to its required capital, each as calculated under the Office of the Superintendent of Financial Institutions' (OSFI) published guidelines.

**New Business Embedded Value (NBEV):** The change in shareholders' economic value as a result of sales in the period. NBEV is calculated as the present value of expected future earnings, after the cost of capital, on new business using future mortality, morbidity, policyholder behaviour assumptions, and expense assumptions used in the pricing of the products sold. Investment assumptions are consistent with product pricing, updated to reflect current market conditions. Best estimate fixed income yields are updated quarterly, and long-term expected yields for alternative long-duration assets are typically updated during the annual planning cycle.

**New Business Strain:** The initial expense of writing an insurance policy that is incurred when the policy is written, and has an immediate negative impact on the Company's financial position. Over the life of the contract, future income (premiums, investment income, etc.) is expected to repay this initial outlay.

**Other than Temporary Impairment (OTTI):** A write down that is made if the institution does not expect the fair value of the security to recover prior to its maturity or the expected time of sale.

**Premiums and Deposits:** A measure of top line growth. The Company calculates premiums and deposits as the aggregate of (i) general fund premiums net of reinsurance, reported as premiums on the Consolidated Statements of Income, and investment contract deposits, (ii) segregated fund deposits,

excluding seed money, (“deposits from policyholders”), (iii) mutual fund deposits, (iv) deposits into institutional advisory accounts, (v) premium equivalents for “administration services only” group benefit contracts (“ASO premium equivalents”), (vi) premiums in the Canadian Group Benefits reinsurance ceded agreement, and (vii) other deposits in other managed funds.

**Policyholder Experience:** The actual cost in a reporting period from contingent events such as mortality, lapse and morbidity compared to the expected cost in that same reporting period using best estimate valuation assumptions.

**Provisions for Adverse Deviation (PfAD):** The amounts contained in the insurance and investment contract liabilities that represent conservatism against potential future deterioration of best estimate assumptions. These PfADs are released into income over time, and the release of these margins represents the future expected earnings stream.

**Insurance and Investment Contract Liabilities:** The amount of money set aside today, together with the expected future premiums and investment income, that will be sufficient to provide for future expected policyholder obligations and expenses while also providing some conservatism in the assumptions. Expected assumptions are reviewed and updated annually.

**Return on Common Shareholders’ Equity:** A profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

**Sales** are measured according to product type:

**Individual Insurance:** New annualized premiums reflect the annualized premiums expected in the first year of a policy that requires premium payments for more than one year. Sales are reported gross before the impact of reinsurance. Single premiums are weighted at 10% and consist of the lump sum premium from the sale of a single premium product, e.g. travel insurance.

**Group Insurance:** Sales include new annualized premiums and ASO premium equivalents on new cases, as well as the addition of new coverages and amendments to contracts, excluding rate increases.

**Individual Wealth Management:** All new deposits are reported as sales. This includes individual annuities, both fixed and variable; mutual funds; college savings 529 plans; and authorized bank loans and mortgages.

**Group Pensions:** New regular premiums reflect an estimate of expected deposits in the first year of the plan with the Company. Single premium sales reflect the assets transferred from the previous plan provider. Sales include the impact of the addition of a new division or of a new product to an existing client as well as increases in the contribution rate for an existing plan.

**Total Capital:** Capital funding that is both unsecured and permanent in nature. Comprises of total equity (excluding AOCI on cash flow hedges), liabilities for preferred shares, and capital instruments. For regulatory reporting purposes, the numbers are further adjusted for various additions or deductions to capital as mandated by the guidelines used by OSFI.

**Universal Life Insurance:** A form of permanent life insurance with flexible premiums. The customer may vary the premium payment and death benefit within certain restrictions. The contract is credited with a rate of interest based on the return of a portfolio of assets held by the Company, possibly with a minimum rate guarantee, which may be reset periodically at the discretion of the Company.

**Variable Annuity:** Funds are invested in segregated funds (also called separate accounts in the U.S.) and the return to the contract holder fluctuates according to the earnings of the underlying investments. In some instances, guarantees are provided.

**Variable Universal Life Insurance:** A form of permanent life insurance with flexible premiums in which the cash value and possibly the death benefit of the policy fluctuate according to the investment performance of segregated funds (or separate accounts).

# Shareholder Information

## MANULIFE FINANCIAL CORPORATION

HEAD OFFICE  
200 Bloor Street East  
Toronto, ON Canada M4W 1E5  
Telephone 416 926-3000  
Fax: 416 926-5454  
**Web site:** www.manulife.com

## ANNUAL MEETING OF SHAREHOLDERS

Shareholders are invited to attend the annual meeting of Manulife Financial Corporation to be held on May 7, 2015 at 11:00 a.m. in the International Room at 200 Bloor Street East, Toronto, ON, Canada M4W 1E5

## STOCK EXCHANGE LISTINGS

Manulife Financial Corporation's common shares are listed on:  
Toronto Stock Exchange (MFC)  
The New York Stock Exchange (MFC)  
The Stock Exchange of Hong Kong (945)  
Philippine Stock Exchange (MFC)

## INVESTOR RELATIONS

Financial analysts, portfolio managers and other investors requiring financial information may contact our Investor Relations Department or access our Web site at www.manulife.com.  
Fax: 416 926-6285  
E-mail: investor\_relations@manulife.com

## SHAREHOLDER SERVICES

**For information or assistance regarding your share account, including dividends, changes of address or ownership, lost certificates, to eliminate duplicate mailings or to receive shareholder material electronically,** please contact our Transfer Agents in Canada, the United States, Hong Kong or the Philippines. If you live outside one of these countries please contact our Canadian Transfer Agent.

## Direct Deposit of Dividends

Shareholders resident in Canada, the United States and Hong Kong may have their Manulife common share dividends deposited directly into their bank account. To arrange for this service please contact our Transfer Agents.

## Dividend Reinvestment Program

Canadian and U.S. resident common shareholders may purchase additional common shares without incurring brokerage or administrative fees by reinvesting their cash dividend through participation in Manulife's Dividend Reinvestment and Share Purchase Programs. For more information please contact our stock transfer agents: in Canada – CST Trust Company; in the United States – Computershare Inc.

**For other shareholder issues** please contact Manulife's Shareholder Services department by calling toll free (within North America) to 1 800 795-9767, ext 221022; from outside North America dial 416 926-3000, ext 221022; via fax: 416 926-3503 or via e-mail to shareholder\_services@manulife.com

## More information

Information about Manulife Financial Corporation, including electronic versions of documents and share and dividend information is available anytime online at [www.manulife.com](http://www.manulife.com)

## TRANSFER AGENTS

**Canada**  
CST Trust Company  
P.O. Box 700 Station B  
Montreal, QC Canada H3B 3K3  
Toll Free: 1 800 783-9495  
Collect: 416 682-3864  
E-mail: inquiries@canstockta.com  
Online: www.canstockta.com  
CST Trust Company offices are also located in Toronto, Halifax, Vancouver and Calgary.

## United States

Computershare Inc  
P.O. Box 30170  
College Station, TX 77842-3170  
Toll Free: 1 800 249-7702  
Collect: 201-680-6578  
E-mail: web\_queries@computershare.com  
Online: www.computershare.com/Investor

## Hong Kong

Computershare Hong Kong Investor Services Limited  
17M Floor, Hopewell Centre  
183 Queen's Road East  
Wan Chai, Hong Kong  
Telephone: 852 2862-8555  
E-mail: hkinfo@computershare.com.hk  
Online: www.computershare.com/Investor

## Philippines

The Hongkong and Shanghai Banking Corporation Limited  
HSBC Stock Transfer Unit  
7th Floor, HSBC Centre  
3058 Fifth Avenue West  
Bonifacio Global City  
Taguig City, 1634  
Philippines  
Telephone: PLDT 632 581-7595;  
GLOBE 632 976-7595

## AUDITORS

Ernst & Young LLP  
Chartered Professional Accountants  
Licensed Public Accountants  
Toronto, Canada

## DIVIDENDS

### Common Share Dividends Paid for 2013 and 2014

	Record Date	Payment Date	Per Share Amount Canadian (\$)
<b>Year 2014</b>			
Fourth Quarter	February 25, 2015	March 19, 2015	\$ 0.155
Third Quarter	November 25, 2014	December 19, 2014	\$ 0.155
Second Quarter	August 19, 2014	September 19, 2014	\$ 0.155
First Quarter	May 13, 2014	June 19, 2014	\$ 0.13
<b>Year 2013</b>			
Fourth Quarter	February 26, 2014	March 19, 2014	\$ 0.13
Third Quarter	November 19, 2013	December 19, 2013	\$ 0.13
Second Quarter	August 20, 2013	September 19, 2013	\$ 0.13
First Quarter	May 14, 2013	June 19, 2013	\$ 0.13

### Common and Preferred Share Dividend Dates in 2015\*

\* Dividends are not guaranteed and are subject to approval by the Board of Directors.

Record date	Payment date	
	Common Shares	Preferred Shares
February 25, 2015	March 19, 2015	March 19, 2015
May 20, 2015	June 19, 2015	June 19, 2015
August 18, 2015	September 21, 2015	September 19, 2015
November 24, 2015	December 21, 2015	December 19, 2015

### About Manulife

Manulife is a leading Canada-based financial services group with principal operations in Asia, Canada and the United States. We operate as John Hancock in the U.S. and as Manulife in other parts of the world. We provide strong, reliable, trustworthy and forward-thinking solutions for our customers' significant financial decisions. Our international network of employees, agents and distribution partners offers financial protection and wealth management products and services to millions of clients. We also provide asset management services to institutional customers. Assets under management by Manulife and its subsidiaries were approximately C\$691 billion (US\$596 billion) as at December 31, 2014.

Manulife Financial Corporation trades as 'MFC' on the TSX, NYSE and PSE, and under '945' on the SEHK. Manulife can be found on the Internet at [manulife.com](http://manulife.com).



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