

## Message to Shareholders



**Dominic D'Alessandro**

Over the past 10 years, we have worked very hard to make Manulife the excellent Company it is today: a clear leader in the life insurance industry in Canada by almost any measure and, increasingly, a leader in the global market.

Our management team, our employees, our distribution partners and our agents continue to deliver, year-over-year, on promises made to our customers and shareholders. That's why we have titled this year's annual report, "Promises Are For Life." To customers, we promise to deliver customized and innovative products and services. To our shareholders, we promise to provide superior financial returns and to remain financially strong. To employees, we promise to provide a challenging and rewarding workplace and to our distribution partners, we promise a broad and competitive product portfolio.

We pride ourselves on being able to deliver on these promises. Over the past decade, our earnings have grown at a compound annual growth rate of 24 per cent. We have also successfully integrated a number of acquisitions in Canada and Asia, thereby expanding our scale and scope. And, we have entered into new lines of business and new markets.

All of this has translated into tremendous growth in sales. We are also very proud of our strong capital base and the excellent quality of our investment portfolio, both of which have afforded Manulife among the highest credit ratings in the country and the insurance industry.

Our success is a testament to our strengths and experience in product innovation, distribution excellence, customer focus, risk and investment management, and technology. It is also a testament to the constancy with which we pursue our vision: to be the most professional life insurance company in the world, providing the very best financial protection and wealth accumulation products and services.

We think about growth all the time. We compete in an industry that is mature and highly competitive, and in such an environment, product and distribution excellence, scale, and execution skills determine which companies will achieve the superior returns and excellent growth rates that shareholders demand. We can certainly get to that point through organic growth and continued expense management. We can also seize opportunities that get us there

faster and establish us as an undisputed leader in the global financial services marketplace.

Merging with John Hancock Financial Services, including its Canadian subsidiary, Maritime Life, is one such opportunity. We announced our intent to merge with the eighth largest life insurer in the United States on September 28, 2003 and by the time this report is in your hands, I expect we will be completing the largest cross-border transaction in Canadian history. At a vote on February 24th of this year, Hancock's shareholders overwhelmingly endorsed the union. This merger is very much about exceptionally strong companies, whose products, distribution channels and markets complement one another. Put them together and you have an organizational whole that is greater than the sum of its parts, able to offer customers access to a more diverse and competitive product portfolio through a broader network of distribution partners.

With the merger, Manulife Financial will be poised to compete more aggressively and increase its market share. Combined, we will form the second largest life insurance company in North America, the fifth largest in the world, and the second largest publicly traded company in Canada.

All of this is for next year's Annual Report, however. For this year, I want to focus on Manulife's achievements during 2003, and I am pleased to report that our results are consistent with the past 10 years of exceptional performance.

### **Year in Review**

In 2003, Manulife delivered earnings per share of \$3.33, a 15 per cent increase from the 2002 level. The Company's record earnings of \$1,546 million were the highest of any Canadian life insurer. Return on shareholders' equity of 17.7 per cent, well in excess of our target of 16 per cent, placed Manulife among the leading Canadian public companies. This performance was achieved despite a 12 per cent depreciation in the average value of the U.S. dollar against the Canadian dollar during the year, which significantly impacts the Company as 60 per cent of our earnings are denominated in U.S. dollars. Our success in 2003

reflects the impact of improved equity markets, record sales levels, and continued tight management of fixed expenses.

Confident in Manulife's performance and growth opportunities, the Board of Directors increased the Company's quarterly shareholder dividend to 21 cents per share from 18 cents per share in the second quarter. The financial markets have also recognized our track record of consistent earnings growth. Earlier this year, MFC shares hit new all-time high prices on all stock exchanges on which they are traded.

Manulife's strong growth in 2003 can be measured not just with financial metrics. Consistent with our promises to our stakeholders, we have expanded and enhanced our product portfolios in all businesses to be responsive to the changing needs of our customers. We have added new distribution channels to reach a broader customer base. We continue to receive numerous awards and recognition for our customer service, our products, our innovation and our people. With our strong sales successes, we have gained market share against our peers. And, through acquisitions, we have welcomed new clients and distribution partners to Manulife.

**United States** The year 2003 marked the 100th anniversary of our first life insurance policy sold in the United States. Since that time, Manulife USA has become a market leader in high net worth life insurance, small case 401(k) pension plan products and variable annuities by building strong relationships with a diversified group of distribution partners, by earning a reputation for innovative products and services, by offering superior customer service, and by leveraging the Company's financial strength. Our success in 2003 is evident in the achievement of record levels of premiums and deposits in our Insurance and Group Pensions businesses. With these results, we have made significant market share gains in the life insurance business, particularly in the universal life market where Manulife now ranks number one in survivorship universal life sales. Our 401(k) pension plan business serves more than 1.1 million participants across more than

28,000 plans. And the new distribution relationship that our Annuities business launched late in 2002 with Scudder Investments has contributed significantly to sales expansion, accounting for 13 per cent of total sales in 2003. Our newer businesses, Manulife College Savings and Manulife Private Accounts, continued to expand their distribution reach despite difficult market conditions.

**Canada** The Canadian Division delivered record earnings in 2003, driven by tremendous sales growth, the expanded breadth of distribution, tight control of expenses, and increased scale from the successful integration of acquisitions made in 2002. Our Individual Life business recorded record sales across all product lines, with a year-over-year new sales increase of 18 per cent, as product enhancements made the portfolio even more competitive. More than half of our life insurance sales are now from non-traditional sources, in part as a result of increased penetration of the managing general agency distribution channel. During 2003, Manulife signed agreements with 19 managing general agencies, providing access to almost 3,500 new distributors. Group Benefits and Group Pensions welcomed many new clients, also on the way to delivering record sales levels. During the year, we continued to expand Internet services for plan administrators and members, increasing self-service options and streamlining processes. The Individual Wealth Management business successfully put all segregated fund, mutual fund and fixed income offerings under a common and recognized brand name, Manulife Investments. This, combined with the expanded depth of our asset management expertise and broadened product lineup, helped to drive a 19 per cent increase in assets under management. Manulife Bank achieved a milestone in 2003 when it surpassed \$2 billion in lending assets, almost doubling in size over the past 18 months, with successes in both the unique Manulife One product and its many investment-lending products.

**Asia** In 2003, all territories in our Asian operations contributed positively to earnings for the first time ever. Manulife Hong Kong also celebrated its one millionth-customer, providing a strong base for future growth and

expansion. While the outbreak of Severe Acute Respiratory Syndrome (SARS) exacerbated already weak economies in several countries, every one of our Asian businesses recorded growth in total sales, premiums and deposits, and funds under management, reflecting Manulife's strong brand and reputation for delivering industry-leading products and services to our customers. Our investments in organic growth in existing businesses, the opening of operations in new countries, and expansion through acquisitions have made Manulife a significant presence and one of the strongest life insurance companies in this rapidly growing region. Our commitment to continued growth in Asia is evidenced by the purchase in 2003 of the Indonesian life insurance business and Philippine insurance portfolio of Zurich Financial, and the acquisition of PT ING-Aetna Life Indonesia. Also in 2003, the Company was granted a branch license for Beijing and expects to commence operations in 2004, building upon our successes in Shanghai and Guangzhou where we now serve more than 180,000 customers. The Guangzhou branch has developed a model for future branch offices elsewhere in China, positioning Manulife to take advantage of the opening of this country's untapped life insurance market. Agency expansion, the key to future sales growth, continued strong in most locations, with the sales force reaching almost 22,000 people at year-end, an increase of 17 per cent from the prior year. Recognizing the importance of developing and maintaining a highly professional sales force, Manulife established Manulife University in Hong Kong to offer courses in sales and marketing, agency management, and finance to agents and managers throughout the region.

**Japan** We are particularly pleased to report that our Japanese operations made significant progress in 2003 in restructuring and revitalizing its business. The decade long decline in the primary sales force was halted and the number of sales representatives grew by eight per cent, ending the year with more than 3,500 agents. Our distribution reach also expanded with the signing of marketing agreements with several regional banks and a major stockbroker. Earlier this year, we entered into a strategic alliance for

variable annuity product development and sales with The Bank of Tokyo-Mitsubishi, one of the largest financial institutions in Japan. We are optimistic for strong sales growth in the rapidly developing variable annuity market in Japan. Manulife Japan's product portfolio is now completely refreshed with innovative next generation products, leveraging our expertise from other countries. A number of cost and staff reduction programs and productivity improvement initiatives were also implemented throughout the year. Manulife Japan has successfully established itself in the world's second largest life insurance market and our prospects for the future are extremely encouraging.

**Reinsurance** The Reinsurance Division had a solid year in 2003, with earnings positively impacted by the rebound in equity markets and favourable mortality experience. Manulife's commitment to strict pricing and risk management principles and our strong client relationships have allowed us to expand our Reinsurance business selectively and maintain our lead position in the North American life retrocession market, despite several years of turmoil in the reinsurance markets. In 2003, we established Avon Long Term Care Leaders, a specialized reinsurance intermediary and risk manager in the long-term care marketplace. The demand for this service is expected to increase significantly in the coming years as the population ages and pressure on public funding sources increases.

**Investments** Manulife's consistently high quality and conservatively valued investment portfolio continued to perform well in 2003, despite ongoing credit challenges in the financial markets. The Company's general fund investments are well diversified by asset class, industry and geography. Last year, Manulife purchased 16 office buildings in Japan as part of a plan to diversify its investment portfolio, improve investment performance and enhance brand recognition. These buildings will be rebranded with the Manulife name prominently displayed. The yield earned on these properties in 2003 was well ahead of the projected return at the time of acquisition. MFC Global Investment Management had a very strong year, with solid performance and good growth in assets under management. MFC

Global also made significant progress in winning new third party mandates, including products distributed by several major Canadian banks. In Canada, while the mutual fund industry had a challenging year, Manulife Investments had outstanding sales, posting a year-over-year 89 per cent increase in net sales of long-term funds. This success was led by MFC Global's Elliott & Page Monthly High Income Fund, which grew to more than \$1 billion in assets under management, and won the Canadian Investment Awards "Best Canadian Income Trust Fund" award for 2003.

### Looking Forward

Of course, the successful integration of Manulife Financial and John Hancock will be the main objective for the coming year. I would like to take this opportunity to extend a warm welcome to all the officers, employees, agents and distributors of the John Hancock organization, who, if events unfold as expected, will be joining us in a few weeks' time. All of us, at each company, recognize we are undertaking a unique project of enormous promise. We are very excited about the prospects for the merged company, which will be one of the world's most diversified and financially strong life insurers.

We are also committed to the continued organic growth of our existing businesses and will endeavor to make the most of opportunities now present in the generally favourable economic conditions prevailing in many of the markets where we operate. Indeed, the positive sales momentum of 2003 is carrying over into 2004.

I look forward to reporting to you on our progress. To our shareholders, customers, employees, distribution partners and agents, thank you for your continued belief and support.



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