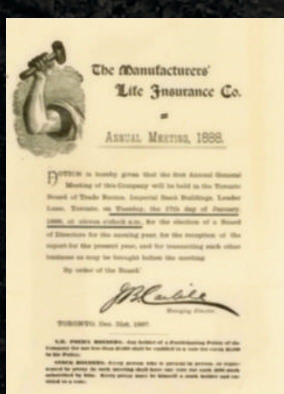
Manulife Participating Insurance Insight – 2017

THE MANUFACTURERS LIFE INSURANCE COMPANY

Manulife

Insurance


The Manufacturers' Life Insurance Co.

Annual Meeting, 1888.

Manulife has been managing participating and non-participating policies since our founding in 1887.

Participating insurance at Manulife

Highlights

- Manulife's Total Canadian Participating Account[1] contains $11.8 billion in assets, as at December 31, 2017
- Manulife has 357,225 inforce participating policies as at December 31, 2017
- In 2017, Manulife paid $263 million in dividends to the participating policy owners
- In 2017, Manulife paid $284 million in death claims to participating policy owners
- On June 23, 2018, Manulife will be launching a new participating product called Manulife Par
- Assets are combined for the Open block sub-account and Closed block sub-account
- As at December 31, 2017, the total combined assets for Open and Closed sub accounts were $8.6 billion with a smoothed yield of 5.61%, net of the 13 basis points of investment expenses

About Manulife

Manulife Financial Corporation is a leading international financial services group that helps people make their decisions easier and lives better. We operate primarily as John Hancock in the United States and Manulife elsewhere. We provide financial advice, insurance, as well as wealth and asset management solutions for individuals, groups and institutions. For over 130 years, we've grown with Canadians, offering a range of permanent insurance solutions to meet their short and long-term needs.

1940:
Manulife is the first in North America to offer insurance to controlled diabetics.

1981:
Manulife is one of the first to offer lower premiums to non-smokers.

2016:
Manulife is the first to offer life insurance to HIV positive Canadians and first to reward people for making healthier life choices.

[1] Canadian Participating Account is comprised of nine sub-accounts, including pre and post demutualization dividend paying policies issued by The Manufacturers Life Insurance Company (MLI), and different blocks of business assumed by MLI over the years.

What does participating mean?

A business within the business

Owners of participating policies get the opportunity to be rewarded if the participating insurance business line performs better than expected.

By sharing the experience associated with the participating insurance business line, participating policy owners accept more risk in return for those potential rewards.

A participating policy includes fundamental guaranteed values like a guaranteed amount of insurance and a guaranteed cash value, but the potential for growing those values beyond the base guarantees solely depends on the profits generated by the **participating account**. The Insurance Companies Act (ICA)* requires insurance companies that have shareholders to maintain a separate account for their participating business. Profits in this account are generated by the participating business and are tracked separately from the profits of the rest of the company. The factors that can affect the profitability of the participating business are the same factors that affect the profitability of the insurance company. It's like a business within the business.

What is a participating account?

The participating account or "par account" is a common term used for the separate accounts that are managed exclusively for participating policy owners using the insurance premiums paid into their policies. A participating account can be broken down into separate sub-accounts or components to better align management decisions and asset choices to different segments of par business.

Canadian insurance companies are required to maintain separate accounts for its participating policies under the Insurance Companies Act of Canada.

*Source: http://laws-lois.justice.gc.ca/eng/acts/I-11.8/index.html

Main factors affecting the performance of the participating account and participating policies

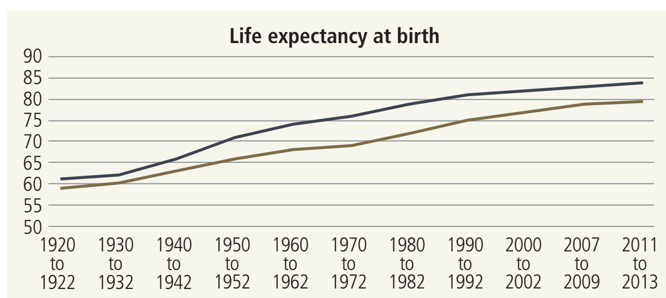
The participating business is managed to ensure there is always enough money in the participating account to pay future obligations, such as death benefits and cancellation cash values to policy owners. Several factors will influence the participating account's cash flows and its performance. We set the premium rates, insurance purchase prices and guaranteed cash values using estimates called *pricing assumptions*, to help anticipate those cash flows.

The participating account is monitored to ensure its performance aligns with our estimates by comparing the actual results against expected for a variety of factors, including:

MORTALITY

Death benefits are paid from the participating account. If more death benefits are paid than expected in a given year, the fund performance is negatively affected and will deplete faster than expected. If we pay less death benefits than expected, the effect is positive, creating excess earnings in the fund.

The life expectancy of Canadians continues to improve, meaning people are living longer. This helps benefit the participating account by delaying claims, and allowing the assets to remain invested for a longer period of time. Although mortality is usually a stable and predictable factor, its contribution to the fund performance is small in comparison to other factors such as investment returns.



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Statistics Canada. 2017. Life tables, Canada, provinces and territories, catalogue no. 84-537-X.
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CANCELLATIONS

Cancellation payout values are taken from the participating account. We expect that a certain number of policies will be cancelled every year, and we account for this policy owner behaviour in our pricing assumptions. The timing of the payout – early vs. later years of the policy – dictates either a positive or negative effect on the fund performance. Generally speaking, if there are less cancellations than expected, the performance of the fund may be adversely affected.

EXPENSES AND TAXES

There are several operating expenses associated with managing insurance policies, such as underwriting costs, issuing contracts, and providing policy change support. We also need to pay taxes, such as premium tax, on the participating business. We allocate expenses to the participating account in a manner that is fair and equitable to participating policy owners. If the actual expenses turn out to be less than our estimates, the performance of the participating account will be positively affected. If expenses are greater than our estimates, there may be a negative impact on the participating account performance.

INVESTMENT RETURNS

Expected returns on investments play a key role in pricing any insurance product, and have the greatest impact on the profitability of the product line. The same goes for participating insurance. We invest the premiums paid into the participating account, and expect a certain level of return on those investments. If the actual returns are better than our assumptions, excess earnings are generated into the participating account. If returns are lower than the assumptions used to price the product, there may be an adverse impact on the participating account performance.

The return on investments is the most variable factor that can affect the participating account performance because it is based on economic conditions. It is also the largest contributing factor to the participating account performance.

At a glance – Main factors that can affect the participating account performance

	Predictability	Stability	Impact on performance
Mortality	High	High	Low
Cancellations	Medium	Medium	Medium
Expenses & taxes	High	High	Low
Investment returns	Medium	Medium	High

How dividends are allocated

What is surplus?

When the participating account performance is better than our estimates, excess earnings or profits are generated. We call those earnings *participating account surplus*. Several factors can contribute to surplus, such as investment returns, claims experience, cancellations, and expenses. However, investment returns generally account for the largest portion of the surplus.

What is the Dividend Scale?

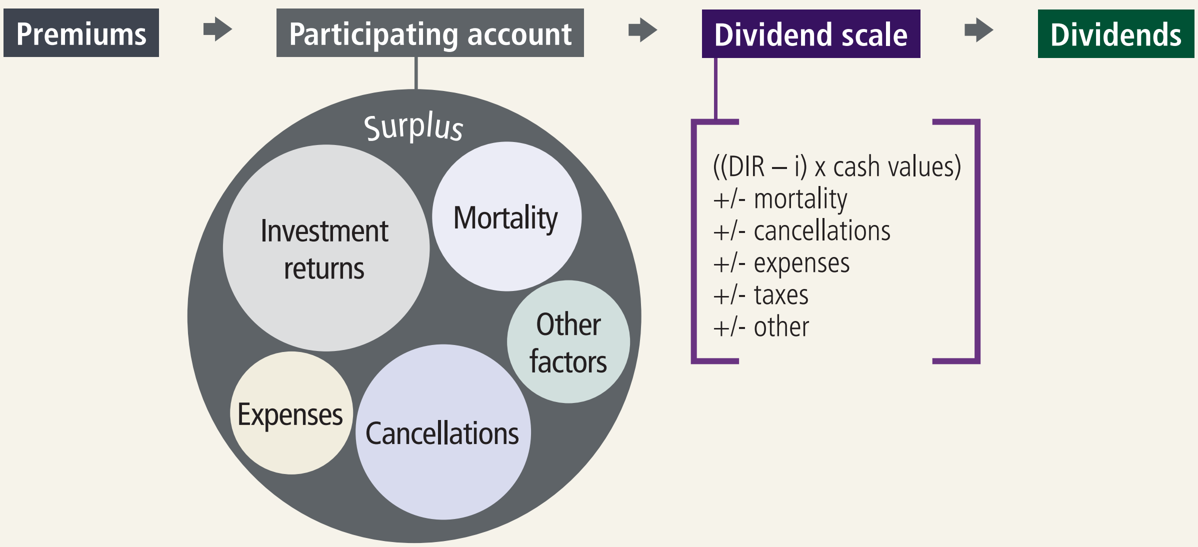
The dividend scale is the formula used to allocate dividends to participating policies in a fair and equitable manner. The dividend scale considers many characteristics of a policy, including the year it was issued, the coverage type and the amount of insurance coverage it provides. The dividend scale is not guaranteed and will increase or decrease depending on the performance of the participating account and available surplus. Of the many factors that make up the dividend scale, the only one that is public information is the **dividend scale interest rate (DIR)**.

Participating dividends are used to distribute the participating account profits to the policy owners. They may be credited to a policy once a year, on the policy's anniversary. Dividends are not guaranteed, and the amount paid will be impacted by all the factors that influence the performance of the participating business.

To determine if dividends will be allocated, we review the participating account **surplus** and make a dividend recommendation to Manulife's Board of Directors. To make this recommendation, we look at the participating account surplus as it is today and what we expect it will be in the future. To look forward, we look at the experience we anticipate over the short term (next 4 to 5 years) and we make a more general projection of trends over the long term (20 years and more).

Manulife's Board of Directors reviews the recommendation and decides whether to "declare" a dividend, the amount of the dividend and how it should be allocated among policy owners. Dividends are distributed using a formula designed to give each policy owner his or her fair share of the total amount available. The formula takes into account many factors, including the year the policy was issued, the type of coverage and the amount of insurance coverage the policy provides. The end result is known as the **dividend scale**.

HOW DIVIDENDS ARE ALLOCATED



For illustration purposes only. Not to scale.
This is a general representation of a dividend scale, and does not refer to any specific dividend scale formula used in the past, present or future for any Manulife participating products and policies.
Dividends are not guaranteed

What is the Dividend Scale Interest rate (DIR)?

The DIR is the component of the dividend scale that reflects investment returns. It determines the portion of a dividend that comes from investment returns. The DIR can be higher or lower than the investment return on the participating account, and does not represent a policy's cash value growth rate.

What is demutualization and how does it impact participating policies?

In September 1999, Manulife changed from a mutual company owned by participating policy owners to a stock company owned by shareholders. This process is known as *demutualization*. Once we demutualized, participating policies were divided into two categories. Participating policies that were purchased before demutualization are known as the "Closed Block of business." Those purchased after we demutualized are known as the "Open Block of business." The Open and Closed participating accounts are tracked separately, and only investment experience is shared between the two groups.

Different blocks of business, different dividend scales

Manulife has a long history of offering participating insurance products to Canadians. When Manulife **demutualized** in 1999, the participating policies issued and assumed by Manulife up to that time became part of the Closed block of participating business. Policies included in the Closed block are managed in accordance to the Plan for Demutualization, and subject to separate accounting and a different dividend scale than the participating policies issued after demutualization.

Participating policies sold after Manulife's demutualization are part of the Open block of business. Within the Open block, there are different pricing versions of participating policies, each using different assumptions on mortality, cancellations, expenses and most importantly, investment returns. We follow a dividend allocation process which aims to achieve reasonable equity between classes and generations of participating policies, and recognizes the relative contribution to surplus made by each par policy grouping. The dividend scales are set to reflect differences between pricing versions of the participating products. So, even if the policies are part of the same participating account and share the same return on investments, dividend scale interest rates could be different.

How are participating policy owner dividends different from shareholder dividends?

Participating dividends are used to distribute the participating account profits to the policy owners. The dividend amount will be impacted by all the factors that influence the performance of the participating business.

Shareholder dividends are based on the performance of Manulife as a company, for all lines of business and geographies in which we operate.

Protecting participating policy owners

To protect the interests of policy owners, the Insurance Companies Act (ICA)* governs how an insurance company manages its policies, and enforces specific rules for managing participating accounts. Because Manulife is a stock company, it must follow the rules for participating accounts that apply to companies with shareholders. Here are some of the ways the ICA protects policy owners:

- The company must maintain accounts for participating policies separately from those maintained in respect of other policies. (Section 456 of the ICA)
- The maximum amount that can be **transferred** or paid to shareholders in a financial year is a percentage of the dividend that the Board deems to be distributable in that year. (Section 461 of the ICA)
- Fair and equitable methods of allocating investment income and expenses to the par account must be developed by the appointed actuary of the company, approved by the Board of Directors and filed with the Office of Superintendent of Financial Institutions. (Section 459 of the ICA)
- The Board of Directors must establish a policy for determining policy owner dividends and the actuary must provide the directors with a report affirming that any dividends to be declared have been determined in accordance with the policy. (Section 460 of the ICA)

*Source: http://laws-lois.justice.gc.ca/eng/acts/I-11.8/index.html

What are shareholder transfers?

Stock companies are limited in the amount of profits that can be paid to the shareholders from the participating account. This is what is called a "shareholder transfer". The percentage of the participating account profits that can be transferred to shareholders from the "Open Block of business" are governed by the ICA. Transfers to shareholders from the "Closed Block of business" are based on limits set up at the time of demutualization and approved by the Office of the Superintendent of Financial Institutions.

Participating account surplus

This table shows a summary of the operations and surplus levels for Manulife's Open block.

MANULIFE OPEN BLOCK

Canadian $ millions	2017	2016	2015
Opening Surplus	93	98	107
Net earnings before taxes and policyholder dividends	158	103	87
Policyholder dividends	(126)	(116)	(105)
Taxes	0	11	13
Transfers to shareholders under ICA Section 461	(4)	(3)	(4)
Other transfers			
Closing Surplus	121	93	98
Total assets	4,188	3,888	3,506
Total liabilities	4,067	3,795	3,407

For illustration purposes only, dividends are not guaranteed and may increase or decrease depending several factors.

The transfer from the participating account to shareholders is tied to the amount of dividends that are paid to participating policy owners. The lower the dividends paid to par policy owners, the smaller the amount that can be transferred to shareholders. This can be viewed as a protection mechanism for participating policies that are held within a shareholder company like Manulife. To increase the amount transferred to shareholders, the insurance company must increase the dividends paid to participating policy owners. Lowering dividend scales reduces the amount paid to both shareholders and participating policy owners.

The makeup of policy owner dividends

Dividends come from surplus that is generated on the participating account when its performance is better than expected. The performance can be influenced by several factors, such as the numbers of death claims paid, the number of policy cancellations, the cost of managing the business and the returns on investments. Dividends are allocated to policy owners using the dividend scale, a formula designed to give each policy owner his or her fair share of the distributable amount available.

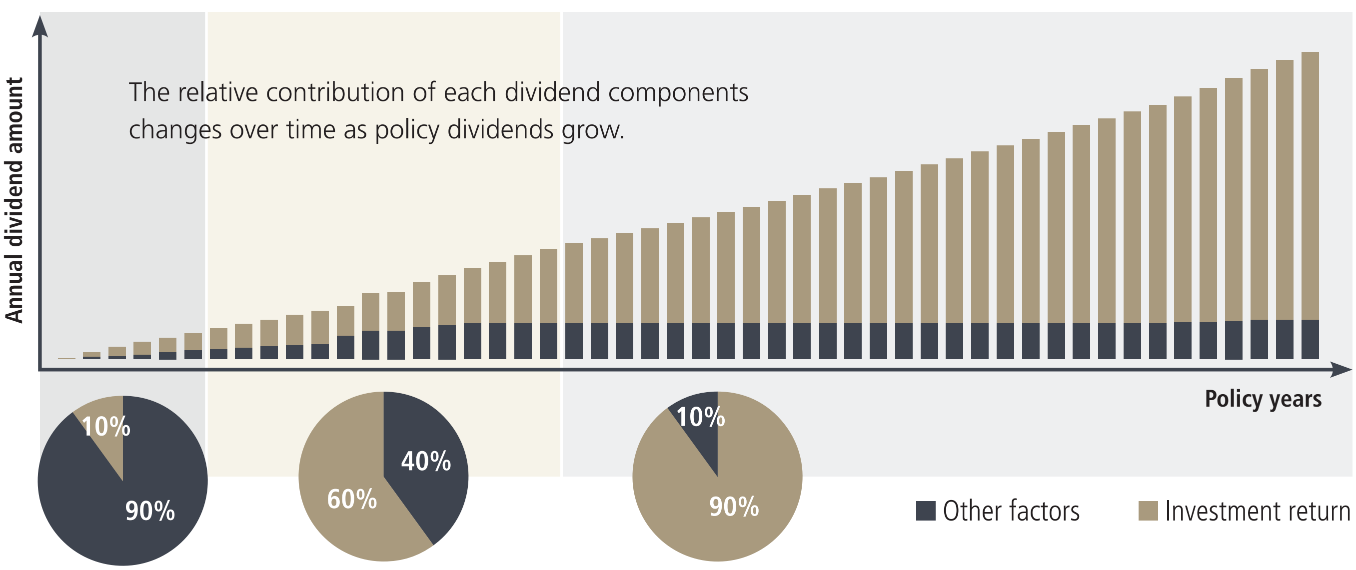
The dividend scale takes into account various details of a policy, including the year it was issued, the coverage type and the amount of insurance coverage it provides. For instance, mortality gains should be attributed to a policy according to the amount of insurance and how many years it has been in effect. Investment returns, on the other hand, are attributed in proportion to a policy's cash value. Because participating policy cash values increase over time, and because the other factors tend to be relatively stable, the proportion of dividends that comes from investment returns should become greater over time, if we assume a steady dividend interest rate.

Is knowing the DIR sufficient to explain how a policy's dividend was calculated?

No, it's not. Although the DIR is the most impactful component of the dividend scale, several other factors also form the scale, and these factors are part of a formula proprietary to each insurer. The DIR is usually the only factor that is public information.

In addition, the DIR usually works in combination with other rates that were part of the initial product pricing, such as expected investment returns. Once the DIR is inserted in the dividend scale, only a portion of it may be used to determine the dividends generated by a policy's cash value. This is one of the reasons why the DIR cannot be directly translated into the cash value growth of a policy.

Relative contribution of investment returns and other dividend components to the total dividend amount



For illustration purposes only, dividends are not guaranteed and may increase or decrease depending several factors.

The importance of investment performance

References to the Manulife participating account and participating account in this section apply to the Open and Closed participating sub-accounts only.

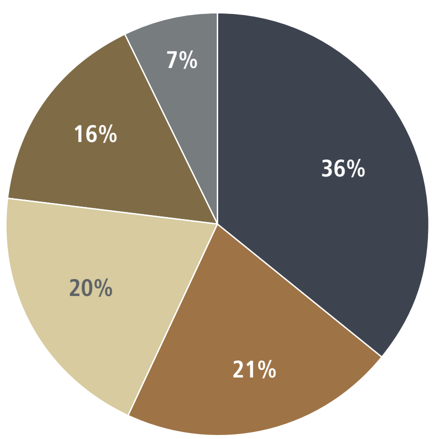
Managing assets

Return on investments is the most important factor affecting the amount of dividend paid to participating policy owners, who benefit from Manulife's investment strength, high quality portfolio and prudent risk management practices. Because we expect our clients to keep their policy for their lifetime, we carefully select assets to help meet long-term needs.

The stable nature of cash flows associated with participating policies permits us to invest in longer-term holdings, such as equities, mortgages, real estate and investment grade bonds, which are usually limited to Canadian investments.

This diversification strategy has historically proven to help to provide long-term growth for our policy owners while effectively managing the short-term volatility of the investment market.

Asset mix of Manulife's Open and Closed participating account*



Open/Closed participating account assets*	Invested assets in millions	% of total	Target investment guidelines
Public Bonds	$3,069	36%	26% - 50%
Private Debt	$604	7%	
Mortgages	$1,341	16%	18% - 26%
Real Estate	$1,799	20%	32% - 48%
Public Equities	$1,810	21%	
Total	**$8,623**	**100%**	

* As at December 31, 2017.

BONDS

Bond investments are managed by the Manulife Asset Management Ltd Portfolio Management team. The team has extensive experience in the bond market and is focused on investment grade corporate bonds. The portfolio is continually monitored to compare the actual assets against the portfolios' benchmarks with significant attention given to security selection. The portfolio management team is supported by a knowledgeable credit research team that performs detailed credit analysis with consideration to security specific risk/reward tradeoffs.

Bond Quality grade as at December 31, 2017	%
Cash and cash equivalents	3.8
AAA	17.8
AA	12.4
A	32.0
BAA	33.7
BA and lower	0.6
Total	**100.0**

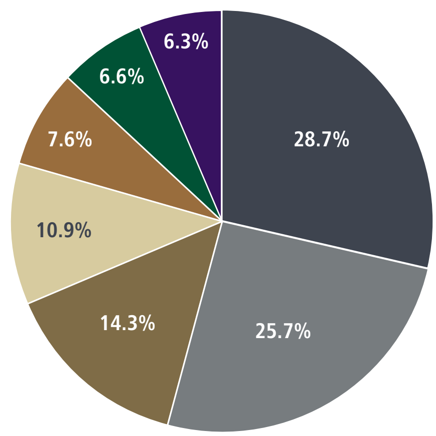
Bond sector mix	%
Federal	7.2
Provincial	27.6
Corporate/Municipal	60.4
Liquidity Pool Certification of Deposit	3.9
Asset/Mortgage backed securities	0.5
Other	0.4
Total	**100.0**

MORTGAGES

Manulife has been a mortgage lender serving Canadians since the company's inception in 1887, and today is one of the largest mortgage providers in the Canadian commercial real estate finance market.

We offer long-term conventional mortgage loans in the range of $5 million to $250 million on freehold or leasehold commercial properties, on a recourse and non-recourse basis. We are also an Approved Lender with the Canadian Mortgage and Housing Corporation.

The mortgages included in the participating account consist of commercial mortgages diversified by location and property type and consist almost entirely of first mortgages.

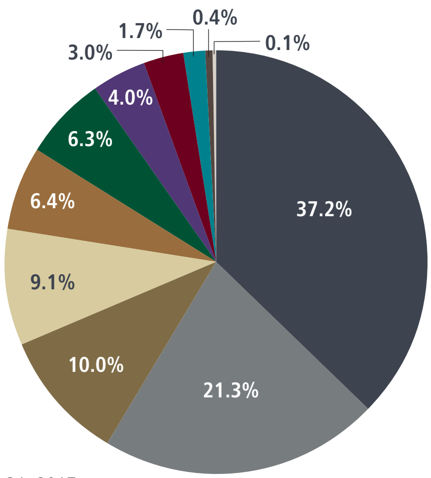


*As at December 31, 2017.

Investments by Location	%
Ottawa	28.7
Vancouver	25.7
Toronto	14.3
Calgary	10.9
Montreal	7.6
Waterloo	6.6
Halifax	6.3
Total	**100.0**

EQUITIES

The equity portion of the participating account is managed by Manulife Asset Management. The participating account's investment strategy is to mimic the S&P/TSX Composite Index and is rebalanced as required.



*As at December 31, 2017.

Common Stock by Sector	%
Financials	37.2
Energy	21.3
Materials	10.0
Industrials	9.1
Telecommunication Services	6.4
Consumer Discretionary	6.3
Consumer Staples	4.0
Information Technology	3.0
Utilities	1.7
Health Care	0.4
Other	0.1
Total	**100.0**

REAL ESTATE

Real estate is managed by Manulife's Real Estate Division. The portfolio focuses on top-quality office buildings located in superior downtown and large suburban markets across Canada. The portfolio is diversified by location and property type. The real estate operation tracks the total yield of all real estate and then allocates the yield to Manulife's different asset segments. This results in more stability in returns since specific buildings are not allocated to specific investment accounts.

Protecting against volatility

To help protect participating policies from the volatility usually associated with equities and real estate, we use a **smoothing** formula. This formula spreads market value gains or losses over several years, dampening the impact of market fluctuations. For the less volatile assets, like mortgage and bonds, we use a "buy and hold" approach to also help deliver more stable returns.

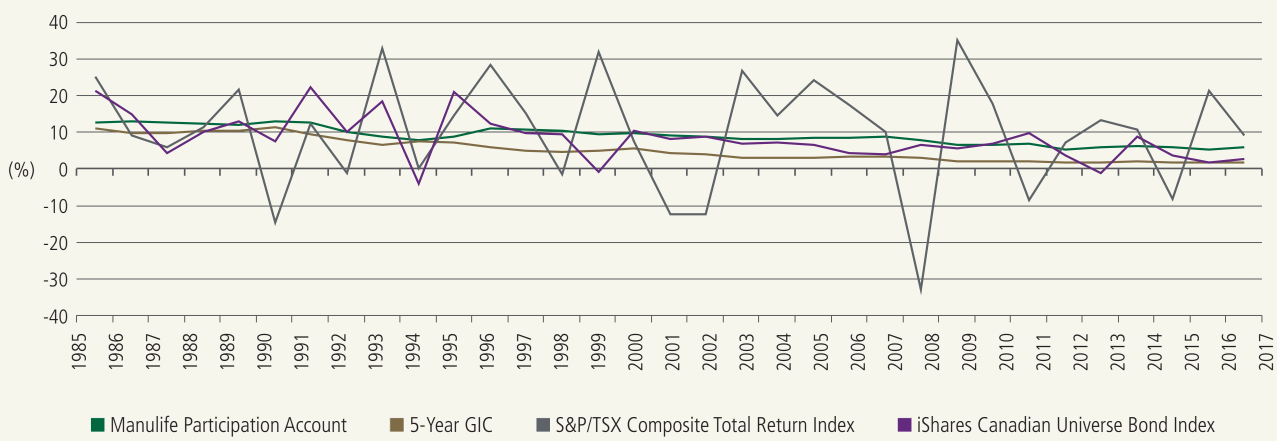
The following chart shows the historical performance of the participating account compared to relevant economic indicators. It shows the historical rates available for bonds, and for 5-year Guaranteed Investment Certificates (GICs), as well as historical returns of the S&P/TSX Composite Index. The 5-year GIC rate provides an indication of the investment returns that were available for new fixed interest investments and how these rates have changed over time. The S&P/TSX Composite Index returns show how equity performance has varied over the same period. By comparing these lines, you can see how the participating account yield is influenced by the investment returns, and how smoothing helps dampen the impact of market fluctuations.

WHAT IS SMOOTHING?

Smoothing means that investment gains and losses are spread over a longer period instead of being recognized immediately. This can lessen volatility and helps deliver more stable returns for both fixed and non-fixed income assets.

Smoothing is only used to lessen the volatility of normal* market and interest rate movements.

Historical returns of smoothed participating account yield and other economic indicators



For Illustration Purposes Only. The index is unmanaged and cannot be purchased directly by investors. Past performances are no guarantee of future returns.

*Although we invest in high-quality assets, it is possible that we will occasionally encounter defaults or severe impairments on some of the investments in our participating account. Any such defaults or impairments in the value of an investment are not smoothed over time but are immediately recognized in the investment return of the participating account.

Understanding the participating account yield

Thanks to smoothing, the participating account investment yield works differently from most typical investment accounts. The yield is usually slower to react to changes in economic conditions, which may make the fund yield look advantageous in an economic downturn and disadvantageous in an economic recovery.

It is important to recognize that smoothing does not alter the long-term average investment return on the participating account. Although smoothing can give the appearance of higher performance in economic downturns and lower performance in economic upturns relative to typical investment accounts, the performance of the underlying assets is identical to what it would be in a typical investment account. Over time smoothed yields will provide the similar long-term average returns as a typical investment account with the same assets.

The projection of a policy's performance should be based on what one expects the average long-term investment to be for the participating account at any given point in time, not the smoothed yield.

Reflections of the past

Because the participating account contains approximately 60% of fixed income assets such as bonds and mortgages, interest rates have a large influence on the yield. And since those assets are smoothed by using a "buy and hold" approach, the fund yield tends to reflect the economic conditions that prevailed over the past 10 to 15 years more so than current economic conditions.

In a declining interest rate environment, the participating account yield may appear to outperform other fixed income or balanced investment accounts. In a rising interest rate environment, the fund yield may appear to underperform those accounts.

Over time smoothed yields will provide the similar long-term average returns as a typical investment account with the same assets.

The future starts today

Since smoothing causes past economic conditions to be reflected in the current participating account investment yield, the current economic conditions will, in time, be reflected in future yields. As new money is invested in the participating account, and existing investments mature and are reinvested, the smoothed yield will increase or decrease depending on whether the new money is invested at rates that are higher or lower than the rates of the existing assets in the fund. The proportion of new money coming into the participating account relative to its size will partly determine how slowly or quickly the fund yield will be affected.

Average annualized returns for the Open and Closed participating account* relative to other economic indicators.

The values in this table are as at December 31, 2017

Year	Par Fund Yield (%)	S&P/TSX Composite Total Return Index[1] (%)	iShares Canadian Universe Bond Index[2] (%)	5-Year GIC[3] (%)	Consumer Price Index[3] (%)
1	5.6	9.1	2.5	1.6	1.9
3	5.5	6.6	2.6	1.5	1.7
5	5.7	8.6	3.0	1.6	1.5
10	6.1	4.6	4.7	1.9	1.6
20	7.4	7.0	5.5	2.8	1.9
Averrage annualized return (since 1985)	8.8	8.8	8.0	5.0	2.3
Standard deviation (since 1985)	2.4	15.5	6.2	3.2	1.3

*After deduction of investment expenses. Past performances are no guarantee of future returns

[1] S&P/TSX Index Services. [2] Black Rock [3] Bank of Canada

For Illustration Purposes Only. Comparison made between Manulife Par Fund, CPI, S&P/TSX Composite Total Return Index, Ishare Canadian Universe Bond Index and 5-Yr GICs is for illustration purposes only. Past performances are no guarantee of future returns. **Canada CPI:** The Consumer Price Index (CPI) is an indicator of changes in consumer prices experienced by Canadians. It is obtained by comparing, over time, the cost of a fixed basket of goods and services purchased by consumers. **GICs:** A Guaranteed Investment Certificate (GIC) is a secure investment that guarantees 100% of the original amount that you invested. Your investment earns interest, at either a fixed or a variable rate, or based on a pre-determined formula. The index is unmanaged and cannot be purchased directly by investors.

Appendix

The following information is as at December 31, 2017. Please note that this does not reflect the new Manulife Par product set to be made available for sale in 2018.

Summary of participating policyholders' dividend policy

The Board of Directors has established a dividend policy pursuant to the Insurance Companies Act (Canada) (the "ICA") that is applicable to all of the participating policies of The Manufacturers Life Insurance Company ("MLI" or the "Company") other than participating policies transferred to subsidiaries of MLI by assumption or indemnity reinsurance.

MLI maintains a separate account in respect of its participating policies pursuant to Section 456 of the ICA (the "Participating Account"). Nine sub-accounts exist (as listed below) reflecting both the structure created when MLI demutualized pursuant to a Plan of Demutualization effective September 23, 1999 (the "Demutualization Date"); the amalgamation of MLI and MFC Insurance Company Limited (formerly Commercial Union which included the business of The Maritime Life Assurance Company) and the assumption reinsurance by MLI of all the policy liabilities of Manulife Canada Limited ("MCL") (formerly the Zurich Life Insurance Company of Canada).

(i) The Closed Traditional Block ("Closed Block") sub-account, which includes most dividend-paying participating policies issued prior to the Demutualization Date, other than universal life policies;
(ii) The UL Block sub-account, which includes all participating universal life policies issued prior to the Demutualization Date;
(iii) The Ancillary Block sub-account, which includes the rest of the participating policies issued prior to the Demutualization Date as well as additional statutory liabilities associated with sub-accounts (i) and (ii) above;
(iv) The Open Block or Post Demutualization Block sub-account, which includes all participating policies issued after the Demutualization Date;
(v) The Maritime sub-account;
(vi) The Aetna sub-account;
(vii) The Royal and Sun Alliance Financial ("RSAF") sub-account;
(viii) The Commercial Union ("CU") sub-account; and
(ix) The Zurich sub-account ("MCL").

Under this dividend policy, the Board of Directors determines both the amount of retained earnings to be distributed and the basis of allocating dividends to policyholders. In determining the amount to be distributed in the sub-accounts, the Board of Directors will consider many factors. These include trends in the experience of participating policies, the overall soundness of the sub-accounts and their respective surpluses, and the need to ensure the continuing financial strength of MLI.

Participating policies are grouped into classes with common experience related to such factors as mortality, investment returns, expenses, tax and persistency. Separate and unique classes are established for policies of each geographic region, for policies assigned to Closed blocks on demutualization and for policies of blocks acquired since demutualization. The dividend allocation process followed by the Company recognizes the relative contribution to retained earnings made by each policy class in order to achieve reasonable equity between classes and generations of participating policies. Dividend scales are established by the Board of Directors and are reviewed annually.

This dividend policy is subject to change from time to time, and, if and when changed, may, at the discretion of the Board of Directors, become applicable to all then existing participating policies. Factors which might cause the Board of Directors to review this policy would include the acquisition of a block of participating business, a change in the Company's structure, a decision to start selling new participating business again or a change in the regulatory environment.

A full copy of the Company's dividend policy is available to participating policyholders upon request to the Corporate Secretary.

Summary of participating account management policy

The Board of Directors has established a participating account management policy pursuant to the Insurance Companies Act (Canada) (the "ICA") that is applicable to all of the participating policies of The Manufacturers Life Insurance Company ("MLI" or the "Company") other than participating policies transferred to subsidiaries of MLI by assumption or indemnity reinsurance.

MLI maintains a separate account in respect of its participating policies pursuant to Section 456 of the ICA (the "Participating Account"). Nine sub-accounts exist as described above in the "Summary of Participating Policyholder Dividend Policy".

All the sub-accounts are closed to new business.

Each of the nine sub-accounts is supported by a distinct asset segment except for the Closed Block sub-account and Open Block or Post Demutualization Block sub-account where assets are combined. Investment strategies are established at the segment level. Assets supporting participating policies are managed to achieve a target return, designed to maximize dividends, subject to established risk tolerances. The target return investment strategy utilizes fixed income assets, including public and private debt securities and commercial mortgages, and in some segments alternative long-duration assets, including equities and real estate. Alternative longduration assets are included to enhance long-term investment returns and reduce aggregate risk through diversification. Fixed income assets are managed to specified target return fixed income benchmarks.

Investment income for the participating segments is a direct pass through of the return on the participating asset funds supporting those segments.

As described in the Plan of Demutualization, the policy maintenance expense amounts for the Closed Block sub-account and UL Block sub-account are fixed per policy amounts as of the Date of Demutualization that can only be increased consistent with the Canadian Consumer Price Index. For other participating sub-accounts, the maintenance expense allocation is based upon expense studies that are reviewed annually.

The total income tax expense for the participating sub-accounts is determined based on the standalone taxable income for the subaccounts. Investment income tax and premium tax are charged directly as the calculation identifies all those policies affected and the related charge.

The Closed Block sub-account and UL Block sub-account are managed in accordance with the Plan of Demutualization. The subaccounts were funded initially with assets sufficient to support their policies' future policy cash flows, including amounts for reasonable dividend expectations. The Company expects these blocks to be self-sustaining and theoretically to be exhausted as the last policy obligations mature; therefore, no surplus existed in these funds as of the Date of Demutualization. The other sub-accounts exist separately with each subject to separate accounting. As all sub-accounts are closed to new business, surplus is expected to be exhausted as the last policy obligations mature.

Shareholder transfers from the Closed Block sub-account, the UL Block sub-account and the Ancillary Block sub-account are subject to the special rules and guidelines established as part of the Plan of Demutualization. The remaining sub-accounts are subject to normal rules for transfers to the shareholder's account from participating accounts within a stock life company, as defined in the ICA.

This participating account management policy is subject to amendment from time to time, and, if and when amended, may, at the discretion of the Board of Directors, become applicable to all then existing participating policies. Factors which might cause the Board of Directors to review this policy would include the acquisition or disposition of a block of participating business, a change in MLI's structure, a decision to start selling new participating business again or legislative or regulatory changes.

A full copy of the Company's participating account management policy is available upon request to the Corporate Secretary.

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