

Manulife Financial Corporation
Management's Discussion and Analysis

For the three and six months ended June 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is current as of August 4, 2016, unless otherwise noted. This MD&A should be read in conjunction with our unaudited Interim Consolidated Financial Statements for the three and six months ended June 30, 2016 and the MD&A and audited consolidated financial statements contained in our 2015 Annual Report.

For further information relating to our risk management practices and risk factors affecting the Company, see "Risk Factors" in our 2015 Annual Information Form, "Risk Management", "Risk Factors" and "Critical Accounting and Actuarial Policies" in the MD&A in our 2015 Annual Report, and the "Risk Management" note to the consolidated financial statements in our most recent annual and interim reports.

In this MD&A, the terms "Company", "Manulife", "we" and "our" mean Manulife Financial Corporation ("MFC") and its subsidiaries.

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A OVERVIEW

A1 Earnings

In the second quarter of 2016 (“2Q16”), Manulife’s net income attributed to shareholders was \$704 million, fully diluted earnings per common share was \$0.34 and return on common shareholders’ equity (“ROE”) was 8.4%, compared with \$600 million, \$0.29, and 6.4%, respectively, for the second quarter of 2015 (“2Q15”).

Net income attributed to shareholders is comprised of core earnings¹ (consisting of items we believe reflect the underlying earnings capacity of the business), which amounted to \$833 million in 2Q16 compared with \$902 million in 2Q15, and items excluded from core earnings, which netted to charges of \$129 million in 2Q16 compared with charges of \$302 million in 2Q15.

Core earnings decreased \$69 million, or 8%, compared with 2Q15. The decrease in core earnings reflected the absence of core investment gains (2Q15 – gains of \$51 million), higher expected macro hedging costs, and lower earnings on surplus assets, partially offset by the impact of changes in foreign currency rates. While Asia and Canada generated double digit core earnings growth, this was partially offset by higher claims costs and lower one-time favourable items in the U.S. Core earnings in 2Q16 include net policyholder experience charges of \$63 million post-tax (\$106 million pre-tax).

The \$173 million favourable variance in items excluded from core earnings primarily reflects a lower market-related charge of \$170 million (2Q15 – charge of \$309 million), and a lower \$19 million charge for integration activities (2Q15 – charge of \$54 million), partially offset by lower investment-related experience gains of \$60 million (2Q15 – gains of \$77 million).

Net income attributed to shareholders for the 6 months ended June 30, 2016 (“1H16”) was \$1,749 million compared with \$1,323 million for the 6 months ended June 30, 2015 (“1H15”). Of the \$426 million variance, \$600 million relates to the direct impact of equity markets and interest rates (gains in 1H16 compared with losses in 1H15). The remainder was primarily due to investment-related experience losses of \$280 million in 1H16 compared with gains of \$51 million in 1H15. Core earnings for 1H16 was \$1,738 million compared with \$1,699 million for 1H15.

A2 Sales

Insurance sales¹ were \$914 million in 2Q16, an increase of 11%² compared with 2Q15. Asia insurance sales increased 30% driven by double digit growth in most territories, and strong momentum from our DBS partnership. Canadian insurance sales declined 28% as a result of the inherent variability in group benefits sales, with retail insurance sales in Canada in line with the prior year. U.S. insurance sales declined 9% as a result of heightened competition and challenging market conditions.

Wealth and Asset Management (“WAM”) net flows¹ were \$4.8 billion in 2Q16 compared with \$14.5 billion in 2Q15. Gross flows of \$26.6 billion were down 25% compared with 2Q15, primarily due to normal volatility related to large institutional mandates.

We achieved the 26th consecutive quarter of positive net flows in our WAM businesses with all divisions reporting positive net flows despite significant market volatility during the quarter. Net flows declined from record levels in 2Q15 largely due to higher redemptions in our U.S. mutual fund business and the non-recurrence of a significant institutional mandate in 2Q15. In the U.S., gross flows increased 5%, driven by robust mid-market sales in our pension business which more than offset a decline in mutual fund sales due to challenging market conditions. In Canada, gross flows increased 7% due to strength in mutual funds and large-case group pensions. In Asia, gross flows were down from record 2Q15 levels, which benefited from significant mutual fund inflows driven by a sharp rise in local equity markets in mainland China. We also successfully launched the first U.S. property real estate investment trust (“REIT”) in Singapore.

Other Wealth sales¹ were \$2.0 billion in 2Q16, an increase of 6% compared with 2Q15. In 2Q16, Other Wealth sales in Asia increased 23% due to continued success from newly launched products. In Canada, Other Wealth sales were down 12% driven by challenging market conditions and product changes.

A3 Capital related items

The Minimum Continuing Capital and Surplus Requirements (“MCCSR”) ratio for The Manufacturers Life Insurance Company (“MLI”) was 236% as at both June 30, 2016 and June 30, 2015. The increase in capital from the \$1.8 billion senior and subordinated debt issuances was offset by growth in required capital, primarily due to lower interest rates. MFC’s MCCSR ratio was 207% as at June 30, 2016. The difference between the MLI and MFC ratios is primarily due to the \$5.3 billion of MFC senior debt outstanding that, under OSFI rules, does not qualify as available capital at the MFC level.

¹ This item is a non-GAAP measure. See “Performance and Non-GAAP Measures” below.

² Growth (declines) in sales, gross flows, premiums and deposits and assets under management and administration are stated on a constant currency basis. Constant currency basis is a non-GAAP measure. See “Performance and Non-GAAP Measures” below.

MFC's financial leverage ratio was 29.7%, an increase of 1.8 percentage points from 1Q16 reflecting the \$1.3 billion (US\$1.0 billion) senior debt issuance in Taiwan and the \$479 million (S\$500 million) subordinated note issuance in Singapore. The financial leverage ratio was 26.2% at June 30, 2015.

A4 Update on our Efficiency and Effectiveness initiative

Our Efficiency and Effectiveness ("E&E") initiative, announced in November 2012, is aimed at leveraging our global scale and capabilities to achieve operational excellence and cost efficiencies throughout the organization. We set a target of \$400 million annual net pre-tax savings in 2016, which has been achieved six months ahead of plan as annual E&E savings reached \$450 million as of June 30, 2016. Efforts are continuing to identify and execute on additional opportunities to make our operations more efficient and effective. Savings from the E&E initiative have enabled us to fund other new initiatives to sustain long-term earnings growth. The amount of that investment is subject to change as our strategy unfolds. In particular, we intend to continue to ensure that projects are appropriately sequenced and prioritized.

A5 Q3 item

In the third quarter of 2016, we will complete our annual review of actuarial methods and assumptions. While the review is not complete and the impact is difficult to estimate with precision, preliminary indications are that the impact could be a charge to net income attributed to shareholders of up to \$500 million post-tax.¹ Assumptions being reviewed this year include policyholder experience assumptions related to Long Term Care and U.S. Variable Annuity business, and reinvestment assumptions used in the valuation of our policy liabilities.

B FINANCIAL HIGHLIGHTS

(\$ millions, unless otherwise stated, unaudited)	Quarterly Results			YTD Results	
	2Q16	1Q16	2Q15	2016	2015
Net income attributed to shareholders	\$ 704	\$ 1,045	\$ 600	\$ 1,749	\$ 1,323
Preferred share dividends	(37)	(29)	(29)	(66)	(58)
Common shareholders' net income	\$ 667	\$ 1,016	\$ 571	\$ 1,683	\$ 1,265
Core earnings⁽¹⁾	\$ 833	\$ 905	\$ 902	\$ 1,738	\$ 1,699
Basic earnings per common share (\$)	\$ 0.34	\$ 0.51	\$ 0.29	\$ 0.85	\$ 0.65
Diluted earnings per common share (\$)	\$ 0.34	\$ 0.51	\$ 0.29	\$ 0.85	\$ 0.64
Diluted core earnings per common share (\$) ⁽¹⁾	\$ 0.40	\$ 0.44	\$ 0.44	\$ 0.84	\$ 0.83
Return on common shareholders' equity ("ROE")	7.1%	10.8%	6.4%	8.9%	7.4%
Core ROE ⁽¹⁾	8.4%	9.3%	9.8%	8.9%	9.6%
Sales ⁽¹⁾					
Insurance products	\$ 914	\$ 954	\$ 771	\$ 1,868	\$ 1,550
Wealth and Asset Management gross flows ⁽¹⁾	\$ 26,644	\$ 28,228	\$ 34,892	\$ 54,872	\$ 57,735
Wealth and Asset Management net flows ⁽¹⁾	\$ 4,822	\$ 1,676	\$ 14,494	\$ 6,498	\$ 21,125
Other Wealth products	\$ 2,000	\$ 2,384	\$ 1,773	\$ 4,384	\$ 3,540
Premiums and deposits ⁽¹⁾					
Insurance products	\$ 8,422	\$ 8,186	\$ 7,116	\$ 16,608	\$ 14,274
Wealth and Asset Management products	\$ 26,644	\$ 28,228	\$ 34,892	\$ 54,872	\$ 57,735
Other Wealth products	\$ 1,712	\$ 1,441	\$ 1,694	\$ 3,153	\$ 3,160
Corporate and Other	\$ 21	\$ 22	\$ 21	\$ 43	\$ 40
Assets under management and administration (\$ billions) ⁽¹⁾	\$ 934	\$ 904	\$ 883	\$ 934	\$ 883
Capital (\$ billions) ⁽¹⁾	\$ 50.9	\$ 49.4	\$ 45.5	\$ 50.9	\$ 45.5
MLI's MCCSR ratio	236%	233%	236%	236%	236%

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

¹ See "Caution regarding forward-looking statements" below.

B1 Second quarter earnings analysis

The table below reconciles net income attributed to shareholders to core earnings.

(\$ millions, unaudited)	Quarterly Results			YTD Results	
	2Q16	1Q16	2Q15	2016	2015
Core earnings⁽¹⁾					
Asia Division	\$ 342	\$ 371	\$ 283	\$ 713	\$ 562
Canadian Division	333	338	303	671	564
U.S. Division	361	389	385	750	759
Corporate and Other (excluding expected cost of macro hedges and core investment gains)	(125)	(107)	(74)	(232)	(147)
Expected cost of macro hedges ⁽²⁾	(78)	(86)	(46)	(164)	(90)
Investment-related experience in core earnings ⁽³⁾	-	-	51	-	51
Core earnings	\$ 833	\$ 905	\$ 902	\$ 1,738	\$ 1,699
Investment-related experience outside of core earnings ⁽³⁾	60	(340)	77	(280)	-
Core earnings and investment-related experience in excess of amounts included in core earnings	\$ 893	\$ 565	\$ 979	\$ 1,458	\$ 1,699
Direct impact of equity markets and interest rates and variable annuity guarantee liabilities (see table below) ^{(3),(4)}	(170)	474	(309)	304	(296)
Changes in actuarial methods and assumptions	-	12	(47)	12	(69)
Integration and acquisition costs	(19)	(14)	(54)	(33)	(84)
Tax-related items	-	1	31	1	61
Other items	-	7	-	7	12
Net income attributed to shareholders	\$ 704	\$ 1,045	\$ 600	\$ 1,749	\$ 1,323

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

⁽²⁾ Actual market performance differed from our valuation assumptions in 2Q16, which resulted in a macro hedge experience gain of \$34 million. This gain is included in the direct impact of equity markets and interest rates and variable annuity liabilities below.

⁽³⁾ 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 equity markets and interest rates is separately reported. Our definition of core earnings (see "Performance and Non-GAAP Measures") includes up to \$400 million of favourable investment-related experience reported in a single year.

⁽⁴⁾ 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 available-for-sale ("AFS") bonds in the Corporate and Other segment. See table below for components of this item.

Components of the direct impact of equity markets and interest rates and variable annuity guarantee liabilities in the table above:

(\$ millions, unaudited)	Quarterly Results			YTD Results	
	2Q16	1Q16	2Q15	2016	2015
Direct impact of equity markets and variable annuity guarantee liabilities	\$ (97)	\$ (150)	\$ 28	\$ (247)	\$ 43
Fixed income reinvestment rates assumed in the valuation of policy liabilities	(113)	407	(362)	294	(349)
Sale of AFS bonds and derivative positions in the Corporate and Other segment	40	217	25	257	10
Direct impact of equity markets and interest rates and variable annuity guarantee liabilities	\$ (170)	\$ 474	\$ (309)	\$ 304	\$ (296)

B2 Revenue

(\$ millions, unaudited)	Quarterly Results			YTD Results	
	2Q16	1Q16	2Q15	2016	2015
Net premium income	\$ 6,706	\$ 6,728	\$ 5,577	\$ 13,434	\$ 10,980
Investment income	3,213	3,300	3,216	6,513	5,858
Other revenue	2,794	2,829	2,491	5,623	4,917
Revenue before realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities and on macro hedging program	\$ 12,713	\$ 12,857	\$ 11,284	\$ 25,570	\$ 21,755
Realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities and on macro hedging program	7,922	8,862	(10,161)	16,784	(4,818)
Total revenue	\$ 20,635	\$ 21,719	\$ 1,123	\$ 42,354	\$ 16,937

For 2Q16, total revenue was \$20.6 billion compared with \$1.1 billion in 2Q15. Fair value accounting materially impacts the reported realized and unrealized gains or losses on assets supporting insurance and investment contract liabilities, a component of revenue (see section B6 “Impact of fair value accounting” below). Accordingly, we discuss specific divisional drivers of revenue before unrealized gains and losses in section C “Performance by Division”.

For 2Q16, revenue before realized and unrealized gains was \$12.7 billion compared with \$11.3 billion in 2Q15. The increase was due to business growth and the impact of changes in foreign currency exchange rates.

In 2Q16, the net realized and unrealized gains on assets supporting insurance and investment contract liabilities and on the macro hedging program were \$7.9 billion compared with a loss of \$10.2 billion in 2Q15, primarily driven by a decrease in U.S. risk free interest rates and lower North American swap rates.

On a year-to-date basis, revenue before realized and unrealized losses was \$25.6 billion compared with \$21.8 billion in 1H15, driven by the same factors noted above. Net realized and unrealized gains on assets supporting insurance and investment contract liabilities and on the macro hedging program were \$16.8 billion for 1H16 compared with a loss of \$4.8 billion in 2015. The impact of lower U.S. risk free interest rates and lower North American swap rates in 1H16 accounted for the gain, whereas the loss in 1H15 resulted from the impact of higher interest rates.

B3 Premiums and deposits

Premiums and Deposits is an additional measure of our top line growth. 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 \$8.4 billion in 2Q16, an increase of 14%¹ compared with 2Q15. Year-to-date premiums and deposits were \$16.6 billion in 2016 compared with \$14.3 billion in 2015.

Premiums and deposits for WAM products were \$26.6 billion in 2Q16, a decrease of \$8.2 billion, or 25%, compared with 2Q15. The decrease was primarily due to normal volatility in large institutional mandates. Year-to-date premiums and deposits were \$54.9 billion in 2016 compared with \$57.7 billion in 2015.

Premiums and deposits for Other Wealth products were \$1.7 billion in 2Q16, in line with 2Q15. Year-to-date premiums and deposits were \$3.2 billion in 2016, in line with 2015.

B4 Assets under management and administration

Assets under management and administration as at June 30, 2016 were \$934 billion, an increase of \$51.5 billion compared with June 30, 2015. On a constant currency basis, the increase was 3%, primarily driven by net inflows and investment performance.

B5 Capital

MFC's total capital as at June 30, 2016 was \$50.9 billion, an increase of \$1.5 billion or 3% from March 31, 2016 and an increase of \$5.4 billion from June 30, 2015. The increase from June 30, 2015 was primarily driven by net income over the last 12 months, net capital issuances and a weakening of the Canadian dollar. As noted in section A3 above, MLI's MCCR ratio was 236% at June 30, 2016.

¹ Growth (declines) in sales, gross flows, premiums and deposits and assets under management and administration are stated on a constant currency basis. Constant currency basis is a non-GAAP measure. See “Performance and Non-GAAP Measures” below.

B6 Impact of fair value accounting

Fair value accounting policies affect the measurement of both our assets and our liabilities. The impact on the measurement of both assets and liabilities of investment activities and market movements are reported as experience gains (losses) on investments and the direct impact of equity markets and interest rates and variable annuity guarantees, each of which impacts net income (see section A1 “Earnings” above for discussion of 2Q16 experience).

Net realized and unrealized gains reported in investment income were \$7.9 billion for 2Q16 (2Q15 – losses of \$10.2 billion) as noted above in section B2 “Revenue”.

As outlined in the “Critical Accounting and Actuarial Policies” in the MD&A in our 2015 Annual Report, net insurance contract liabilities under IFRS are determined using 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 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 policies will result in an investment-related experience gain (loss).

B7 Impact of foreign exchange rates

Changes in foreign currency exchange rates, primarily the U.S. dollar compared with the Canadian dollar, had a favourable impact on core earnings of approximately \$41 million in 2Q16 compared with 2Q15. The impact of foreign currency on items excluded from core earnings is not relevant given the nature of these items. As applicable, each line item on our financial statements has been impacted by changes in foreign currency exchange rates.

C PERFORMANCE BY DIVISION

C1 Asia Division

(\$ millions, unless otherwise stated)	Quarterly results			YTD Results	
	2Q 2016	1Q 2016	2Q 2015	2016	2015
Net income attributed to shareholders ⁽¹⁾	\$ 28	\$ 121	\$ 303	\$ 149	\$ 585
Core earnings ⁽²⁾	342	371	283	713	562
Revenue	5,485	6,366	2,648	11,851	6,043
Revenue before realized and unrealized investment income gains and losses ⁽³⁾	4,557	4,802	3,305	9,359	6,346
Premiums and deposits	8,729	8,031	9,358	16,760	15,546
Assets under management ⁽⁴⁾ (\$ billions)	114.2	106.3	98.3	114.2	98.3

(US\$ millions, unless otherwise stated)	US\$	US\$	US\$	US\$	US\$
Net income attributed to shareholders	22	88	247	110	474
Core earnings	266	270	230	536	455
Revenue	4,255	4,638	2,152	8,893	4,890
Revenue before realized and unrealized investment income gains and losses	3,533	3,499	2,687	7,032	5,138
Premiums and deposits	6,772	5,852	7,609	12,624	12,599
Assets under management (“AUM”) (US\$ billions)	87.7	82.0	78.8	87.7	78.8

⁽¹⁾ The 2015 earnings on assets backing capital allocated to each operating segment have been restated to align with the methodology used in 2016.

⁽²⁾ See “Performance and Non-GAAP Measures” for a reconciliation between IFRS net income attributed to shareholders and core earnings.

⁽³⁾ See section B6 “Impact of fair value accounting”.

⁽⁴⁾ This item is a non-GAAP measure. See “Performance and Non-GAAP measures”.

Asia Division’s net income attributed to shareholders was \$28 million in 2Q16 compared with \$303 million in 2Q15. Net income attributed to shareholders is comprised of core earnings, which was \$342 million in 2Q16 compared with \$283 million in 2Q15, and items excluded from core earnings, which amounted to a net charge of \$314 million in 2Q16 compared

with a net gain of \$20 million in 2Q15. The core earnings improvement includes a net \$26 million favourable impact from changes in currency rates versus the Canadian dollar. The unfavourable change in items excluded from core earnings was due to charges from the direct impact of equity markets and interest rates.

Expressed in U.S. dollars, the presentation currency of the division, net income attributed to shareholders was US\$22 million in 2Q16 compared with US\$247 million in 2Q15 and is comprised of core earnings of US\$266 million in 2Q16 compared with US\$230 million in 2Q15 and items excluded from core earnings of a net US\$244 million charge for 2Q16 compared with a net gain of US\$17 million in 2Q15. Items excluded from core earnings primarily related to the direct impact of equity markets and interest rates.

In 2Q16, core earnings increased US\$29 million, or 12%, compared with 2Q15 after adjusting for the impact of changes in foreign currency rates. This increase was driven by continued strong growth in new business volumes, partially offset by less favourable policyholder experience and the impact of declining interest rates.

Year-to-date net income attributed to shareholders was US\$110 million in 2016 compared with US\$474 million in 2015. This decrease was driven by a US\$396 million charge for the first half of 2016 related to the direct impact of equity markets and interest rates, partially offset by a US\$76 million increase in core earnings after adjusting for the impact of changes in foreign currency rates. The year-to-date increase in core earnings of US\$76 million was driven by similar drivers as described above for the current quarter and the non-recurring gains of US\$16 million related to two separate reinsurance treaties in 1Q16. On a Canadian dollar basis, year-to-date net income attributed to shareholders decreased by \$436 million to \$149 million due to the factors above, while year-to-date core earnings increased by \$151 million to \$713 million due to the factors above, and reflected a net \$66 million favourable impact due to changes in foreign currency rates versus the Canadian dollar.

Revenue of US\$4.3 billion in 2Q16 increased 98% compared with 2Q15. Excluding realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities, revenue was US\$3.5 billion, an increase of 31% compared with 2Q15 driven by strong growth in sales over the past 12 months along with stable in-force growth. Year-to-date revenue was US\$8.9 billion in 2016 compared with US\$4.9 billion in 2015.

Premiums and deposits of US\$6.8 billion in 2Q16 decreased 10% compared with 2Q15. Premiums and deposits for insurance products of US\$2.4 billion increased 31% on a constant currency basis driven by strong growth in insurance sales, and benefited from expanded distribution channels and solid recurring premium growth from in-force business. WAM deposits of US\$3.5 billion in 2Q16 decreased 29% on a constant currency basis from the record quarter in 2Q15 reflecting equity market volatility, which impacted consumer confidence and resulted in weaker mutual fund gross flows since the second half of 2015. Other Wealth premiums and deposits in 2Q16 of US\$0.9 billion increased by 20% on a constant currency driven by the success of new product launches in the second half of 2015 and expanded distribution reach. Year-to-date premiums and deposits were US\$12.6 billion in 2016, consistent with 2015.

Assets under management were US\$87.7 billion as at June 30, 2016, an increase of 7% on a constant currency basis from June 30, 2015 primarily driven by the strong net customer inflows of US\$8.3 billion with all lines of business contributing to the increase. AUM as at December 31, 2015 was US\$76.9 billion.

C2 Canadian Division

(\$ millions, unless otherwise stated)	Quarterly results			YTD Results	
	2Q 2016	1Q 2016	2Q 2015	2016	2015
Net income (loss) attributed to shareholders ⁽¹⁾	\$ 359	\$ 600	\$ 190	\$ 959	\$ 308
Core earnings ⁽²⁾	333	338	303	671	564
Revenue	5,354	4,786	228	10,140	4,918
Revenue before realized and unrealized investment income gains and losses ⁽³⁾	3,146	2,990	2,812	6,136	5,495
Premiums and deposits	7,977	7,424	7,250	15,401	15,076
Assets under management (\$ billions)	231.3	223.7	218.0	231.3	218.0

⁽¹⁾ The 2015 earnings on assets backing capital allocated to each operating segment have been restated to align with the methodology used in 2016.

⁽²⁾ See "Performance and Non-GAAP Measures" below for a reconciliation between IFRS net income attributed to shareholders and core earnings.

⁽³⁾ See section B6 "Impact of fair value accounting".

Canadian Division's 2Q16 net income attributed to shareholders was \$359 million compared with \$190 million in 2Q15. Net income attributed to shareholders is comprised of core earnings, which was \$333 million in 2Q16 compared with \$303 million in 2Q15, and items excluded from core earnings, which were a net gain of \$25 million in 2Q16 compared with a net charge of \$113 million in 2Q15.

Core earnings increased \$30 million, reflecting improved policyholder experience and increased WAM fee income, partially offset by the non-recurrence of reinsurance treaty recapture gains in 2Q15. The change in items excluded from core earnings primarily related to the favourable impact of fair value accounting in 2Q16 versus an unfavourable impact in 2Q15, partially offset by higher integration expenses in 2Q16.

Year-to-date net income attributed to shareholders was \$959 million compared with \$308 million for the same period of 2015. Year-to-date core earnings of \$671 million were \$107 million higher than the first half of 2015, partially due to one additional month of results from the Canadian Operations of Standard Life plc ("Standard Life") acquisition included in 1H16.

Revenue in 2Q16 was \$5.4 billion compared with \$2.8 billion in 2Q15 driven by the impact of fair value accounting. Total revenue before net realized and unrealized gains was \$3.1 billion in 2Q16 compared with \$2.8 billion in 2Q15, driven by higher net premiums and variability in reinsurance treaty revenue. Year-to-date revenue was \$10.1 billion in 2016 compared with \$4.9 billion in 2015.

Premiums and deposits in 2Q16 were \$8.0 billion, a 10% increase compared with 2Q15 levels, driven primarily by the increase in WAM gross flows. Year-to-date premiums and deposits were \$15.4 billion in 2016 compared with \$15.1 billion in 2015.

Assets under management were \$231.3 billion as at June 30, 2016, an increase of \$13.3 billion from June 30, 2015, driven by growth in our WAM businesses and the impact on fixed income assets of lower interest rates and on equity investments of higher markets over the past 12 months. AUM as at December 31, 2015 was \$219.2 billion.

C3 U.S. Division

(\$ millions, unless otherwise stated)	Quarterly results			YTD Results	
	2Q 2016	1Q 2016	2Q 2015	2016	2015
Net income attributed to shareholders ⁽¹⁾	\$ 407	\$ 241	\$ 166	\$ 649	\$ 630
Core earnings ⁽²⁾	361	389	385	750	759
Revenue	9,589	9,990	(1,987)	19,579	5,720
Revenue before realized and unrealized investment income gains and losses and excluding the Closed Block reinsurance transaction ⁽³⁾	4,785	4,399	4,929	9,184	9,620
Premiums and deposits	17,194	19,186	16,108	36,380	30,536
Assets under management and administration (\$ billions)	521.8	508.6	499.7	521.8	499.7

(US\$ millions, unless otherwise stated)	US\$	US\$	US\$	US\$	US\$
Net income attributed to shareholders	316	176	135	492	510
Core earnings	280	283	313	563	615
Revenue	7,440	7,279	(1,614)	14,719	4,602
Revenue before realized and unrealized investment income gains and losses	3,714	3,205	4,008	6,919	7,791
Premiums and deposits	13,336	13,982	13,101	27,318	24,737
Assets under management and administration (US\$ billions)	401.1	392.1	400.6	401.1	400.6

⁽¹⁾ The 2015 earnings on assets backing capital allocated to each operating segment have been restated to align with the methodology used in 2016.

⁽²⁾ See "Performance and Non-GAAP Measures" below for a reconciliation between IFRS net income attributed to shareholders and core earnings.

⁽³⁾ See section B6 "Impact of fair value accounting".

U.S. Division's 2Q16 net income attributed to shareholders was \$407 million compared with \$166 million in 2Q15. Net income attributed to shareholders is comprised of core earnings, which amounted to \$361 million in 2Q16 compared with \$385 million in 2Q15, and items excluded from core earnings, which amounted to a net gain of \$46 million in 2Q16

compared with a net charge of \$219 million in 2Q15. The change in core earnings includes a favourable variance of \$16 million related to the strengthening of the U.S. dollar compared with the Canadian dollar.

Expressed in U.S. dollars, the functional currency of the division, 2Q16 net income attributed to shareholders was US\$316 million compared with US\$135 million in 2Q15, core earnings was US\$280 million compared with US\$313 million in 2Q15, and items excluded from core earnings were a net gain of US\$36 million in 2Q16 compared with a net charge of US\$178 million in 2Q15. The US\$33 million decrease in core earnings was driven by adverse policyholder experience in John Hancock Long Term Care, the non-recurrence of favourable policy related items from 2Q15 and lower new business gains in Insurance from lower sales as well as the timing of certain marketing spend. Lower fee income in WAM businesses attributable to the impact of market volatility and shifts in business mix also contributed to the decrease. The variance of US\$214 million in items excluded from core earnings is due to a significantly smaller charge in 2Q16 related to the direct impact of equity markets and interest rates compared with 2Q15.

Year-to-date net income attributed to shareholders was US\$492 million in the first half of 2016 compared with US\$510 million for the same period in 2015 and included core earnings of US\$563 million, a US\$52 million decrease due primarily to the items noted above. These items were partially offset by lower amortization of deferred acquisition costs due to the run-off of the in-force variable annuity business as well as lower expenses. On a Canadian dollar basis, year-to-date core earnings decreased by \$9 million to \$750 million due to the factors noted above, and a \$54 million favourable impact related to the strengthening of the U.S. dollar compared with the Canadian dollar.

Revenue in 2Q16 was US\$7.4 billion, an increase of US\$9.1 billion compared with 2Q15. Excluding realized and unrealized gains on assets supporting insurance and investment contract liabilities, revenue was US\$3.7 billion, a decrease of US\$294 million or 7% from 2Q15. This decrease was primarily due to lower insurance premiums and investment income resulting from the impact of the Closed Block¹ reinsurance transaction which closed in 3Q15. Year-to-date revenue was US\$14.7 billion in 2016 compared with US\$4.6 billion in 2015.

Premiums and deposits for 2Q16 were US\$13.3 billion, an increase of 2% compared with 2Q15. Premiums and deposits for insurance products were US\$1.5 billion, down 11% compared with 2Q15, driven by a decline in universal life premiums as well as lower premiums due to the Closed Block reinsurance transaction. WAM deposits were US\$11.7 billion, an increase of 5% compared with 2Q16 driven by Retirement Plan Services premiums from the acquired mid-market business. Year-to-date premiums and deposits were US\$27.3 billion in 2016 compared with US\$24.7 billion in 2015.

Assets under management and administration as at June 30, 2016 were US\$401.1 billion, consistent with June 30, 2015. Increases driven by robust mutual fund net flows of \$6.0 billion over the past 12 months and the impact of lower interest rates on the valuation of fixed income investments were partially offset by the transfer of US\$11.3 billion of assets as part of the Closed Block reinsurance transaction that closed in 3Q15. AUMA as at December 31, 2015 was US\$388.7 billion.

C4 Corporate and Other

(\$ millions, unless otherwise stated)	Quarterly Results			YTD Results	
	2Q16	1Q16	2Q15	2016	2015
Net income (loss) attributed to shareholders⁽¹⁾	\$ (90)	\$ 83	\$ (59)	\$ (7)	\$ (200)
Core loss (excluding macro hedges and core investment gains) ⁽²⁾	\$ (125)	\$ (107)	\$ (74)	\$ (232)	\$ (147)
Expected cost of macro hedges	(78)	(86)	(46)	(164)	(90)
Investment-related experience included in core earnings	-	-	51	-	51
Total core loss	\$ (203)	\$ (193)	\$ (69)	\$ (396)	\$ (186)
Revenue	\$ 207	\$ 577	\$ 234	\$ 784	\$ 256
Premiums and deposits	2,900	3,235	11,008	6,135	14,051
Assets under management (\$ billions)	66.9	65.3	66.7	66.9	66.7

⁽¹⁾ The 2015 earnings on assets backing capital allocated to each operating segment have been restated to align with the methodology used in 2016.

⁽²⁾ See "Performance and Non-GAAP Measures" for a reconciliation between IFRS net income attributed to shareholders and core earnings.

¹ The assumption by New York Life of the Company's in-force participating life insurance closed block ("Closed Block") through net 60% reinsurance agreements.

Corporate and Other is composed of: investment performance on assets backing capital, net of amounts allocated to operating divisions and financing costs; Investment Division's 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.

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. This segment is also where we reclassify favourable investment-related experience to core earnings from items excluded from core earnings, subject to certain limits (see "Performance and Non-GAAP measures" below). In each of the other segments, we report all investment-related experience in items excluded from core earnings.

Corporate and Other reported a net loss attributed to shareholders of \$90 million in 2Q16 compared with a net loss of \$59 million in 2Q15. The net loss attributed to shareholders is comprised of core loss and items excluded from core loss. The core loss of \$203 million in 2Q16 compared with a core loss of \$69 million in 2Q15; items excluded from core loss amounted to gains of \$113 million in 2Q16 compared to gains of \$10 million in 2Q15.

The \$134 million unfavourable variance in core loss included \$51 million of investment-related experience gains in 2Q15 compared with nil in 2Q16 and \$32 million of higher expected macro hedging costs from increased hedging activity in 2Q16. The remaining \$51 million decline variance consisted of higher interest expense on external debt due to recent debt issuances, lower realized gains on AFS equities, higher expenses related to strategic initiatives and the impact of a strengthening U.S. dollar on interest allocated to the U.S. and Asia divisions when expressed in Canadian dollars.

The \$103 million favourable variance in items excluded from core loss included the \$51 million reclassification of investment-related experience gains in 2Q15 compared to nil in 2Q16 as well as higher realized gains on the sale of AFS bonds and other mark-to-market gains on assets held at fair value.

On a year-to-date basis the net loss attributed to shareholders was \$7 million this year compared with a net loss of \$200 million for the same period of 2015. The year-to-date core loss was \$396 million compared with \$186 million in 2015 with the variance related to the same items as noted above. Items excluded from core loss in the first half of 2016 were a gain of \$389 million compared with charges of \$14 million for the first half of 2015. The gain this year was driven by realized gains on the sale of AFS bonds and mark-to-market related net gains.

Revenue in 2Q16 was \$207 million compared with \$234 million in 2Q15, driven primarily by higher interest allocated to the divisions. The variance in investment income before allocations netted to a small amount. Year-to-date revenue was \$784 million in 2016 compared with \$256 million in 2015.

Premiums and deposits for 2Q16 were \$2.9 billion, a decrease of 74% compared with \$11.0 billion in 2Q15. The decline was due to normal volatility in large institutional mandates. Year-to-date premiums and deposits were \$6.1 billion in 2016 compared with \$14.1 billion in 2015.

Assets under management of \$66.9 billion as at June 30, 2016 (June 30, 2015 – \$66.7 billion) included assets managed by Manulife Asset Management on behalf of third-party institutional clients of \$73.6 billion (June 30, 2015 – \$64.7 billion) partially offset by a \$17.5 billion (June 30, 2015 – \$6.4 billion) reclassification of total Company derivative positions (operating divisions report net positions in AUM, and the reclassification outside invested assets is reported in the Corporate and Other segment). AUM as at December 31, 2015 was \$71.6 billion.

D PERFORMANCE BY BUSINESS LINE

D1 Additional information for Wealth and Asset Management

We provide additional financial information by line of business, to supplement our existing primary disclosure based on geographic segmentation. This information should help facilitate a better assessment of the financial performance of our WAM businesses and allow for relevant comparisons to be made with global asset management peers. The supplemental information for WAM businesses includes an income statement, core earnings, core earnings before interest, taxes, depreciation and amortization ("Core EBITDA"), net flows, gross flows and assets under management and administration¹. Core EBITDA was selected as a key performance indicator for WAM businesses, as earnings before interest, taxes, depreciation and amortization ("EBITDA") is widely used among asset management peers, and core earnings is a primary profitability metric for the Company overall.

¹ Core earnings, core EBITDA, net flows, gross flows and assets under management and administration are non-GAAP measures. See "Performance and Non-GAAP measures" below.

Wealth and Asset Management highlights

(\$ millions, unless otherwise stated)	Quarterly Results			YTD Results	
	2Q16	1Q16	2Q15	2016	2015
Core earnings	\$ 152	\$ 140	\$ 160	\$ 292	\$ 308
Core EBITDA	288	285	314	573	610
Net flows	4,822	1,676	14,494	6,498	21,125
Gross flows	26,644	28,228	34,892	54,872	57,735
Assets under management (\$ billions)	429	417	405	429	405
Assets under management and administration (\$ billions)	503	488	474	503	474

In 2Q16, we generated positive net flows despite challenging equity markets. Core earnings was \$152 million compared with \$160 million in 2Q15 and Core EBITDA was \$288 million compared with \$314 million in 2Q15. The decrease in core earnings and Core EBITDA primarily reflects the impact of market volatility on fee income, shifts in business mix, and strategic investments to expand our distribution reach in Europe and Asia and to optimize our operational infrastructure.

D2 Additional information by business line

In addition to the WAM businesses, the two tables below include core earnings and assets under management and administration for our Other Wealth and Insurance business lines. Other Wealth consists of variable and fixed annuities, single premium products sold in Asia, and Manulife Bank in Canada¹. Insurance includes all individual and group insurance businesses.

Core earnings by line of business

(\$ millions)	Quarterly Results			YTD Results	
	2Q16	1Q15	2Q15	2016	2015
Wealth and Asset Management ⁽¹⁾	\$ 152	\$ 140	\$ 160	\$ 292	\$ 308
Insurance	557	604	505	1,161	980
Other Wealth ⁽²⁾	328	353	313	681	612
Corporate and Other ⁽³⁾	(204)	(192)	(76)	(396)	(201)
Total core earnings	\$ 833	\$ 905	\$ 902	\$ 1,738	\$ 1,699

⁽¹⁾ Wealth and Asset Management is comprised of our fee-based global WAM businesses that do not contain material insurance risk including: mutual funds, group retirement and institutional asset management.

⁽²⁾ Other Wealth includes variable and fixed annuities, single premium products sold in Asia, and Manulife Bank.

⁽³⁾ Excludes Manulife Asset Management results that are included in WAM. Corporate and Other results are net of internal allocations to other divisions.

Assets under management and administration by line of business

As at	June 30,	March 31,	June 30,
(\$ billions)	2016	2016	2015
Wealth and Asset Management	\$ 502.6	\$ 487.5	\$ 474.4
Insurance	257.5	245.6	235.5
Other Wealth	180.8	175.2	170.8
Corporate and Other	(6.7)	(4.4)	2.0
Total assets under management and administration	\$ 934.2	\$ 903.9	\$ 882.7

¹ Manulife Bank new loan volumes are no longer being reported as sales.

The following table shows the core earnings of the WAM, Insurance and Other Wealth business lines by division.

Core earnings by line of business by division

(\$ millions)	Quarterly Results			YTD Results	
	2Q16	1Q16	2Q15	2016	2015
Wealth and Asset Management					
Asia	\$ 37	\$ 38	\$ 43	\$ 75	\$ 85
Canada	46	39	36	85	66
U.S.	68	64	74	132	142
Corporate and Other	1	(1)	7	-	15
Total Wealth and Asset Management	152	140	160	292	308
Insurance					
Asia	232	249	178	481	362
Canada	174	172	141	346	254
U.S.	151	183	186	334	364
Total Insurance	557	604	505	1,161	980
Other Wealth					
Asia	73	84	62	157	115
Canada					
Manulife Bank	25	30	36	55	70
Canada excluding Manulife Bank	88	97	90	185	174
Total Canada	113	127	126	240	244
U.S.	142	142	125	284	253
Total Other Wealth	328	353	313	681	612
Corporate and Other	(204)	(192)	(76)	(396)	(201)
Total core earnings	\$ 833	\$ 905	\$ 902	\$ 1,738	\$ 1,699

E RISK MANAGEMENT AND RISK FACTORS UPDATE

This section provides an update to our risk management practices and risk factors outlined in the MD&A in our 2015 Annual Report. The shaded text and tables in this section of the MD&A represent our disclosure on market and liquidity risk in accordance with IFRS7, "Financial Instruments – Disclosures". Accordingly, the following shaded text and tables represent an integral part of our unaudited Interim Consolidated Financial Statements.

E1 Variable annuity and segregated fund guarantees

As described in the MD&A in our 2015 Annual Report, 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.

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 section E3 "Publicly traded equity performance risk" below).

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

Variable annuity and segregated fund guarantees, net of reinsurance

(\$ millions)	June 30, 2016			December 31, 2015		
	Guarantee value	Fund value	Amount at risk ^{(4),(5)}	Guarantee value	Fund value	Amount at risk ^{(4),(5)}
Guaranteed minimum income benefit ⁽¹⁾	\$ 5,973	\$ 4,330	\$ 1,648	\$ 6,642	\$ 4,909	\$ 1,740
Guaranteed minimum withdrawal benefit	68,895	59,753	9,258	73,232	65,090	9,231
Guaranteed minimum accumulation benefit	19,968	20,297	67	19,608	23,231	72
Gross living benefits ⁽²⁾	94,836	84,380	10,973	99,482	93,230	11,043
Gross death benefits ⁽³⁾	12,615	16,206	1,538	13,693	13,158	1,704
Total gross of reinsurance	107,451	100,586	12,511	113,175	106,388	12,747
Living benefits reinsured	5,217	3,803	1,416	5,795	4,312	1,486
Death benefits reinsured	3,455	3,116	611	3,874	3,501	682
Total reinsured	8,672	6,919	2,027	9,669	7,813	2,168
Total, net of reinsurance	\$ 98,779	\$ 93,667	\$ 10,484	\$ 103,506	\$ 98,575	\$ 10,579

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

(2) Where a policy includes both living and death benefits, the guarantee in excess of the living benefit is included in the death benefit category as outlined in footnote 3.

(3) 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.

(4) 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.

(5) The amount at risk net of reinsurance at June 30, 2016 was \$10,484 million (December 31, 2015 – \$10,579 million) of which: US\$6,293 million (December 31, 2015 – US\$6,046 million) was on our U.S. business, \$1,395 million (December 31, 2015 – \$1,564 million) was on our Canadian business, US\$417 million (December 31, 2015 – US\$190 million) was on our Japan business and US\$278 million (December 31, 2015 – US\$277 million) was related to Asia (other than Japan) and our run-off reinsurance business.

The amount at risk on variable annuity contracts and segregated fund guarantees, net of reinsurance was \$10.5 billion at June 30, 2016 in line with December 31, 2015.

The policy liabilities established for variable annuity and segregated fund guarantees were \$11,281 million at June 30, 2016 (December 31, 2015 - \$7,469 million). For non-dynamically hedged business, policy liabilities increased from \$840 million at December 31, 2015 to \$1,076 million at June 30, 2016. For the dynamically hedged business, the policy liabilities increased from \$6,629 million at December 31, 2015 to \$10,205 million at June 30, 2016.

The increase in the total policy liabilities for variable annuity and segregated fund guarantees since December 31, 2015 is primarily due to the impact of the decrease in swap rates in the U.S., Canada, and Japan on the dynamically hedged business.

E2 Caution related to sensitivities

In this document, 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 will be as indicated or on MLI's MCCR ratio will be as indicated.

E3 Publicly traded equity performance risk

As outlined in our 2015 Annual Report, our 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 (see pages 52 and 53 of our 2015 Annual Report).

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. If market values were to remain flat for an entire year, the potential impact would be roughly equivalent to an immediate decline in market values equal to the expected level of annual growth assumed in the valuation of policy liabilities. Further, if after market values dropped 10, 20 or 30% they continued to decline, remained flat, or grew more slowly than assumed in the valuation the potential impact on net income attributed to shareholders and on MLI's MCCR ratio could be considerably more than shown. Refer to section F2 "Sensitivity of policy liabilities to updates and assumptions" for more information on the level of growth assumed and on the net income sensitivity to changes in these long-term assumptions. 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.

Potential impact on net income attributed to shareholders arising from changes to public equity returns^{(1),(2),(3)}

As at June 30, 2016 (\$ millions)	-30%	-20%	-10%	10%	20%	30%
Underlying sensitivity to net income attributed to shareholders⁽⁴⁾						
Variable annuity guarantees	\$ (5,510)	\$ (3,420)	\$ (1,570)	\$ 1,250	\$ 2,190	\$ 2,870
Asset based fees	(420)	(280)	(140)	140	280	420
General fund equity investments ⁽⁵⁾	(970)	(650)	(310)	290	600	900
Total underlying sensitivity before hedging	(6,900)	(4,350)	(2,020)	1,680	3,070	4,190
Impact of macro and dynamic hedge assets ⁽⁶⁾	5,020	3,170	1,480	(1,360)	(2,530)	(3,400)
Net potential impact on net income after impact of hedging	\$ (1,880)	\$ (1,180)	\$ (540)	\$ 320	\$ 540	\$ 790
As at December 31, 2015						
(\$ millions)	-30%	-20%	-10%	10%	20%	30%
Underlying sensitivity to net income attributed to shareholders⁽⁴⁾						
Variable annuity guarantees	\$ (5,180)	\$ (3,140)	\$ (1,410)	\$ 1,080	\$ 1,860	\$ 2,420
Asset based fees	(470)	(310)	(160)	160	310	470
General fund equity investments ⁽⁵⁾	(1,030)	(680)	(340)	330	670	1,020
Total underlying sensitivity before hedging	(6,680)	(4,130)	(1,910)	1,570	2,840	3,910
Impact of macro and dynamic hedge assets ⁽⁶⁾	4,750	2,920	1,360	(1,240)	(2,250)	(3,090)
Net potential impact on net income after impact of hedging	\$ (1,930)	\$ (1,210)	\$ (550)	\$ 330	\$ 590	\$ 820

(1) See "Caution related to sensitivities" above.

(2) The tables above 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.

(3) Please refer to section F2 "Sensitivity of policy liabilities to updates and assumptions" for more information on the level of growth assumed and on the net income sensitivity to changes in these long-term assumptions.

(4) 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.

(5) 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.

(6) 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.

Potential impact on MLI's MCCR ratio arising from public equity returns different from the expected return for policy liability valuation^{(1),(2)}

Percentage points	Impact on MLI's MCCR ratio					
	-30%	-20%	-10%	10%	20%	30%
June 30, 2016	(13)	(8)	(4)	1	2	4
December 31, 2015	(14)	(7)	(4)	1	3	7

⁽¹⁾ 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.

⁽²⁾ 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 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.

As at (\$ millions)	June 30, 2016	December 31, 2015
For variable annuity guarantee dynamic hedging strategy	\$ 15,400	\$ 13,600
For macro equity risk hedging strategy	5,600	5,600
Total	\$ 21,000	\$ 19,200

E4 Interest rate and spread risk

As at June 30, 2016, 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 nil million, and to a 50 basis point increase in interest rates to be a benefit of nil million, after rounding results to the nearest \$100 million.

The 50 basis point parallel decline 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 where government rates are not currently negative, 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 the applicable reinvestment scenario 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 an increase in interest rates. 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 net income attributed to shareholders does not take into account any future potential changes to the URR assumptions or calibration criteria for stochastic risk free rates which are promulgated periodically by the Actuarial Standards Board ("ASB"), 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. Interest rates are lower than they were when the current URR assumptions and calibration criteria for stochastic risk free rates were promulgated, and therefore, there may be a downward bias when the ASB updates the promulgation, which we expect to occur in 2017. While the magnitude of any potential changes to the promulgation is unknown, as of December 31, 2015 the impact of a 10 basis point decrease in the promulgated URR assumptions and a commensurate change in the calibration criteria for stochastic risk free rates is estimated to be a charge to net income attributed to shareholders of \$300 million. The actual impact could differ from the Company's estimate.¹

¹ See "Caution regarding forward-looking statements".

Potential impact on net income attributed to shareholders and MLI's MCCR ratio of an immediate 50 basis point parallel change in interest rates relative to rates assumed in the valuation of policy liabilities^{(1),(2),(3),(4)}

As at	June 30, 2016		December 31, 2015	
	-50bp	+50bp	-50bp	+50bp
Net income attributed to shareholders (\$ millions)				
Excluding change in market value of AFS fixed income assets held in the surplus segment	\$ -	\$ -	\$ (100)	\$ 100
From fair value changes in AFS fixed income assets held in surplus, if realized	800	(700)	600	(600)
MLI's MCCR ratio (Percentage points)				
Before impact of change in market value of AFS fixed income assets held in the surplus segment ⁽⁵⁾	(8)	4	(6)	4
From fair value changes in AFS fixed income assets held in surplus, if realized	4	(4)	3	(3)

(1) 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.

(2) 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.

(3) 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.

(4) 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 assets is as of the end of the quarter.

(5) The impact on MLI's MCCR ratio includes both the impact of the change in earnings on available capital as well as the change in required capital that results from a change in interest rates. The potential increase in required capital accounted for almost all of the 8 point impact of a 50 bp decline in interest rates on MLI's MCCR ratio this quarter.

The \$100 million decrease in sensitivity to a 50 basis point decline in interest rates from December 31, 2015 was primarily due to normal rebalancing as part of our interest risk hedging program.

The following table shows the potential impact on net income attributed to shareholders resulting from a change in credit spreads and swap spreads over government bond rates for all maturities across all markets with a floor of zero on corporate spreads, 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 and swap spreads^{(1),(2),(3)}

As at (\$ millions)	June 30, 2016	December 31, 2015
Corporate spreads⁽⁴⁾		
Increase 50 basis points	\$ 800	\$ 700
Decrease 50 basis points	(800)	(700)
Swap spreads		
Increase 20 basis points	\$ (600)	\$ (500)
Decrease 20 basis points	600	500

(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 and swap spreads.

(3) 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.

(4) Corporate spreads are assumed to grade to an expected long-term average over five years.

The \$100 million increase in sensitivity to a 50 basis point decline in corporate spreads from December 31, 2015 was primarily due to interest rate movements in the U.S., Japan and Canada. The \$100 million increase in sensitivity to a 20 basis point increase in swap spreads from December 31, 2015 was primarily due to normal rebalancing as part of our interest risk hedging program.

E5 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 that differ from the expected levels assumed in the valuation of policy liabilities.

Potential impact on net income attributed to shareholders arising from changes in ALDA returns^{(1),(2),(3),(4),(5)}

As at (\$ millions)	June 30, 2016		December 31, 2015	
	-10%	10%	-10%	10%
Real estate, agriculture and timber assets	\$ (1,200)	\$ 1,200	\$ (1,200)	\$ 1,200
Private equities and other ALDA ⁽⁶⁾	(1,200)	1,100	(1,100)	1,100
Alternative long-duration assets	\$ (2,400)	\$ 2,300	\$ (2,300)	\$ 2,300

(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 alternative long-duration asset returns.

(4) Net income impact does not consider any impact of the market correction on assumed future return assumptions. For some classes of ALDA, where there is not an appropriate long-term benchmark available, the return assumptions used in valuation are not permitted by the Standards of Practice and CIA guidance to result in a lower reserve than an assumption based on a historical return benchmark for public equities in the same jurisdiction.

(5) Please refer to section F1 “Sensitivity of policy liabilities to updates and assumptions” for more information on the level of growth assumed and on the net income sensitivity to changes in these long-term assumptions.

(6) A 10% market decline in oil and gas holdings, direct and indirect, would result in an estimated \$200 million reduction in net income attributed to shareholders.

The increased sensitivity from December 31, 2015 to June 30, 2016 was primarily due to the impact of the decrease in risk free rates in the U.S. and Canada, which decreased the rates at which funds can reinvested, partially offset by the weakening of the U.S. dollar relative to the Canadian dollar during the period.

F ACCOUNTING MATTERS AND CONTROLS

F1 Critical accounting and actuarial policies

Our significant accounting policies under IFRS are described in note 1 to our Consolidated Financial Statements for the year ended December 31, 2015. The critical accounting policies and the estimation processes related 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 are described on pages 69 to 79 of our 2015 Annual Report.

F2 Sensitivity of policy liabilities to updates and 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 income. The sensitivity of after-tax income to updates to asset related assumptions underlying policy liabilities is shown below, assuming that there is a simultaneous update to the assumption across all business units.

For updates to asset related assumptions, the sensitivity is shown net of the corresponding impact on income of the change in the value of the assets supporting policy liabilities. In practice, experience for each assumption will frequently vary by business and geographic market 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.

Most participating business is excluded from this analysis because of the ability to pass both favourable and adverse experience to the policyholders through the participating dividend adjustment.

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

As at (\$ millions)	Increase (decrease) in after-tax income			
	June 30, 2016		December 31, 2015	
Asset related assumptions updated periodically in valuation basis changes	Increase	Decrease	Increase	Decrease
100 basis point change in future annual returns for public equities ⁽¹⁾	\$ 500	\$ (500)	\$ 600	\$ (600)
100 basis point change in future annual returns for ALDA ⁽²⁾	3,000	(3,700)	3,000	(3,400)
100 basis point change in equity volatility assumption for stochastic segregated fund modelling ⁽³⁾	(200)	200	(300)	300

⁽¹⁾ 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 \$200 million increase (December 31, 2015 – \$200 million increase). For a 100 basis point decrease in expected growth rates, the impact from segregated fund guarantee reserves is a \$200 million decrease (December 31, 2015 – \$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 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%.

⁽²⁾ ALDA include commercial real estate, timber and agricultural real estate, direct oil and gas properties, and private equities, some of which relate to oil and gas. Expected long-term return assumptions are set in accordance with the Standards of Practice for the valuation of insurance contract liabilities and guidance published by the CIA. The guidance requires that the investment return assumption for these assets should not be higher than the historical long-term average returns of an appropriate broad based index. Where such experience is not available, investment return assumptions should not result in a lower reserve than an assumption based on a historical return benchmark for public equities in the same jurisdiction. Annual return assumptions for ALDA include market growth rates and annual income such as rent, production proceeds, dividends, etc.

⁽³⁾ Volatility assumptions for public equities are based on long-term historical observed experience and compliance with actuarial standards. The resulting volatility assumptions are 17.5% per annum in Canada and 17.5% per annum in the U.S. for large cap public equities, and 19% per annum in Japan. For European equity funds, the volatility assumptions vary between 16.25% and 18.4%.

The increase in sensitivity to a change in future annual ALDA returns from December 31, 2015 to June 30, 2016 was primarily due to the impact of the decrease in risk free rates in the U.S. and Canada, which decreased the rates at which funds can reinvested, partially offset by the weakening of the U.S. dollar relative to the Canadian dollar during the period.

F3 Accounting and reporting changes

Refer to note 2 of our unaudited Interim Consolidated Financial Statements for the three and six months ended June 30, 2016 for the accounting and reporting changes during the quarter.

F4 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 (\$ millions, except per share amounts or otherwise stated, unaudited)	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014
Revenue								
Premium income								
Life and health insurance	\$ 5,497	\$ 5,728	\$ 5,331	\$ 5,092	\$ 4,708	\$ 4,589	\$ 4,305	\$ 4,072
Annuities and pensions	1,209	1,000	1,381	1,141	869	814	528	556
Premiums ceded, net of ceded commission and additional consideration relating to Closed Block reinsurance transaction	-	-	-	(7,996)	-	-	-	-
Net premium income	6,706	6,728	6,712	(1,763)	5,577	5,403	4,833	4,628
Investment income	3,213	3,300	2,899	2,708	3,216	2,642	2,664	2,602
Realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities ⁽¹⁾	7,922	8,862	(1,916)	3,672	(10,161)	5,343	6,182	1,561
Other revenue	2,794	2,829	2,694	2,487	2,491	2,426	2,301	2,207
Total revenue	\$ 20,635	\$21,719	\$10,389	\$ 7,104	\$ 1,123	\$15,814	\$15,980	\$10,998
Income (loss) before income taxes	\$ 947	\$ 1,353	\$ 136	\$ 988	\$ 650	\$ 844	\$ 724	\$ 1,392
Income tax (expense) recovery	(231)	(298)	76	(316)	28	(116)	(17)	(287)
Net income	\$ 716	\$ 1,055	\$ 212	\$ 672	\$ 678	\$ 728	\$ 707	\$ 1,105
Net income attributed to shareholders	\$ 704	\$ 1,045	\$ 246	\$ 622	\$ 600	\$ 723	\$ 640	\$ 1,100
Reconciliation of core earnings to net income attributed to shareholders								
Total core earnings ⁽²⁾	\$ 833	\$ 905	\$ 859	\$ 870	\$ 902	\$ 797	\$ 713	\$ 755
Other items to reconcile net income attributed to shareholders to core earnings ⁽³⁾ :								
Investment-related experience in excess of amounts included in core earnings	60	(340)	(361)	(169)	77	(77)	(403)	320
Direct impact of equity markets, interest rates and variable annuity guarantee liabilities	(170)	474	(29)	232	(309)	13	377	70
Impact of major reinsurance transactions, in-force product changes and recapture of reinsurance treaties	-	-	(52)	-	-	12	-	24
Change in actuarial methods and assumptions	-	12	(97)	(285)	(47)	(22)	(59)	(69)
Net impact of acquisitions and divestitures	(19)	(14)	(39)	(26)	(54)	(30)	12	-
Tax related items	-	1	2	-	31	30	-	-
Other items	-	7	(37)	-	-	-	-	-
Net income attributed to shareholders	\$ 704	\$ 1,045	\$ 246	\$ 622	\$ 600	\$ 723	\$ 640	\$ 1,100
Basic earnings per common share	\$ 0.34	\$ 0.51	\$ 0.11	\$ 0.30	\$ 0.29	\$ 0.36	\$ 0.33	\$ 0.58
Diluted earnings per common share	\$ 0.34	\$ 0.51	\$ 0.11	\$ 0.30	\$ 0.29	\$ 0.36	\$ 0.33	\$ 0.57
Segregated funds deposits	\$ 7,899	\$ 8,693	\$ 8,324	\$ 8,401	\$ 7,790	\$ 8,270	\$ 6,240	\$ 5,509
Total assets (in billions)	\$ 726	\$ 697	\$ 705	\$ 684	\$ 659	\$ 689	\$ 579	\$ 555
Weighted average common shares (in millions)	1,972	1,972	1,972	1,971	1,971	1,936	1,864	1,859
Diluted weighted average common shares (in millions)	1,976	1,976	1,977	1,977	1,992	1,959	1,887	1,883
Dividends per common share	\$ 0.185	\$ 0.185	\$ 0.170	\$ 0.170	\$ 0.170	\$ 0.155	\$ 0.155	\$ 0.155
CDN\$ to US\$1 - Statement of Financial Position	1.3009	1.2970	1.3841	1.3394	1.2473	1.2682	1.1601	1.1208
CDN\$ to US\$1 - Statement of Income	1.2889	1.3724	1.3360	1.3089	1.2297	1.2399	1.1356	1.0890

⁽¹⁾ 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.

⁽²⁾ Core earnings is a non-GAAP measure. See "Performance and Non-GAAP Measures" below.

⁽³⁾ For explanations of other items, see "Q2 earnings analysis" table in section B "Financial Highlights" and for an operating segment split of these items see the 8 quarter trend tables in section G3 "Performance and Non-GAAP Measures" which reconcile net income attributed to shareholders to core earnings.

F5 Other

No changes were made in our internal control over financial reporting during the three months ended June 30, 2016, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

As in prior quarters, MFC's Audit Committee reviewed this MD&A and the unaudited interim financial report and MFC's Board of Directors approved this MD&A prior to its release.

G OTHER

G1 Quarterly dividend

On August 3, 2016, our Board of Directors approved a quarterly shareholders' dividend of \$0.185 per share on the common shares of MFC, payable on and after September 19, 2016 to shareholders of record at the close of business on August 16, 2016.

The Board of Directors also approved that, in respect of MFC's September 19, 2016 common share dividend payment date and pursuant to MFC's Canadian Dividend Reinvestment and Share Purchase Plan and its U.S. Dividend Reinvestment and Share Purchase Plan, the required common shares be purchased on the open market. The purchase price of such shares will be based on the average of the actual cost to purchase such common shares. There are no applicable discounts because the common shares are being purchased on the open market and are not being issued from treasury.

The Board also declared dividends on the following non-cumulative preferred shares, payable on or after September 19, 2016 to shareholders of record at the close of business on August 16, 2016.

Class A Shares Series 2 – \$0.29063 per share	Class 1 Shares Series 11 – \$0.25 per share
Class A Shares Series 3 – \$0.28125 per share	Class 1 Shares Series 13 – \$0.2375 per share
Class 1 Shares Series 3 – \$0.136125 per share	Class 1 Shares Series 15 – \$0.24375 per share
Class 1 Shares Series 4 – \$0.122814 per share	Class 1 Shares Series 17 – \$0.24375 per share
Class 1 Shares Series 5 – \$0.275 per share	Class 1 Shares Series 19 – \$0.2375 per share
Class 1 Shares Series 7 – \$0.2875 per share	Class 1 Shares Series 21 – \$0.35 per share
Class 1 Shares Series 9 – \$0.275 per share	

G2 Outstanding shares – selected information

Common Shares

As at July 29, 2016 MFC had 1,972,923,270 common shares outstanding.

G3 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 Consolidated Financial Statements. Non-GAAP measures include: Core Earnings (Loss); Core ROE; Diluted Core Earnings Per Common Share; Core Earnings Before Interest, Taxes, Depreciation and Amortization ("Core EBITDA"); Core Investment Gains; Constant Currency Basis; Premiums and Deposits; Assets under Management and Administration; Assets under Management; Assets under Administration; Capital; New Business Value; New Business Value Margin; Sales; APE Sales; Gross Flows and Net Flows. 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.

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 changes in 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.

Any 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, 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 to expense assumptions used in the measurement of insurance and investment contract liabilities.

6. Up to \$400 million of favourable investment-related experience reported in a single year which is referred to as “core investment gains”. This means up to \$100 million in the first quarter, up to \$200 million on a year-to-date basis in the second quarter, up to \$300 million on a year-to-date basis in the third quarter and up to \$400 million on a full year basis in the fourth quarter. Any investment-related experience losses reported in a quarter will be offset against the net year-to-date investment-related experience gains with the difference being included in core earnings subject to a maximum of the year-to-date core investment gains and a minimum of zero. To the extent any investment-related experience losses cannot be fully offset in a quarter they will be carried forward to be offset against investment-related experience gains in subsequent quarters in the same year, for purposes of determining 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 that are not dynamically hedged.
 - Gains (charges) on general fund equity investments supporting insurance and investment contract 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 \$400 million per annum or net unfavourable investment-related experience on a year-to-date basis. Investment-related experience relates to fixed income redeployment, 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 insurance and investment contract 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.
5. The impact on the measurement of insurance and investment contract 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.

The following table summarizes for the past eight quarters core earnings and net income (loss) attributed to shareholders.

Total Company

(\$ millions, unaudited)	Quarterly Results							
	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14	3Q14
Core earnings (loss)								
Asia Division	\$ 342	\$ 371	\$ 334	\$ 338	\$ 283	\$ 279	\$ 260	\$ 273
Canadian Division	333	338	352	336	303	261	224	243
U.S. Division	361	389	332	375	385	374	338	342
Corporate and Other (excluding expected cost of macro hedges and core investment gains)	(125)	(107)	(85)	(66)	(74)	(73)	(112)	(107)
Expected cost of macro hedges	(78)	(86)	(74)	(62)	(46)	(44)	(47)	(46)
Investment-related experience included in core earnings	-	-	-	(51)	51	-	50	50
Total core earnings	833	905	859	870	902	797	713	755
Investment-related experience outside of core earnings	60	(340)	(361)	(169)	77	(77)	(403)	320
Core earnings plus investment-related experience outside of core earnings	893	565	498	701	979	720	310	1,075
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 (details below)	(170)	474	(29)	232	(309)	13	377	70
Recapture of reinsurance treaties	-	-	(52)	-	-	12	-	24
Change in actuarial methods and assumptions	-	12	(97)	(285)	(47)	(22)	(59)	(69)
Integration and acquisition costs	(19)	(14)	(39)	(26)	(54)	(30)	12	-
Tax related items	-	1	2	-	31	30	-	-
Other items	-	7	(37)	-	-	-	-	-
Net income attributed to shareholders	\$ 704	\$ 1,045	\$ 246	\$ 622	\$ 600	\$ 723	\$ 640	\$ 1,100
Other market-related factors								
Direct impact of equity markets and variable annuity guarantee liabilities	\$ (97)	\$ (150)	\$ 77	\$ (419)	\$ 28	\$ 15	\$ (142)	\$ (35)
Gains (charges) on higher (lower) fixed income reinvestment rates assumed in the valuation of policy liabilities	(113)	407	(97)	647	(362)	13	533	165
Gains (charges) on sale of AFS bonds and derivative positions in the Corporate segment	40	217	(9)	4	25	(15)	(14)	(15)
Charges due to lower fixed income URR assumptions used in the valuation of policy liabilities	-	-	-	-	-	-	-	(45)
Direct impact of equity markets and interest rates and variable annuity guarantee liabilities	\$ (170)	\$ 474	\$ (29)	\$ 232	\$ (309)	\$ 13	\$ 377	\$ 70

Asia Division

(\$ millions, unaudited)	Quarterly Results							
	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14	3Q14
Asia Division core earnings	\$ 342	\$ 371	\$ 334	\$ 338	\$ 283	\$ 279	\$ 260	\$ 273
Investment-related experience outside of core earnings	(25)	(20)	(3)	21	7	-	(2)	27
Core earnings plus investment-related experience outside of core earnings	317	351	331	359	290	279	258	300
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	(287)	(238)	76	(248)	15	(17)	78	32
Tax-related items	-	10	2	-	(2)	20	-	-
Integration and acquisition costs	(2)	(2)	-	-	-	-	-	-
Net income attributed to shareholders⁽¹⁾	\$ 28	\$ 121	\$ 409	\$ 111	\$ 303	\$ 282	\$ 336	\$ 332

⁽¹⁾ The 2015 earnings on assets backing capital allocated to each operating segment have been restated to align with the methodology used in 2016.

Canadian Division

(\$ millions, unaudited)	Quarterly Results							
	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14	3Q14
Canadian Division core earnings	\$ 333	\$ 338	\$ 352	\$ 336	\$ 303	\$ 261	\$ 224	\$ 243
Investment-related experience outside of core earnings	(88)	(78)	(180)	(144)	14	(81)	(199)	19
Core earnings plus investment-related experience outside of core earnings	245	260	172	192	317	180	25	262
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	130	346	(201)	97	(114)	(65)	48	-
Recapture of reinsurance treaty and tax-related items	-	-	(52)	-	1	12	-	24
Integration and acquisition costs	(16)	(6)	(23)	(13)	(14)	(9)	-	-
Net income (loss) attributed to shareholders⁽¹⁾	\$ 359	\$ 600	\$ (104)	\$ 276	\$ 190	\$ 118	\$ 73	\$ 286

⁽¹⁾ The 2015 earnings on assets backing capital allocated to each operating segment have been restated to align with the methodology used in 2016.

U.S. Division

(\$ millions, unaudited)	Quarterly Results							
	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14	3Q14
U.S. Division core earnings	\$ 361	\$ 389	\$ 332	\$ 375	\$ 385	\$ 374	\$ 338	\$ 342
Investment-related experience outside of core earnings	93	(233)	(146)	(34)	64	(9)	(154)	319
Core earnings plus investment-related experience outside of core earnings	454	156	186	341	449	365	184	661
Other items to reconcile core earnings to net income (loss) attributed to shareholders								
Direct impact of equity markets and interest rates and variable annuity guarantee liabilities	(47)	82	142	174	(251)	99	322	18
Integration and acquisition costs	-	(4)	(5)	(8)	(32)	-	-	-
Other items	-	7	-	-	-	-	-	-
Net income attributed to shareholders⁽¹⁾	\$ 407	\$ 241	\$ 323	\$ 507	\$ 166	\$ 464	\$ 506	\$ 679

⁽¹⁾ The 2015 earnings on assets backing capital allocated to each operating segment have been restated to align with the methodology used in 2016.

Corporate and Other

(\$ millions, unaudited)	Quarterly Results							
	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14	3Q14
Corporate and Other core loss (excluding expected cost of macro hedges and core investment gains)	\$ (125)	\$ (107)	\$ (85)	\$ (66)	\$ (74)	\$ (73)	\$ (112)	\$ (107)
Expected cost of macro hedges	(78)	(86)	(74)	(62)	(46)	(44)	(47)	(46)
Investment-related experience included in core earnings	-	-	-	(51)	51	-	50	50
Total core loss	(203)	(193)	(159)	(179)	(69)	(117)	(109)	(103)
Investment-related experience outside of core earnings	80	(9)	(32)	(12)	(8)	13	(48)	(45)
Core loss plus investment-related experience outside of core earnings	(123)	(202)	(191)	(191)	(77)	(104)	(157)	(148)
Other items to reconcile core earnings (loss) to net income (loss) attributed to shareholders								
Direct impact of equity markets and interest rates and variable annuity guarantee liabilities	34	284	(46)	209	41	(4)	(71)	20
Changes in actuarial methods and assumptions	-	12	(97)	(285)	(47)	(22)	(59)	(69)
Integration and acquisition costs	(1)	(2)	(11)	(5)	(8)	(21)	12	-
Tax-related items	-	(9)	-	-	32	10	-	-
Other items	-	-	(37)	-	-	-	-	-
Net income (loss) attributed to shareholders⁽¹⁾	\$ (90)	\$ 83	\$ (382)	\$ (272)	\$ (59)	\$ (141)	\$ (275)	\$ (197)

⁽¹⁾ The Corporate and Other segment includes earnings on assets backing capital net of amounts allocated to operating divisions. The 2015 earnings on assets backing capital allocated to each operating segment have been restated to align with the methodology used in 2016.

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 are non-GAAP measures that exclude the impact of currency fluctuations (from local currency to Canadian dollars at a total company level and from local currency to U.S. dollars in Asia). Quarterly amounts stated on a constant currency basis in this MD&A are calculated, as appropriate, using the income statement and balance sheet exchange rates effective for 2Q16. Measures that are reported on a constant currency basis include growth in sales, gross flows, premiums and deposits, Core EBITDA, Asia NBV, and assets under management and administration.

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, (ii) segregated fund deposits, excluding seed money ("deposits from policyholders"), (iii) investment contract deposits, (iv) mutual fund deposits, (v) deposits into institutional advisory accounts, (vi) premium equivalents for "administration services only" group benefits contracts ("ASO premium equivalents"), (vii) premiums in the Canadian Group Benefits reinsurance ceded agreement, and (viii) other deposits in other managed funds.

Premiums and deposits	Quarterly Results		
	2Q16	1Q16	2Q 2015
(\$ millions)			
Net premium income and investment contract deposits	\$ 6,773	\$ 6,768	\$ 5,670
Deposits from policyholders	7,376	8,038	7,280
Mutual fund deposits	17,270	17,812	17,787
Institutional advisory account deposits	2,879	3,213	10,987
ASO premium equivalents	869	868	851
Group Benefits ceded premiums	1,506	1,034	1,031
Other fund deposits	126	144	117
Total premiums and deposits	36,799	37,877	43,723
Currency impact	-	(1,670)	1,135
Constant currency premiums and deposits	\$ 36,799	\$ 36,207	\$ 44,858

Assets under management and administration (“AUMA”) is a non-GAAP measure of the size of the Company. It is comprised of the non-GAAP measures assets under management (“AUM”), which includes both assets of general account and external client assets for which we provide investment management services, and assets under administration (“AUA”), which includes assets for which we provide administrative services only. Assets under management and administration is a common industry metric for WAM businesses.

Assets under management and administration			
As at			
(\$ millions)	June 30, 2016	March 31, 2016	June 30, 2015
Total invested assets	\$ 323,291	\$ 308,450	\$ 295,393
Segregated funds net assets	303,154	298,684	303,589
Assets under management per financial statements	626,445	607,134	598,982
Mutual funds	154,804	151,087	144,663
Institutional advisory accounts (excluding segregated funds)	71,437	67,527	61,855
Other funds	8,293	7,674	8,303
Total assets under management	860,979	833,422	813,803
Other assets under administration	73,248	70,437	68,924
Currency impact	-	3,820	26,696
Constant currency assets under management and administration	\$ 934,227	\$ 907,679	\$ 909,423

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 accumulated other comprehensive income (“AOCI”) on cash flow hedges and (ii) liabilities for preferred shares and capital instruments.

Capital			
As at			
(\$ millions)	June 30, 2016	March 31, 2016	June 30, 2015
Total equity	\$ 42,383	\$ 41,351	\$ 38,677
Add AOCI loss on cash flow hedges	415	380	205
Add liabilities for capital instruments	8,132	7,653	6,639
Total capital	\$ 50,930	\$ 49,384	\$ 45,521

Core EBITDA is a non-GAAP measure which Manulife uses to better understand the long-term earnings capacity and valuation of the business on a more comparable basis to how global asset managers are measured. Core EBITDA presents core earnings before the impact of interest, taxes, depreciation, and amortization. Core EBITDA was selected as a key performance indicator for WAM businesses, as EBITDA is widely used among asset management peers, and core earnings is a primary profitability metric for the Company overall.

Wealth and Asset Management

(\$ millions, unaudited)	Quarterly Results							
	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14	3Q14
Core EBITDA	\$ 288	\$ 285	\$ 302	\$ 312	\$ 314	\$ 296	\$ 255	\$ 257
Amortization of deferred acquisition costs and other depreciation	77	85	84	84	82	77	63	59
Amortization of deferred sales commissions	26	29	22	27	27	30	22	21
Core earnings before income taxes	185	171	196	201	205	189	170	177
Core income tax (expense) recovery	(33)	(31)	(41)	(34)	(45)	(41)	(41)	(48)
Core earnings	\$ 152	\$ 140	\$ 155	\$ 167	\$ 160	\$ 148	\$ 129	\$ 129

Embedded value (“EV”) is a measure of the present value of shareholders’ interests in the expected future distributable earnings on in-force business reflected in the Consolidated Statement of Financial Position of Manulife, excluding any value associated with future new business. The adjusted net worth is the IFRS shareholders’ equity adjusted for goodwill and intangibles, fair value of surplus assets, third-party debt, and pension liabilities, and local statutory balance sheet, regulatory reserve, and capital for Manulife’s Asian business. The value of in-force business in Canada and the U.S. is the present value of expected future IFRS earnings on in-force business less the present value of the cost of holding capital to support the in-force business under the MCCR framework. The value of in-force business in Asia reflects local statutory earnings and capital requirements. The value of in-force excludes businesses without material insurance risks, such as Manulife’s

WAM businesses and Manulife Bank. EV is calculated as the sum of the adjusted net worth and the value of in-force business.

New business value (“NBV”) is the change in embedded value as a result of sales in the reporting period. NBV is calculated as the present value of shareholders’ interests in expected future distributable earnings, after the cost of capital, on actual new business sold in the period using assumptions that are consistent with the assumptions used in the calculation of embedded value. NBV excludes businesses with immaterial insurance risks, such as Manulife’s wealth and asset management businesses and Manulife Bank. NBV is a useful metric to evaluate the value created by the Company’s new business franchise.

New business value margin is calculated as NBV divided by annualized premium equivalents (“APE”) excluding non-controlling interests. APE is calculated as 100% of annualized first year premiums for recurring premium products, and as 10% of single premiums for single premium products. Both NBV and APE used in the NBV margin calculation are after non-controlling interests and exclude wealth and asset management businesses and Manulife Bank. The NBV margin is a useful metric to help understand the profitability of our new business.

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 administrative services only premium equivalents on new cases, as well as the addition of new coverages and amendments to contracts, excluding rate increases.

Annualized premium equivalent (“APE”) sales is comprised of 100% of regular premiums/deposits and 10% of single premiums/deposits for both insurance and other wealth products. APE sales are presented for Asia to provide consistency of scope for NBV disclosures and industry practice.

Other Wealth sales include all new deposits into variable and fixed annuity contracts. As we discontinued sales of new Variable Annuity contracts in the U.S. in 1Q13, subsequent deposits into existing U.S. Variable Annuity contracts are not reported as sales. Asia variable annuity deposits are included in APE sales.

Bank new lending volumes include bank loans and mortgages authorized in the period.

Gross flows is a business measure for Manulife’s WAM businesses and includes all deposits into the Company’s mutual funds, college savings 529 plans, group pension/retirement savings products, private wealth and institutional asset management products. Gross flows are a common industry metric for WAM businesses as it provides a measure of how successful the businesses are at attracting assets.

Net flows is presented for our WAM businesses and includes gross flows less redemptions for our mutual funds, college savings 529 plans, group pension/retirement savings products, private wealth and institutional asset management products. Net flows are a common industry metric for WAM businesses as it provides a measure of how successful the businesses are at attracting and retaining assets.

G4 Caution regarding forward-looking statements

From time to time, MFC makes written and/or oral forward-looking statements, including in this document. In addition, our representatives may make forward-looking statements orally to analysts, investors, the media and others. All such statements are made pursuant to 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 the estimated impact of the annual review of actuarial methods and assumptions and the anticipated impact of an update to the ASB’s URR assumptions.

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 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: 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 applicable in any of the territories in which we operate; changes in regulatory capital requirements applicable in any of the territories in which we operate; 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, actuarial methods and embedded value 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 collaboration arrangements with Standard Life plc, bancassurance partnership with DBS Bank Ltd and distribution agreement with Standard Chartered; unforeseen liabilities or asset impairments arising from acquisitions and dispositions of businesses, including with respect to the acquisitions of Standard Life, New York Life's Retirement Plan Services business, and Standard Chartered's MPF and Occupational and Retirement Schemes Ordinance ("ORSO") businesses; 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 acquisitions of Standard Life, New York Life's Retirement Plan Services business, and Standard Chartered's MPF and ORSO businesses; the disruption of or changes to key elements of the Company's system or public infrastructure systems; environmental concerns; our ability to protect our intellectual property and exposure to claims of infringement; and our inability to withdraw cash from subsidiaries.

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 this document under "Risk Management and Risk Factors Update" and "Critical Accounting and Actuarial Policies" as well as under "Risk Factors" in our most recent Annual Information Form, under "Risk Management", "Risk Factors" and "Critical Accounting and Actuarial Policies" in the Management's Discussion and Analysis in our most recent annual report, in the "Risk Management" note to consolidated financial statements in our most recent annual and interim reports and elsewhere in our filings with Canadian and U.S. securities regulators.

The forward-looking statements in this document are, unless otherwise indicated, stated as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations, our future operations, as well as our objectives and strategic priorities, and may not be appropriate for other purposes. We do not undertake to update any forward-looking statements, except as required by law.