

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, (in millions of Canadian dollars except for per share amounts)	2018	2017
Revenue		
Premiums		
Gross	\$ 20,981	\$ 19,838
Less: Ceded	2,339	4,557
Net premiums	18,642	15,281
Net investment income (loss):		
Interest and other investment income (Note 5)	5,641	5,413
Fair value and foreign currency changes on assets and liabilities (Note 5)	(3,373)	2,603
Net gains (losses) on available-for-sale assets	121	195
Net investment income (loss)	2,389	8,211
Fee income (Note 17)	5,966	5,842
Total revenue	26,997	29,334
Benefits and expenses		
Gross claims and benefits paid (Note 10)	15,986	15,353
Increase (decrease) in insurance contract liabilities (Note 10)	312	5,327
Decrease (increase) in reinsurance assets (Note 10)	97	821
Increase (decrease) in investment contract liabilities (Note 10)	(31)	41
Reinsurance expenses (recoveries) (Note 11)	(2,021)	(4,373)
Commissions	2,339	2,403
Net transfer to (from) segregated funds (Note 22)	(308)	(119)
Operating expenses (Note 18)	6,432	6,410
Premium taxes	375	379
Interest expense	305	303
Total benefits and expenses	23,486	26,545
Income (loss) before income taxes	3,511	2,789
Less: Income tax expense (benefit) (Note 20)	597	302
Total net income (loss)	2,914	2,487
Less: Net income (loss) attributable to participating policyholders (Note 21)	298	245
Shareholders' net income (loss)	2,616	2,242
Less: Preferred shareholders' dividends	94	93
Common shareholders' net income (loss)	\$ 2,522	\$ 2,149
 Average exchange rates during the reporting periods:		
U.S. dollars	1.30	1.30
 Earnings (loss) per share (Note 26)		
Basic earnings (loss) per share	\$ 4.16	\$ 3.51
Diluted earnings (loss) per share	\$ 4.14	\$ 3.49
Dividends per common share	\$ 1.905	\$ 1.745

The attached notes form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31, (in millions of Canadian dollars)	2018	2017
Total net income (loss)	\$ 2,914	\$ 2,487
Other comprehensive income (loss), net of taxes:		
Items that may be reclassified subsequently to income:		
Change in unrealized foreign currency translation gains (losses):		
Unrealized gains (losses)	911	(737)
Change in unrealized gains (losses) on available-for-sale assets:		
Unrealized gains (losses)	(313)	247
Reclassifications to net income (loss)	(89)	(112)
Change in unrealized gains (losses) on cash flow hedges:		
Unrealized gains (losses)	(10)	3
Reclassifications to net income (loss)	-	(8)
Share of other comprehensive income (loss) in joint ventures and associates:		
Unrealized gains (losses)	7	(31)
Total items that may be reclassified subsequently to income	506	(638)
Items that will not be reclassified subsequently to income:		
Remeasurement of defined benefit plans	84	(69)
Revaluation surplus on transfer to investment properties (Note 5.A)	-	139
Total items that will not be reclassified subsequently to income	84	70
Total other comprehensive income (loss)	590	(568)
Total comprehensive income (loss)	3,504	1,919
Less: Participating policyholders' comprehensive income (loss) (Note 21)	303	238
Shareholders' comprehensive income (loss)	\$ 3,201	\$ 1,681

INCOME TAXES INCLUDED IN OTHER COMPREHENSIVE INCOME (LOSS)

For the years ended December 31, (in millions of Canadian dollars)	2018	2017
Income tax benefit (expense):		
Items that may be reclassified subsequently to income:		
Unrealized foreign currency translation gains / losses	\$ (56)	\$ -
Unrealized gains / losses on available-for-sale assets	58	(92)
Reclassifications to net income for available-for-sale assets	31	39
Unrealized gains / losses on cash flow hedges	4	(1)
Reclassifications to net income for cash flow hedges	-	3
Total items that may be reclassified subsequently to income	37	(51)
Items that will not be reclassified subsequently to income:		
Remeasurement of defined benefit plans	(17)	22
Revaluation surplus on transfer to investment properties (Note 5.A)	-	(33)
Total items that will not be reclassified subsequently to income	(17)	(11)
Total income tax benefit (expense) included in other comprehensive income (loss)	\$ 20	\$ (62)

The attached notes form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, (in millions of Canadian dollars)

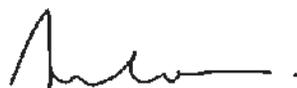
	2018	2017
Assets		
Cash, cash equivalents and short-term securities (Note 5)	\$ 9,506	\$ 8,890
Debt securities (Notes 5 and 6)	74,443	72,619
Equity securities (Notes 5 and 6)	4,634	6,020
Mortgages and loans (Notes 5 and 6)	46,822	42,805
Derivative assets (Notes 5 and 6)	1,112	1,478
Other invested assets (Note 5)	4,830	4,154
Policy loans (Note 5)	3,222	3,106
Investment properties (Note 5)	7,157	7,067
Invested assets	151,726	146,139
Other assets (Note 8)	4,498	4,408
Reinsurance assets (Notes 10 and 11)	4,141	4,028
Deferred tax assets (Note 20)	1,209	1,295
Intangible assets (Note 9)	1,779	1,667
Goodwill (Note 9)	5,412	5,183
Total general fund assets	168,765	162,720
Investments for account of segregated fund holders (Note 22)	103,062	106,392
Total assets	\$ 271,827	\$ 269,112
Liabilities and equity		
Liabilities		
Insurance contract liabilities (Note 10)	\$ 121,923	\$ 117,785
Investment contract liabilities (Note 10)	3,164	3,082
Derivative liabilities (Notes 5 and 6)	2,295	1,756
Deferred tax liabilities (Note 20)	322	403
Other liabilities (Note 12)	12,153	11,987
Senior debentures (Note 13)	1,299	1,299
Subordinated debt (Note 14)	3,039	3,437
Total general fund liabilities	144,195	139,749
Insurance contracts for account of segregated fund holders (Note 22)	96,663	99,121
Investment contracts for account of segregated fund holders (Note 22)	6,399	7,271
Total liabilities	\$ 247,257	\$ 246,141
Equity		
Issued share capital and contributed surplus	\$ 10,749	\$ 10,911
Shareholders' retained earnings and accumulated other comprehensive income	12,957	11,410
Total shareholders' equity	23,706	22,321
Participating policyholders' equity	864	650
Total equity	\$ 24,570	\$ 22,971
Total liabilities and equity	\$ 271,827	\$ 269,112

Exchange rates at the end of the reporting periods:

U.S. dollars 1.36 1.26

The attached notes form part of these Consolidated Financial Statements.

Approved on behalf of the Board of Directors on February 13, 2019.



Dean A. Connor
President and Chief Executive Officer



Sara G. Lewis
Director

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, (in millions of Canadian dollars)	2018	2017
Shareholders:		
Preferred shares (Note 15)		
Balance, beginning and end of year	\$ 2,257	\$ 2,257
Common shares (Note 15)		
Balance, beginning of year	8,582	8,614
Stock options exercised	16	18
Common shares purchased for cancellation	(183)	(50)
Common shares issued as consideration for business acquisition	4	–
Balance, end of year	8,419	8,582
Contributed surplus		
Balance, beginning of year	72	72
Share-based payments	4	3
Stock options exercised	(3)	(3)
Balance, end of year	73	72
Retained earnings		
Balance, beginning of year	10,305	9,360
Adjustment for change in accounting policy (Note 2)	(44)	–
Balance, beginning of year, after change in accounting policy	10,261	9,360
Net income (loss)	2,616	2,242
Dividends on common shares	(1,147)	(1,066)
Dividends on preferred shares	(94)	(93)
Common shares purchased for cancellation (Note 15)	(458)	(125)
Transfer from accumulated other comprehensive income (loss)	–	(13)
Transfer from participating policyholders' equity (Note 21)	89	–
Balance, end of year	11,267	10,305
Accumulated other comprehensive income (loss), net of taxes (Note 27)		
Balance, beginning of year	1,105	1,653
Total other comprehensive income (loss) for the year	585	(561)
Transfer to retained earnings	–	13
Balance, end of year	1,690	1,105
Total shareholders' equity, end of year	\$ 23,706	\$ 22,321
Participating policyholders:		
Balance, beginning of year	\$ 650	\$ 412
Net income (loss) (Note 21)	298	245
Total other comprehensive income (loss) for the year (Note 27)	5	(7)
Transfer to retained earnings (Note 21)	(89)	–
Total participating policyholders' equity, end of year	\$ 864	\$ 650
Total equity	\$ 24,570	\$ 22,971

The attached notes form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, (in millions of Canadian dollars)	2018	2017
Cash flows provided by (used in) operating activities		
Income (loss) before income taxes	\$ 3,511	\$ 2,789
Adjustments:		
Interest expense related to financing activities	247	247
Increase (decrease) in insurance and investment contract liabilities	281	5,368
Decrease (increase) in reinsurance assets	97	821
Realized and unrealized (gains) losses and foreign currency changes on invested assets	3,252	(2,798)
Sales, maturities and repayments of invested assets	62,387	55,973
Purchases of invested assets	(65,353)	(60,633)
Income taxes received (paid)	(307)	(436)
Mortgage securitization (Note 5)	96	214
Other operating activities	(377)	439
Net cash provided by (used in) operating activities	3,834	1,984
Cash flows provided by (used in) investing activities		
Net (purchase) sale of property and equipment	(85)	(182)
Investment in and transactions with joint ventures and associates (Note 16)	(64)	(121)
Dividends received from joint ventures and associates (Note 16)	34	36
Acquisitions, net of cash and cash equivalents acquired (Note 3) ⁽¹⁾	–	(61)
Other investing activities	(165)	(11)
Net cash provided by (used in) investing activities	(280)	(339)
Cash flows provided by (used in) financing activities		
Increase in (repayment of) borrowed funds	(40)	(45)
Issuance of subordinated debt, net of issuance costs (Note 14)	–	398
Redemption of senior debentures and subordinated debt (Notes 13 and 14)	(400)	(800)
Issuance of common shares on exercise of stock options	13	15
Common shares purchased for cancellation (Note 15)	(641)	(175)
Dividends paid on common and preferred shares	(1,227)	(1,155)
Interest expense paid	(271)	(257)
Net cash provided by (used in) financing activities	(2,566)	(2,019)
Changes due to fluctuations in exchange rates	250	(179)
Increase (decrease) in cash and cash equivalents	1,238	(553)
Net cash and cash equivalents, beginning of year	5,956	6,509
Net cash and cash equivalents, end of year	7,194	5,956
Short-term securities, end of year	2,208	2,794
Net cash, cash equivalents and short-term securities, end of year (Note 5)	\$ 9,402	\$ 8,750

(1) Consists of total cash consideration paid of \$100, less cash and cash equivalents acquired of \$39 in 2017.

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