

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, (in millions of Canadian dollars except for per share amounts)	2017	2016
Revenue		
Premiums		
Gross	\$ 19,838	\$ 19,427
Less: Ceded	4,557	4,379
Net premiums	15,281	15,048
Net investment income (loss):		
Interest and other investment income (Note 5)	5,413	5,489
Fair value and foreign currency changes on assets and liabilities (Note 5)	2,603	2,233
Net gains (losses) on available-for-sale assets	195	223
Net investment income (loss)	8,211	7,945
Fee income (Note 17)	5,842	5,580
Total revenue	29,334	28,573
Benefits and expenses		
Gross claims and benefits paid (Note 10)	15,353	15,210
Increase (decrease) in insurance contract liabilities (Note 10)	5,327	5,391
Decrease (increase) in reinsurance assets (Note 10)	821	133
Increase (decrease) in investment contract liabilities (Note 10)	41	(13)
Reinsurance expenses (recoveries) (Note 11)	(4,373)	(4,313)
Commissions	2,403	2,372
Net transfer to (from) segregated funds (Note 22)	(119)	(307)
Operating expenses (Note 18)	6,410	6,000
Premium taxes	379	339
Interest expense	303	316
Total benefits and expenses	26,545	25,128
Income (loss) before income taxes	2,789	3,445
Less: Income tax expense (benefit) (Note 20)	302	619
Total net income (loss)	2,487	2,826
Less: Net income (loss) attributable to participating policyholders and non-controlling interests	245	245
Shareholders' net income (loss)	2,242	2,581
Less: Preferred shareholders' dividends	93	96
Common shareholders' net income (loss)	\$ 2,149	\$ 2,485

Average exchange rates during the reporting periods:

U.S. dollars	1.30	1.33
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Earnings (loss) per share (Note 26)

Basic earnings (loss) per share	\$ 3.51	\$ 4.05
Diluted earnings (loss) per share	\$ 3.49	\$ 4.03

Dividends per common share

\$ 1.745	\$ 1.620
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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)	2017	2016
Total net income (loss)	\$ 2,487	\$ 2,826
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)	(737)	(636)
Change in unrealized gains (losses) on available-for-sale assets:		
Unrealized gains (losses)	247	117
Reclassifications to net income (loss)	(112)	(131)
Change in unrealized gains (losses) on cash flow hedges:		
Unrealized gains (losses)	3	5
Reclassifications to net income (loss)	(8)	(14)
Share of other comprehensive income (loss) in joint ventures and associates:		
Unrealized gains (losses)	(31)	(68)
Reclassifications to net income (loss) upon change in control (Note 3)	–	(8)
Total items that may be reclassified subsequently to income	(638)	(735)
Items that will not be reclassified subsequently to income:		
Remeasurement of defined benefit plans	(69)	(73)
Revaluation surplus on transfer to investment properties (Note 5.A)	139	–
Total items that will not be reclassified subsequently to income	70	(73)
Total other comprehensive income (loss)	(568)	(808)
Total comprehensive income (loss)	1,919	2,018
Less: Participating policyholders' and non-controlling interests' comprehensive income (loss)	238	243
Shareholders' comprehensive income (loss)	\$ 1,681	\$ 1,775

INCOME TAXES INCLUDED IN OTHER COMPREHENSIVE INCOME (LOSS)

For the years ended December 31, (in millions of Canadian dollars)	2017	2016
Income tax benefit (expense):		
Items that may be reclassified subsequently to income:		
Unrealized foreign currency translation gains / losses	\$ –	\$ 1
Unrealized gains / losses on available-for-sale assets	(92)	(58)
Reclassifications to net income for available-for-sale assets	39	48
Unrealized gains / losses on cash flow hedges	(1)	(6)
Reclassifications to net income for cash flow hedges	3	5
Total items that may be reclassified subsequently to income	(51)	(10)
Items that will not be reclassified subsequently to income:		
Remeasurement of defined benefit plans	22	32
Revaluation surplus on transfer to investment properties (Note 5.A)	(33)	–
Total items that will not be reclassified subsequently to income	(11)	32
Total income tax benefit (expense) included in other comprehensive income (loss)	\$ (62)	\$ 22

The attached notes form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

2017 2016

Assets

Cash, cash equivalents and short-term securities (Note 5)	\$ 8,890	\$ 8,642
Debt securities (Notes 5 and 6)	72,619	71,887
Equity securities (Notes 5 and 6)	6,020	5,774
Mortgages and loans (Notes 5 and 6)	42,805	40,775
Derivative assets (Notes 5 and 6)	1,478	1,608
Other invested assets (Note 5)	4,154	3,931
Policy loans (Note 5)	3,106	3,141
Investment properties (Note 5)	7,067	6,592

Invested assets	146,139	142,350
Other assets (Note 8)	4,408	5,109
Reinsurance assets (Notes 10 and 11)	4,028	5,144
Deferred tax assets (Note 20)	1,295	1,448
Intangible assets (Note 9)	1,667	1,703
Goodwill (Note 9)	5,183	5,317

Total general fund assets	162,720	161,071
Investments for account of segregated fund holders (Note 22)	106,392	97,167

Total assets	\$ 269,112	\$ 258,238
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Liabilities and equity

Liabilities

Insurance contract liabilities (Note 10)	\$ 117,785	\$ 115,057
Investment contract liabilities (Note 10)	3,082	2,913
Derivative liabilities (Notes 5 and 6)	1,756	2,512
Deferred tax liabilities (Note 20)	403	687
Other liabilities (Note 12)	11,987	12,399
Senior debentures (Note 13)	1,299	1,299
Subordinated debt (Note 14)	3,437	3,836

Total general fund liabilities	139,749	138,703
Insurance contracts for account of segregated fund holders (Note 22)	99,121	90,388
Investment contracts for account of segregated fund holders (Note 22)	7,271	6,779

Total liabilities	\$ 246,141	\$ 235,870
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Equity

Issued share capital and contributed surplus	\$ 10,911	\$ 10,943
Shareholders' retained earnings and accumulated other comprehensive income	11,410	11,013
Total shareholders' equity	22,321	21,956
Participating policyholders' equity	650	412

Total equity	\$ 22,971	\$ 22,368
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Total liabilities and equity	\$ 269,112	\$ 258,238
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Exchange rates at the end of the reporting periods:

U.S. dollars 1.26 1.34

The attached notes form part of these Consolidated Financial Statements.

Approved on behalf of the Board of Directors on February 14, 2018.



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)	2017	2016
Shareholders:		
Preferred shares (Note 15)		
Balance, beginning and end of year	\$ 2,257	\$ 2,257
Common shares (Note 15)		
Balance, beginning of year	8,614	8,567
Stock options exercised	18	47
Common shares purchased for cancellation	(50)	–
Balance, end of year	8,582	8,614
Contributed surplus		
Balance, beginning of year	72	76
Share-based payments	3	4
Stock options exercised	(3)	(8)
Balance, end of year	72	72
Retained earnings		
Balance, beginning of year	9,360	7,891
Net income (loss)	2,242	2,581
Dividends on common shares	(1,066)	(986)
Dividends on preferred shares	(93)	(96)
Common shares purchased for cancellation (Note 15)	(125)	–
Transactions with non-controlling interests (Note 3)	–	(30)
Transfer from accumulated other comprehensive income (loss)	(13)	–
Balance, end of year	10,305	9,360
Accumulated other comprehensive income (loss), net of taxes (Note 27)		
Balance, beginning of year	\$ 1,653	\$ 2,459
Total other comprehensive income (loss) for the year	(561)	(806)
Transfer to retained earnings	13	–
Balance, end of year	1,105	1,653
Total shareholders' equity, end of year	\$ 22,321	\$ 21,956
Participating policyholders:		
Balance, beginning of year	\$ 412	168
Net income (loss)	245	246
Total other comprehensive income (loss) for the year (Note 27)	(7)	(2)
Total participating policyholders' equity, end of year	\$ 650	\$ 412
Total equity	\$ 22,971	\$ 22,368

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)	2017	2016
Cash flows provided by (used in) operating activities⁽¹⁾		
Income (loss) before income taxes	\$ 2,789	\$ 3,445
Adjustments:		
Interest expense related to financing activities	247	269
Increase (decrease) in insurance and investment contract liabilities	5,368	5,378
Decrease (increase) in reinsurance assets	821	133
Realized and unrealized (gains) losses and foreign currency changes on invested assets	(2,798)	(2,456)
Sales, maturities and repayments of invested assets	55,973	47,115
Purchases of invested assets	(60,633)	(49,786)
Income taxes received (paid)	(436)	(310)
Mortgage securitization (Note 5)	214	474
Other operating activities	439	(594)
Net cash provided by (used in) operating activities	1,984	3,668
Cash flows provided by (used in) investing activities		
Net (purchase) sale of property and equipment	(182)	(131)
Investment in and transactions with joint ventures and associates (Note 16)	(121)	(366)
Dividends received from joint ventures and associates (Note 16)	36	20
Acquisitions, net of cash and cash equivalents acquired (Note 3) ⁽²⁾	(61)	(1,316)
Other investing activities	(11)	(100)
Net cash provided by (used in) investing activities	(339)	(1,893)
Cash flows provided by (used in) financing activities		
Increase in (repayment of) borrowed funds	(45)	(610)
Issuance of subordinated debt, net of issuance costs (Note 14)	398	1,343
Redemption of senior debentures and subordinated debt (Notes 13 and 14)	(800)	(950)
Issuance of common shares on exercise of stock options	15	39
Transactions with non-controlling interests (Note 3)	–	(46)
Common shares purchased for cancellation (Note 15)	(175)	–
Dividends paid on common and preferred shares	(1,155)	(1,074)
Interest expense paid	(257)	(245)
Net cash provided by (used in) financing activities	(2,019)	(1,543)
Changes due to fluctuations in exchange rates	(179)	(235)
Increase (decrease) in cash and cash equivalents	(553)	(3)
Net cash and cash equivalents, beginning of year	6,509	6,512
Net cash and cash equivalents, end of year	5,956	6,509
Short-term securities, end of year	2,794	1,944
Net cash, cash equivalents and short-term securities, end of year (Note 5)	\$ 8,750	\$ 8,453

(1) Balances in 2016 have been changed to conform with current year presentation.

(2) Consists of total cash consideration paid of \$100 (\$1,379 in 2016), less cash and cash equivalents acquired of \$39 (\$63 in 2016).

The attached notes form part of these Consolidated Financial Statements.