

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, (in millions of Canadian dollars except for per share amounts)	2016	2015
Revenue		
Premiums		
Gross	\$ 19,427	\$ 16,824
Less: Ceded	4,379	6,429
Net premiums	15,048	10,395
Net investment income (loss):		
Interest and other investment income (Note 5)	5,489	5,288
Fair value and foreign currency changes on assets and liabilities (Note 5)	2,233	(1,961)
Net gains (losses) on available-for-sale assets	223	228
Net investment income (loss)	7,945	3,555
Fee income (Note 17)	5,580	5,324
Total revenue	28,573	19,274
Benefits and expenses		
Gross claims and benefits paid (Note 10)	15,210	14,086
Increase (decrease) in insurance contract liabilities (Note 10)	5,391	1,261
Decrease (increase) in reinsurance assets (Note 10)	133	(505)
Increase (decrease) in investment contract liabilities (Note 10)	(13)	(29)
Reinsurance expenses (recoveries) (Note 11)	(4,313)	(6,146)
Commissions	2,372	2,100
Net transfer to (from) segregated funds (Note 22)	(307)	(43)
Operating expenses (Note 18)	6,000	5,037
Premium taxes	339	292
Interest expense	316	322
Total benefits and expenses	25,128	16,375
Income (loss) before income taxes	3,445	2,899
Less: Income tax expense (benefit) (Note 20)	619	599
Total net income (loss)	2,826	2,300
Less: Net income (loss) attributable to participating policyholders and non-controlling interests	245	15
Shareholders' net income (loss)	2,581	2,285
Less: Preferred shareholders' dividends	96	100
Common shareholders' net income (loss)	\$ 2,485	\$ 2,185
Average exchange rates during the reporting periods:		
U.S. dollars	1.33	1.28
U.K. pounds	1.80	1.95
Earnings (loss) per share (Note 26)		
Basic earnings (loss) per share	\$ 4.05	\$ 3.57
Diluted earnings (loss) per share	\$ 4.03	\$ 3.55
Dividends per common share	\$ 1.62	\$ 1.51

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)	2016	2015
Total net income (loss)	\$ 2,826	\$ 2,300
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) before net investment hedges	(636)	1,634
Unrealized gains (losses) on net investment hedges	–	(32)
Change in unrealized gains (losses) on available-for-sale assets:		
Unrealized gains (losses)	117	(174)
Reclassifications to net income (loss)	(131)	(124)
Change in unrealized gains (losses) on cash flow hedges:		
Unrealized gains (losses)	5	3
Reclassifications to net income (loss)	(14)	(6)
Share of other comprehensive income (loss) in joint ventures and associates:		
Unrealized gains (losses)	(68)	55
Reclassifications to net income (loss) upon change in control (Note 3)	(8)	–
Total items that may be reclassified subsequently to income	(735)	1,356
Items that will not be reclassified subsequently to income:		
Remeasurement of defined benefit plans	(73)	(49)
Total items that will not be reclassified subsequently to income	(73)	(49)
Total other comprehensive income (loss)	(808)	1,307
Total comprehensive income (loss)	2,018	3,607
Less: Participating policyholders' and non-controlling interests' comprehensive income (loss)	243	27
Shareholders' comprehensive income (loss)	\$ 1,775	\$ 3,580

INCOME TAXES INCLUDED IN OTHER COMPREHENSIVE INCOME (LOSS)

For the years ended December 31, (in millions of Canadian dollars)	2016	2015
Income tax benefit (expense):		
Items that may be reclassified subsequently to income:		
Unrealized foreign currency translation gains / losses, including net investment hedges	\$ 1	\$ (18)
Unrealized gains / losses on available-for-sale assets	(58)	61
Reclassifications to net income for available-for-sale assets	48	54
Unrealized gains / losses on cash flow hedges	(6)	(1)
Reclassifications to net income for cash flow hedges	5	2
Total items that may be reclassified subsequently to income	(10)	98
Items that will not be reclassified subsequently to income:		
Remeasurement of defined benefit plans	32	12
Total items that will not be reclassified subsequently to income	32	12
Total income tax benefit (expense) included in other comprehensive income (loss)	\$ 22	\$ 110

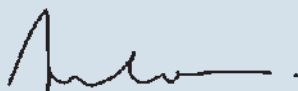
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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

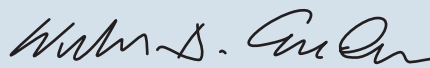
As at December 31, (in millions of Canadian dollars)	2016	2015
Assets		
Cash, cash equivalents and short-term securities (Note 5)	\$ 8,642	\$ 8,983
Debt securities (Notes 5 and 6)	71,887	69,896
Equity securities (Notes 5 and 6)	5,774	5,313
Mortgages and loans (Notes 5 and 6)	40,775	39,103
Derivative assets (Notes 5 and 6)	1,608	1,866
Other invested assets (Note 5)	3,931	3,111
Policy loans (Note 5)	3,141	3,151
Investment properties (Note 5)	6,592	6,540
Invested assets	142,350	137,963
Other assets (Note 8)	5,109	4,567
Reinsurance assets (Notes 10 and 11)	5,144	5,386
Deferred tax assets (Note 20)	1,448	1,372
Intangible assets (Note 9)	1,703	1,479
Goodwill (Note 9)	5,317	4,646
Total general fund assets	161,071	155,413
Investments for account of segregated fund holders (Note 22)	97,167	91,440
Total assets	\$ 258,238	\$ 246,853
Liabilities and equity		
Liabilities		
Insurance contract liabilities (Note 10)	\$ 115,057	\$ 110,227
Investment contract liabilities (Note 10)	2,913	2,913
Derivative liabilities (Notes 5 and 6)	2,512	3,378
Deferred tax liabilities (Note 20)	687	405
Other liabilities (Note 12)	12,399	12,332
Senior debentures (Note 13)	1,299	2,248
Subordinated debt (Note 14)	3,836	2,492
Total general fund liabilities	138,703	133,995
Insurance contracts for account of segregated fund holders (Note 22)	90,388	83,670
Investment contracts for account of segregated fund holders (Note 22)	6,779	7,770
Total liabilities	\$ 235,870	\$ 225,435
Equity		
Issued share capital and contributed surplus	\$ 10,943	\$ 10,900
Shareholders' retained earnings and accumulated other comprehensive income	11,013	10,350
Total shareholders' equity	21,956	21,250
Participating policyholders' equity	412	168
Total equity	\$ 22,368	\$ 21,418
Total liabilities and equity	\$ 258,238	\$ 246,853
Exchange rates at the end of the reporting periods:		
U.S. dollars	1.34	1.38
U.K. pounds	1.66	2.04

The attached notes form part of these Consolidated Financial Statements.

Approved on behalf of the Board of Directors on February 15, 2017.



Dean A. Connor
President and Chief Executive Officer



William D. Anderson
Director

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, (in millions of Canadian dollars)	2016	2015
Shareholders:		
Preferred shares (Note 15)		
Balance, beginning and end of year	\$ 2,257	\$ 2,257
Common shares (Note 15)		
Balance, beginning of year	8,567	8,465
Stock options exercised	47	54
Common shares purchased for cancellation	–	(74)
Issued under dividend reinvestment and share purchase plan	–	88
Issued as consideration for business acquisition (Note 3)	–	34
Balance, end of year	8,614	8,567
Contributed surplus		
Balance, beginning of year	76	83
Share-based payments	4	3
Stock options exercised	(8)	(10)
Balance, end of year	72	76
Retained earnings		
Balance, beginning of year	7,891	6,762
Net income (loss)	2,581	2,285
Dividends on common shares	(986)	(918)
Dividends on preferred shares	(96)	(100)
Common shares purchased for cancellation (Note 15)	–	(138)
Transactions with non-controlling interests (Note 3)	(30)	–
Balance, end of year	9,360	7,891
Accumulated other comprehensive income (loss), net of taxes (Note 27)		
Balance, beginning of year	\$ 2,459	\$ 1,164
Total other comprehensive income (loss) for the year	(806)	1,295
Balance, end of year	1,653	2,459
Total shareholders' equity, end of year	\$ 21,956	\$ 21,250
Participating policyholders:		
Balance, beginning of year	\$ 168	\$ 141
Net income (loss)	246	15
Total other comprehensive income (loss) for the year (Note 27)	(2)	12
Total participating policyholders' equity, end of year	\$ 412	\$ 168
Total equity	\$ 22,368	\$ 21,418

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)	2016	2015
Cash flows provided by (used in) operating activities		
Income (loss) before income taxes	\$ 3,445	\$ 2,899
Add: Interest expense related to financing activities	269	297
Operating items not affecting cash:		
Increase (decrease) in insurance and investment contract liabilities	5,494	1,232
(Increase) decrease in reinsurance assets	83	(595)
Unrealized (gains) losses on invested assets	(1,677)	3,833
Other non-cash items	208	(1,652)
Operating cash items:		
Deferred acquisition costs	(33)	(60)
Realized (gains) losses on assets	(1,220)	(812)
Sales, maturities and repayments of invested assets	47,115	46,306
Purchases of invested assets	(49,786)	(46,661)
Change in policy loans	(44)	(62)
Income taxes received (paid)	(310)	(453)
Mortgage securitization (Note 5)	474	364
Other cash items	(350)	(175)
Net cash provided by (used in) operating activities	3,668	4,461
Cash flows provided by (used in) investing activities		
Net (purchase) sale of property and equipment	(131)	(106)
Investment in and transactions with joint ventures and associates (Note 16)	(366)	(3)
Dividends received from joint ventures and associates (Note 16)	20	32
Acquisitions, net of cash and cash equivalents acquired (Note 3) ⁽¹⁾	(1,316)	(578)
Other investing activities	(100)	(68)
Net cash provided by (used in) investing activities	(1,893)	(723)
Cash flows provided by (used in) financing activities		
Increase in (repayment of) borrowed funds	(610)	589
Issuance of subordinated debt, net of issuance costs (Note 14)	1,343	497
Redemption of senior debentures and subordinated debt (Notes 13 and 14)	(950)	(806)
Issuance of common shares on exercise of stock options	39	44
Transactions with non-controlling interests (Note 3)	(46)	–
Common shares purchased for cancellation (Note 15)	–	(212)
Dividends paid on common and preferred shares	(1,074)	(921)
Interest expense paid	(245)	(297)
Net cash provided by (used in) financing activities	(1,543)	(1,106)
Changes due to fluctuations in exchange rates	(235)	516
Increase (decrease) in cash and cash equivalents	(3)	3,148
Net cash and cash equivalents, beginning of year	6,512	3,364
Net cash and cash equivalents, end of year	6,509	6,512
Short-term securities, end of year	1,944	2,305
Net cash, cash equivalents and short-term securities, end of year (Note 5)	\$ 8,453	\$ 8,817

(1) Consists of total cash consideration paid of \$1,379 (\$638 in 2015), less cash and cash equivalents acquired of \$63 (\$60 in 2015).

The attached notes form part of these Consolidated Financial Statements.