

# CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, (in millions of Canadian dollars except for per share amounts)	2017	2016
<b>Revenue</b>		
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
<b>Total revenue</b>	<b>29,334</b>	<b>28,573</b>
<b>Benefits and expenses</b>		
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
<b>Total benefits and expenses</b>	<b>26,545</b>	<b>25,128</b>
<b>Income (loss) before income taxes</b>	<b>2,789</b>	<b>3,445</b>
Less: Income tax expense (benefit) (Note 20)	302	619
<b>Total net income (loss)</b>	<b>2,487</b>	<b>2,826</b>
Less: Net income (loss) attributable to participating policyholders and non-controlling interests	245	245
<b>Shareholders' net income (loss)</b>	<b>2,242</b>	<b>2,581</b>
Less: Preferred shareholders' dividends	93	96
<b>Common shareholders' net income (loss)</b>	<b>\$ 2,149</b>	<b>\$ 2,485</b>

**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
<b>Total net income (loss)</b>	<b>\$ 2,487</b>	<b>\$ 2,826</b>
<b>Other comprehensive income (loss), net of taxes:</b>		
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)
<b>Total comprehensive income (loss)</b>	<b>1,919</b>	<b>2,018</b>
Less: Participating policyholders' and non-controlling interests' comprehensive income (loss)	238	243
<b>Shareholders' comprehensive income (loss)</b>	<b>\$ 1,681</b>	<b>\$ 1,775</b>

## INCOME TAXES INCLUDED IN OTHER COMPREHENSIVE INCOME (LOSS)

For the years ended December 31, (in millions of Canadian dollars)	2017	2016
<b>Income tax benefit (expense):</b>		
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
<b>Total income tax benefit (expense) included in other comprehensive income (loss)</b>	<b>\$ (62)</b>	<b>\$ 22</b>

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# 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
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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
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Total general fund assets		162,720		161,071
Investments for account of segregated fund holders (Note 22)		106,392		97,167
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<b>Total assets</b>		<b>\$ 269,112</b>		<b>\$ 258,238</b>

**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
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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
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<b>Total liabilities</b>		<b>\$ 246,141</b>		<b>\$ 235,870</b>

**Equity**

Issued share capital and contributed surplus	\$	10,911	\$	10,943
Shareholders' retained earnings and accumulated other comprehensive income		11,410		11,013
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Total shareholders' equity		22,321		21,956
Participating policyholders' equity		650		412
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<b>Total equity</b>		<b>\$ 22,971</b>		<b>\$ 22,368</b>
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<b>Total liabilities and equity</b>		<b>\$ 269,112</b>		<b>\$ 258,238</b>

**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
<b>Shareholders:</b>		
<b>Preferred shares (Note 15)</b>		
Balance, beginning and end of year	\$ 2,257	\$ 2,257
<b>Common shares (Note 15)</b>		
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
<b>Contributed surplus</b>		
Balance, beginning of year	72	76
Share-based payments	3	4
Stock options exercised	(3)	(8)
Balance, end of year	72	72
<b>Retained earnings</b>		
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
<b>Accumulated other comprehensive income (loss), net of taxes (Note 27)</b>		
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
<b>Total shareholders' equity, end of year</b>	<b>\$ 22,321</b>	<b>\$ 21,956</b>
<b>Participating policyholders:</b>		
Balance, beginning of year	\$ 412	168
Net income (loss)	245	246
Total other comprehensive income (loss) for the year (Note 27)	(7)	(2)
<b>Total participating policyholders' equity, end of year</b>	<b>\$ 650</b>	<b>\$ 412</b>
<b>Total equity</b>	<b>\$ 22,971</b>	<b>\$ 22,368</b>

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
<b>Cash flows provided by (used in) operating activities<sup>(1)</sup></b>		
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)
<b>Net cash provided by (used in) operating activities</b>	<b>1,984</b>	<b>3,668</b>
<b>Cash flows provided by (used in) investing activities</b>		
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) <sup>(2)</sup>	(61)	(1,316)
Other investing activities	(11)	(100)
<b>Net cash provided by (used in) investing activities</b>	<b>(339)</b>	<b>(1,893)</b>
<b>Cash flows provided by (used in) financing activities</b>		
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)
<b>Net cash provided by (used in) financing activities</b>	<b>(2,019)</b>	<b>(1,543)</b>
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
<b>Net cash, cash equivalents and short-term securities, end of year (Note 5)</b>	<b>\$ 8,750</b>	<b>\$ 8,453</b>

(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.