

Consolidated Statements of Operations

For the years ended December 31

(Canadian \$ in millions except per share amounts)

	2005	2004
Revenue		
Premium income	\$ 18,587	\$ 16,287
Net investment income (note 6)	9,618	7,823
Other revenue	3,842	2,857
Total revenue	\$ 32,047	\$ 26,967
Policy benefits and expenses		
To policyholders and beneficiaries		
Death and disability benefits	\$ 6,440	\$ 4,778
Maturity and surrender benefits	10,398	8,659
Annuity payments	3,366	2,828
Policyholder dividends and experience rating refunds	1,569	1,391
Net transfers to segregated funds	465	507
Change in actuarial liabilities	(2,376)	(1,137)
General expenses	3,576	3,050
Commissions	3,253	2,609
Interest expense	788	629
Premium taxes	244	208
Non-controlling interest in subsidiaries	2	20
Total policy benefits and expenses	\$ 27,725	\$ 23,542
Income before income taxes	\$ 4,322	\$ 3,425
Income taxes (note 9)	(1,031)	(874)
Net income	\$ 3,291	\$ 2,551
Net income (loss) attributed to participating policyholders	\$ (3)	\$ 1
Net income attributed to shareholders	\$ 3,294	\$ 2,550
Preferred share dividends	(14)	–
Net income available to common shareholders	\$ 3,280	\$ 2,550
Weighted average number of common shares outstanding (in millions)	799	698
Weighted average number of diluted common shares outstanding (in millions)	806	704
Basic earnings per common share	\$ 4.11	\$ 3.65
Diluted earnings per common share (note 16)	\$ 4.07	\$ 3.62

Certain comparative amounts have been restated. See note 2 to the consolidated financial statements.

The accompanying notes to these consolidated financial statements are an integral part of these statements.

Consolidated Balance Sheets

As at December 31
(Canadian \$ in millions)

2005

2004

Assets

Invested assets (note 6)

Bonds	\$ 103,315	\$ 106,073
Mortgages	28,008	28,684
Stocks	8,896	8,344
Real estate	5,279	4,669
Policy loans	6,120	6,743
Cash and short-term investments	9,360	8,517
Bank loans	1,806	1,391
Other investments	4,448	4,721

Total invested assets \$ 167,232 \$ 169,142

Other assets

Accrued investment income	\$ 1,334	\$ 1,777
Outstanding premiums	735	549
Goodwill	7,501	7,332
Intangible assets (note 5)	1,742	1,806
Miscellaneous	3,266	3,640

Total other assets \$ 14,578 \$ 15,104

Total assets \$ 181,810 \$ 184,246

Segregated funds net assets \$ 140,361 \$ 117,890

Liabilities and Equity

Policy liabilities (note 7)	\$ 132,049	\$ 137,410
Deferred realized net gains (note 6)	4,476	3,667
Bank deposits	5,911	4,373
Consumer notes (note 10)	2,900	2,881
Future income tax liability (note 9)	1,337	980
Other liabilities	6,784	6,800

\$ 153,457 \$ 156,111

Long-term debt (note 12)

2,457 2,948

Liabilities for preferred shares and capital instruments (note 13)

1,922 1,950

Non-controlling interest in subsidiaries (note 14)

187 136

Equity

Participating policyholders' equity	157	150
Shareholders' equity		
Preferred shares	344	—
Common shares	14,490	14,646
Contributed surplus	93	102
Retained earnings and currency translation account	8,703	8,203


Total equity \$ 23,787 \$ 23,101

Total liabilities and equity \$ 181,810 \$ 184,246

Segregated funds net liabilities \$ 140,361 \$ 117,890

Certain comparative amounts have been restated. See note 2 to the consolidated financial statements.

The accompanying notes to these consolidated financial statements are an integral part of these statements.



Dominic D'Alessandro
President and Chief Executive Officer



Arthur R. Sawchuk
Chairman of the Board of Directors

Consolidated Statements of Equity

For the years ended December 31 (Canadian \$ in millions)	Participating Policyholders	Shareholders	2005	2004
Preferred shares				
Preferred shares issued (note 15)	\$ –	\$ 350	\$ 350	\$ –
Issuance costs, net of tax	–	(6)	(6)	–
Balance, December 31	\$ –	\$ 344	\$ 344	\$ –
Common shares				
Balance, January 1	\$ –	\$ 14,646	\$ 14,646	\$ 599
Issued on acquisition of a subsidiary (notes 3 and 15)	–	–	–	13,510
Issued on exercise of stock options and deferred share units (note 16)	–	228	228	712
Purchase and cancellation (note 15)	–	(384)	(384)	(175)
Balance, December 31	\$ –	\$ 14,490	\$ 14,490	\$ 14,646
Contributed surplus				
Balance, January 1	\$ –	\$ 102	\$ 102	\$ 14
Issuance of options on acquisition of a subsidiary (notes 3 and 16)	–	–	–	215
Loss on exchange of preferred shares issued by a subsidiary (note 14)	–	–	–	(10)
Exercise of stock options	–	(42)	(42)	(144)
Stock option expense (note 16)	–	33	33	27
Balance, December 31	\$ –	\$ 93	\$ 93	\$ 102
Retained earnings				
Balance, January 1	\$ 150	\$ 10,418	\$ 10,568	\$ 8,974
Net income (loss)	(3)	3,294	3,291	2,551
Preferred share dividends	–	(14)	(14)	–
Common share dividends	–	(926)	(926)	(690)
Purchase and cancellation of common shares (note 15)	–	(854)	(854)	(334)
Transfer of participating policyholders' retained earnings from acquisition (note 3)	10	–	10	67
Balance, December 31	\$ 157	\$ 11,918	\$ 12,075	\$ 10,568
Currency translation account				
Balance, January 1	\$ –	\$ (2,215)	\$ (2,215)	\$ (673)
Change during the year, net of tax	–	(1,000)	(1,000)	(1,542)
Balance, December 31	\$ –	\$ (3,215)	\$ (3,215)	\$ (2,215)
Total retained earnings and currency translation account	\$ 157	\$ 8,703	\$ 8,860	\$ 8,353
Total equity	\$ 157	\$ 23,630	\$ 23,787	\$ 23,101

Certain comparative amounts have been restated. See note 2 to the consolidated financial statements.

The accompanying notes to these consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended December 31

(Canadian \$ in millions)

	2005	2004
Operating activities		
Net income	\$ 3,291	\$ 2,551
Adjustments for non-cash items in net income:		
Increase in actuarial liabilities, excluding Guaranteed and Structured Financial Products	2,671	2,723
Amortization of net realized and unrealized gains on investments	(964)	(779)
Amortization of premium/discount and mark-to-market adjustments	397	401
Other amortization	215	171
Future income tax expense	718	633
Provisions on investments	140	115
Stock-based compensation expense	33	27
Non-controlling interest in subsidiaries	(3)	11
Net income adjusted for non-cash items	\$ 6,498	\$ 5,853
Changes in policy related and operating receivables and payables	1,701	(378)
Cash provided by operating activities	\$ 8,199	\$ 5,475
Investing activities		
Purchases and mortgage advances	\$ (59,187)	\$ (47,955)
Disposals and repayments	57,722	45,101
Cash received as part of acquisition of John Hancock Financial Services, Inc.	-	2,594
Cash used in investing activities	\$ (1,465)	\$ (260)
Financing activities		
(Decrease) increase in repurchase agreements and securities sold but not yet purchased	\$ (115)	\$ 61
Issue of long-term debt	4	94
Repayment of long-term debt	(308)	(58)
Repayment of trust preferred securities	(9)	-
Net redemptions in Guaranteed and Structured Financial Products' institutional products	(5,047)	(3,860)
Bank deposits, net	1,558	1,333
Consumer notes issued, net	137	532
Sale of preferred shares of a subsidiary	-	62
Redemption of preferred shares issued by a subsidiary (note 14)	-	(150)
Preferred share dividends	(14)	-
Common share dividends	(926)	(690)
Borrowed funds (repaid), net	(380)	262
Purchase and cancellation of common shares	(1,238)	(509)
Common shares issued on exercise of options	186	568
Preferred shares issued, net	344	-
Cash used in financing activities	\$ (5,808)	\$ (2,355)
Cash and short-term investments		
Increase during the year	\$ 926	\$ 2,860
Currency impact on cash and short-term investments	(208)	(233)
Balance, January 1	8,181	5,554
Balance, December 31	\$ 8,899	\$ 8,181
Cash and short-term investments		
Beginning of year		
Gross cash and short-term investments	\$ 8,517	\$ 5,877
Net payments in transit, included in other liabilities	(336)	(323)
Net cash and short-term investments, January 1	\$ 8,181	\$ 5,554
End of year		
Gross cash and short-term investments	\$ 9,360	\$ 8,517
Net payments in transit, included in other liabilities	(461)	(336)
Net cash and short-term investments, December 31	\$ 8,899	\$ 8,181

Certain comparative amounts have been restated. See note 2 to the consolidated financial statements.

The accompanying notes to these consolidated financial statements are an integral part of these statements.

Segregated Funds Consolidated Statements of Net Assets

As at December 31
(Canadian \$ in millions)

	2005	2004
Investments, at market values		
Cash and short-term investments	\$ 2,661	\$ 2,139
Bonds	11,651	7,478
Stocks	123,060	106,304
Other investments	3,816	2,193
Accrued investment income	96	106
Other liabilities, net (note 1(f))	(923)	(330)
Total segregated funds net assets	\$ 140,361	\$ 117,890

Composition of segregated funds net assets:

Held by policyholders	\$ 139,695	\$ 117,570
Held by the Company	361	320
Held by other contract holders (note 1(f))	305	—
Total segregated funds net assets	\$ 140,361	\$ 117,890

Segregated Funds Consolidated Statements of Changes in Net Assets

For the years ended December 31
(Canadian \$ in millions)

	2005	2004
Additions		
Deposits from policyholders	\$ 31,786	\$ 25,104
Net realized and unrealized investment gains	6,708	8,936
Interest and dividends	4,241	2,583
Net transfers from general fund	465	507
Other contracts consolidated with segregated funds (note 1(f))	305	—
Funds assumed on acquisition of a subsidiary (note 3)	395	31,020
Total additions	\$ 43,900	\$ 68,150
Deductions		
Payments to policyholders	\$ 14,885	\$ 11,840
Management and administrative fees	2,005	1,562
Currency revaluation	4,539	8,322
Total deductions	\$ 21,429	\$ 21,724
Net additions for the year	\$ 22,471	\$ 46,426
Segregated funds net assets, January 1	117,890	71,464
Segregated funds net assets, December 31	\$ 140,361	\$ 117,890

The accompanying notes to these consolidated financial statements are an integral part of these statements.

Cautionary Statement Concerning Forward-Looking Statements

This document includes forward-looking statements within the meaning of the "safe harbour" provisions of Canadian provincial securities laws and the U.S. *Private Securities Litigation Reform Act of 1995*. These forward-looking statements relate to, among other things, the Company's objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and generally can be identified by the use of words such as "may", "will", "could", "would", "suspect", "outlook", "expect", "intend", "estimate", "anticipate", "believe", "plan", "forecast" and "continue" (or the negative thereof) and words and expressions of similar import, and include statements concerning possible or assumed future results of the Company. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve inherent risks and uncertainties, and undue reliance should not be placed on such statements. 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: business competition; maintenance of financial ratings; general economic conditions and market factors including stock market and real estate market performance and fluctuations in interest rates and currency values; the variation between actual claims experience under insurance policies and initial claims estimates; changes in government regulations or in tax laws; unfavourable resolution of litigation involving the Company; the Company's ability to complete strategic acquisitions and to integrate acquisitions; reliance on third parties that may be unable to fulfill obligations or perform services; political conditions and developments; the timely development and introduction of new products and services; unexpected changes in consumer spending and saving habits; natural disasters such as hurricanes or tsunamis; public health emergencies, such as an influenza pandemic; international conflicts and other developments including those relating to terrorist activities; and the Company's success in anticipating and managing the risks associated with those events. Additional information about factors that may cause actual results to differ materially from expectations, and about material factors or assumptions applied in making forward-looking statements, may be found under "Risk Management" and "Critical Accounting and Actuarial Policies" in Management's Discussion and Analysis for the year ended December 31, 2005 and elsewhere in the Company's filings with Canadian and U.S. securities regulators. The Company does not undertake to update any forward-looking statements.