

Sun Life Financial Inc.

Management's Discussion and Analysis

For the period ended: September 30, 2019

Dated November 6, 2019

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About Sun Life

Sun Life Financial Inc. (“SLF Inc.”) is a leading international financial services organization providing insurance, wealth and asset management solutions to individual and corporate Clients. Sun Life has operations in a number of markets worldwide, including Canada, the United States, the United Kingdom, Ireland, Hong Kong, the Philippines, Japan, Indonesia, India, China, Australia, Singapore, Vietnam, Malaysia and Bermuda. As of September 30, 2019, Sun Life had total assets under management (“AUM”) of \$1,063 billion. For more information please visit www.sunlife.com.

Sun Life Financial Inc. trades on the Toronto (TSX), New York (NYSE) and Philippine (PSE) stock exchanges under the ticker symbol SLF.

A. How We Report Our Results

SLF Inc., its subsidiaries and, where applicable, its joint ventures and associates are collectively referred to as “the Company”, “Sun Life”, “we”, “our”, and “us”. We manage our operations and report our financial results in five business segments: Canada, United States (“U.S.”), Asset Management, Asia, and Corporate. Prior to the second quarter of 2019, these business segments were referred to as Sun Life Financial Canada, Sun Life Financial U.S., Sun Life Financial Asset Management, Sun Life Financial Asia, and Corporate, respectively, in our interim and annual management’s discussion and analysis (“MD&A”). Information concerning these segments is included in our annual and interim consolidated financial statements and accompanying notes (“Annual Consolidated Financial Statements” and “Interim Consolidated Financial Statements”, respectively, and “Consolidated Financial Statements”, collectively) and interim and annual MD&A. We prepare our unaudited Interim Consolidated Financial Statements using International Financial Reporting Standards (“IFRS”), including in accordance with the International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. Reported net income (loss) refers to Common shareholders’ net income (loss) determined in accordance with IFRS.

The information in this document is in Canadian dollars unless otherwise noted.

1. Use of Non-IFRS Financial Measures

We report certain financial information using non-IFRS financial measures, as we believe that these measures provide information that is useful to investors in understanding our performance and facilitate a comparison of our quarterly and full year results from period to period. These non-IFRS financial measures do not have any standardized meaning and may not be comparable with similar measures used by other companies. For certain non-IFRS financial measures, there are no directly comparable amounts under IFRS. These non-IFRS financial measures should not be viewed in isolation from or as alternatives to measures of financial performance determined in accordance with IFRS. Additional information concerning these non-IFRS financial measures and reconciliations to the closest IFRS measures are available in section M – Non-IFRS Financial Measures in this document. Non-IFRS Financial Measures and reconciliations are also included in our annual and interim MD&A and the Supplementary Financial Information packages that are available on www.sunlife.com under Investors – Financial results and reports.

2. Forward-looking Statements

Certain statements in this document are forward-looking statements within the meaning of certain securities laws, including the “safe harbour” provisions of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation. Additional information concerning forward-looking statements and important risk factors that could cause our assumptions, estimates, expectations and projections to be inaccurate and our actual results or events to differ materially from those expressed in or implied by such forward-looking statements can be found in section N – Forward-looking Statements in this document.

3. Additional Information

Additional information about SLF Inc. can be found in the Consolidated Financial Statements, the annual and interim MD&A and SLF Inc.’s Annual Information Form (“AIF”) for the year ended December 31, 2018. These documents are filed with securities regulators in Canada and are available at www.sedar.com. SLF Inc.’s Annual Consolidated Financial Statements, annual MD&A and AIF are filed with the United States Securities and Exchange Commission (“SEC”) in SLF Inc.’s annual report on Form 40-F and SLF Inc.’s interim MD&A and Interim Consolidated Financial Statements are furnished to the SEC on Form 6-Ks and are available at www.sec.gov.

B. Financial Summary

(\$ millions, unless otherwise noted)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
Profitability					
Net income (loss)					
Reported net income (loss)	681	595	567	1,899	1,942
Underlying net income (loss) ⁽¹⁾	809	739	730	2,265	2,229
Diluted Earnings per share ("EPS") (\$)					
Reported EPS (diluted)	1.15	1.00	0.93	3.19	3.18
Underlying EPS (diluted) ⁽¹⁾	1.37	1.24	1.20	3.81	3.66
Reported basic EPS (\$)	1.15	1.00	0.94	3.20	3.19
Return on equity ("ROE") (%)					
Reported ROE ⁽¹⁾	13.0%	11.0%	10.8%	11.8%	12.5%
Underlying ROE ⁽¹⁾	15.5%	13.7%	14.0%	14.1%	14.3%
Growth					
Sales					
Insurance sales ⁽¹⁾	685	657	577	2,122	1,875
Wealth sales ⁽¹⁾	41,151	36,976	29,832	114,120	100,461
Value of new business⁽¹⁾	252	235	244	869	844
Premiums and deposits					
Net premium revenue	4,799	4,480	4,369	13,649	13,329
Segregated fund deposits	2,505	2,872	2,692	8,441	8,790
Mutual fund sales ⁽¹⁾	25,292	23,703	18,746	72,659	62,067
Managed fund sales ⁽¹⁾	12,200	10,539	7,962	32,715	29,274
ASO ⁽²⁾ premium and deposit equivalents ⁽¹⁾	1,699	1,681	1,693	5,087	5,135
Total premiums and deposits⁽¹⁾	46,495	43,275	35,462	132,551	118,595
Assets under management					
General fund assets	180,206	174,325	162,439	180,206	162,439
Segregated funds	112,806	111,684	108,298	112,806	108,298
Mutual funds, managed funds and other AUM ⁽¹⁾	769,920	738,767	712,782	769,920	712,782
Total AUM⁽¹⁾	1,062,932	1,024,776	983,519	1,062,932	983,519
Financial Strength					
LICAT ratios⁽³⁾					
Sun Life Financial Inc.	146%	144%	145%		
Sun Life Assurance ⁽⁴⁾	133%	133%	130%		
Financial leverage ratio⁽¹⁾	22.8%	20.4%	21.9%		
Dividend					
Dividend payout ratio ⁽¹⁾	38%	42%	40%	41%	39%
Dividends per common share (\$)	0.525	0.525	0.475	1.550	1.405
Capital					
Subordinated debt and innovative capital instruments ⁽⁵⁾	4,238	3,491	3,738	4,238	3,738
Participating policyholders' equity and non-controlling interests	1,045	974	802	1,045	802
Total shareholders' equity	23,153	23,684	22,834	23,153	22,834
Total capital	28,436	28,149	27,374	28,436	27,374
Average common shares outstanding (millions)	590	593	606	593	608
Closing common shares outstanding (millions)	587.6	591.0	603.3	587.6	603.3

⁽¹⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

⁽²⁾ Administrative Services Only ("ASO").

⁽³⁾ Life Insurance Capital Adequacy Test ("LICAT") ratio.

⁽⁴⁾ Sun Life Assurance Company of Canada ("Sun Life Assurance") is SLF Inc.'s principal operating life insurance subsidiary.

⁽⁵⁾ Innovative capital instruments consist of Sun Life Exchangeable Capital Securities, and qualify as regulatory capital. However, under IFRS they are reported as Senior debentures in the Consolidated Financial Statements. For additional information, see section I – Capital and Liquidity Management – 1 – Capital in our 2018 annual MD&A.

C. Profitability

The following table reconciles our reported net income and underlying net income. The table also sets out the impacts that other notable items had on our reported net income and underlying net income. All factors discussed in this document that impact our underlying net income are also applicable to reported net income.

(\$ millions, after-tax)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
Reported net income	681	595	567	1,899	1,942
Market related impacts ⁽¹⁾	(89)	(97)	25	(255)	(35)
Assumption changes and management actions ⁽¹⁾	–	(20)	(166)	(31)	(168)
Other adjustments ⁽¹⁾	(39)	(27)	(22)	(80)	(84)
Underlying net income⁽²⁾	809	739	730	2,265	2,229
Reported ROE⁽²⁾	13.0%	11.0%	10.8%	11.8%	12.5%
Underlying ROE⁽²⁾	15.5%	13.7%	14.0%	14.1%	14.3%
Impacts of other notable items on reported and underlying net income					
Experience related items ⁽³⁾					
Impacts of investment activity on insurance contract liabilities (“investing activity”)	8	28	29	97	107
Credit	44	12	22	27	49
Mortality	13	(3)	15	25	5
Morbidity	(45)	(3)	8	(23)	63
Lapse and other policyholder behaviour	(6)	(4)	(7)	(18)	(45)
Expenses	3	13	(6)	27	(36)
Other experience	4	(9)	(11)	(23)	46

⁽¹⁾ Represents an adjustment made to arrive at a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.

⁽²⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures.

⁽³⁾ Experience related items reflect the difference between actual experience during the reporting period and best estimate assumptions used in the determination of our insurance contract liabilities.

Quarterly Comparison – Q3 2019 vs. Q3 2018

Our reported net income increased by \$114 million or 20% in the third quarter of 2019 compared to the same period in 2018, driven by improved impacts from assumption changes and management actions (“ACMA”)⁽¹⁾, partially offset by unfavourable market related impacts, predominantly from interest rates, and higher acquisition costs related to our acquisition of a majority stake in BentallGreenOak (“BGO acquisition”). Underlying net income increased by \$79 million or 11% in the third quarter of 2019, compared to the same period in 2018, which includes the favourable impact of the resolution of tax matters from prior years, including interest and investment income tax allocation updates between the participating policyholders’ account and the shareholders’ account (“tax matters from prior years”) of \$78 million – \$58 million in Corporate and \$20 million in Canada. Underlying net income also reflected business growth, favourable credit experience, a gain from a mortgage investment prepayment in the U.S. and higher available-for-sale (“AFS”) gains, offset by unfavourable morbidity experience in Canada and the U.S., and lower investing activity gains.

Our reported ROE⁽¹⁾ was 13.0% in the third quarter of 2019. Underlying ROE⁽¹⁾ was 15.5%, compared to 14.0% in the third quarter of 2018, reflecting higher underlying net income and the increase in common shareholders’ equity. The impact of the BGO acquisition on common shareholders’ equity was more than offset by increases from earnings, net of dividends and share repurchases, and increases in accumulated other comprehensive income. SLF Inc. and its wholly-owned holding companies ended the quarter with \$2.8 billion in cash and other liquid assets, which includes the issuance of \$750 million of subordinated debt that also increased our financial leverage ratio⁽¹⁾ to 22.8%.

1. Market related impacts

Market related impacts in the third quarter of 2019 compared to the same period last year predominantly reflected unfavourable interest rate impacts. See section M – Non-IFRS Financial Measures in this document for a breakdown of the components of market related impacts.

⁽¹⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

2. Assumption changes and management actions

Due to the long-term nature of our business, we make certain judgments involving assumptions and estimates to value our obligations to policyholders. The valuation of these obligations is recorded in our financial statements as insurance contract liabilities and investment contract liabilities and requires us to make assumptions about equity market performance, interest rates, asset default, mortality and morbidity experience rates, lapse and other policyholder behaviour experience, expenses and inflation and other factors over the life of our products.

We review assumptions each year, generally in the third quarter, as we did this year, and revise these assumptions if appropriate. We consider our actual experience in current and past periods relative to our assumptions as part of our annual review.

Compared to a decrease of \$166 million in the third quarter of 2018, ACMA in the third quarter of 2019 was neutral for the Company, and was comprised of favourable impacts of \$236 million in Corporate, predominantly pertaining to the UK, and \$47 million in Asia, which were fully offset by \$287 million in the U.S. The ultimate reinvestment rates (“URR”) adjustments of \$93 million included in ACMA, primarily in Canada, were offset by other investment related assumptions.

Assumption changes and management actions by type

The following table sets out the impacts of ACMA on our reported net income in the third quarter of 2019.

Q3'19	Quarterly	
(\$ millions, after-tax)	Impacts on reported net income ⁽¹⁾	Comments
Mortality/morbidity	318	Updates to reflect mortality/morbidity experience in all jurisdictions. The largest items were favourable mortality impacts in the UK in Corporate and in Group Retirement Services (“GRS”) in Canada.
Lapse and other policyholder behaviour	(89)	Updates to lapse and policyholder behaviour in all jurisdictions. The largest item was an unfavourable lapse update in International in Asia.
Expenses	(9)	Updates to reflect expense experience in all jurisdictions.
Investment returns	15	Updates to various investment related assumptions across the Company, partially offset by updates to promulgated URR.
Model enhancements and other	(235)	Various enhancements and methodology changes across all jurisdictions. The largest items were unfavourable strengthening of reinsurance provisions in In-force Management in the U.S., as well as methodology changes relating to medical stop-loss in Group Benefits in the U.S., partially offset by a favourable change to participating accounts in the UK in Corporate and the Philippines in Asia.
Total impacts on reported net income ⁽²⁾	–	

⁽¹⁾ ACMA is included in reported net income and is presented as an adjustment to arrive at underlying net income.

⁽²⁾ In this table, ACMA represents the shareholders’ reported net income impacts (after-tax) including management actions. In Note 7.A of our Interim Consolidated Financial Statements for the period ended September 30, 2019, the impacts of method and assumptions changes represents the change in shareholders’ and participating policyholders’ insurance contract liabilities net of reinsurance assets (pre-tax) and does not include management actions. Further information can also be found in section M – Non-IFRS Financial Measures in this document.

3. Other adjustments

Other adjustments decreased reported net income by \$39 million in the third quarter of 2019, compared to \$22 million in the third quarter of 2018, predominantly reflecting higher acquisition costs in SLC Management related to the BGO acquisition.

4. Experience related items

Compared to the third quarter of 2018, the significant changes in experience related items are as follows:

- Less favourable investing activity gains, predominantly in the U.S.;
- Favourable credit experience in Asia, the U.S. and Corporate;
- Unfavourable morbidity experience in Canada and the U.S.;
- Favourable expense experience resulting from lower annual compensation costs reflecting reported net income in the U.S. and Canada, partially offset by higher long-term incentive compensation costs in Corporate driven by the increase in the share price of SLF Inc.; and
- Favourable other experience, including components of tax matters from prior years and a gain on a mortgage investment prepayment in the U.S.

5. Income taxes

Our statutory tax rate is normally reduced by various tax benefits, such as lower taxes on income subject to tax in foreign jurisdictions, a range of tax-exempt investment income, and other sustainable tax benefits that are expected to decrease our effective tax rate.

In the third quarter of 2019, our effective income tax rates on reported net income and underlying net income⁽¹⁾ were 1.3% and 9.2% compared to 17.3% and 19.1% in the third quarter of 2018, respectively. Our effective tax rate on underlying net income is below our expected range of 15% to 20%, primarily due to the favourable resolution of Canadian tax matters. For additional information, refer to Note 10 in our Interim Consolidated Financial Statements for the period ended September 30, 2019.

6. Impacts of foreign exchange translation

During the third quarter of 2019, the impacts of foreign exchange translation decreased reported net income by \$7 million and increased underlying net income by \$7 million.

Year-to-Date Comparison – Q3 2019 vs. Q3 2018

Our reported net income decreased by \$43 million or 2% in the first nine months of 2019 compared to the same period in 2018, reflecting unfavourable market related impacts, partially offset by improved impacts from ACMA. Underlying net income increased by \$36 million or 2% in the first nine months of 2019, compared to the same period in 2018, which includes tax matters from prior years of \$78 million – \$58 million in Corporate and \$20 million in Canada. Underlying net income also reflected favourable expense experience, business growth, improved lapse and other policyholder behaviour experience, favourable mortality experience in the U.S. and a gain on a mortgage investment prepayment in the U.S., partially offset by interest on par seed capital⁽²⁾ of \$110 million in the first quarter of 2018, unfavourable morbidity experience in Canada and the U.S., lower new business gains in International in Asia and less favourable credit experience.

1. Market related impacts

Market related impacts in the first nine months of 2019, compared to the first nine months of 2018, reflected unfavourable impacts from interest rates and changes in the fair value of investment properties, partially offset by equity markets impacts.

2. Assumption changes and management actions

ACMA decreased reported net income by \$31 million in the first nine months of 2019, compared to a decrease of \$168 million in the first nine months of 2018, as discussed in the previous section Quarterly Comparison – Q3 2019 vs. Q3 2018. See section M – Non-IFRS Financial Measures in this document for more details.

3. Other adjustments

Other adjustments in the first nine months of 2019 decreased reported net income by \$80 million compared to \$84 million in the same period last year, reflecting lower acquisition, integration and restructuring costs in the U.S. and Asia, partially offset by higher acquisition costs in SLC Management related to the BGO acquisition. Other adjustments also reflected lower fair value adjustments on MFS Investment Management's ("MFS") share based payments,⁽³⁾ partially offset by the higher adjustments for certain hedges in Canada that do not qualify for hedge accounting.⁽³⁾

4. Experience related items

Compared to the first nine months of 2018, the significant changes in experience related items are as follows:

- Less favourable credit experience, including the net impact resulting from downgrades of indirect exposures to a single name in the utilities sector;
- Favourable mortality experience in the U.S.;
- Unfavourable morbidity experience in Canada and the U.S.;
- Improved lapse and other policyholder experience;
- Favourable expense experience resulting from expense discipline while growing the businesses, and lower annual incentive compensation costs reflecting reported net income in Canada and U.S., partially offset by an increase in long-term incentive compensation costs in Corporate driven by the increase in the share price of SLF Inc.; and
- Unfavourable other experience, including interest on par seed capital of \$110 million – \$75 million in Canada and \$35 million in the U.S. in the first quarter of 2018, partially offset by components of tax matters from prior years and a gain on a mortgage investment prepayment in the U.S.

⁽¹⁾ Our effective income tax rate on underlying net income is calculated using underlying net income and income tax expense associated with underlying net income, which excludes amounts attributable to participating policyholders.

⁽²⁾ In the first quarter of 2018, the seed capital that was transferred into the participating account at demutualization was transferred into the shareholder account, along with accrued investment income ("interest on par seed capital"). The results include income of \$110 million, of which \$75 million was in Canada and \$35 million was in the U.S.

⁽³⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

5. Income taxes

Our statutory tax rate is normally reduced by various tax benefits, such as lower taxes on income subject to tax in foreign jurisdictions, a range of tax-exempt investment income, and other sustainable tax benefits that are expected to decrease our effective tax rate.

For the first nine months of 2019, our effective tax rates on reported and underlying net income⁽¹⁾ were 8.1% and 14.2%, respectively, compared to 17.7% and 17.3%, respectively, for the first nine months of 2018. Our effective tax rate on underlying net income is below our expected range of 15% to 20%, primarily due to the favourable resolution of Canadian tax matters from the third quarter of 2019.

6. Impacts of foreign exchange translation

During the first nine months of 2019, the impacts of foreign exchange translation increased reported net income and underlying net income by \$27 million and \$45 million, respectively.

D. Growth

1. Sales and Value of New Business

(\$ millions)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
Insurance sales ⁽¹⁾ by business group					
Canada	204	194	203	760	765
U.S.	184	225	172	569	463
Asia	297	238	202	793	647
Total insurance sales ⁽¹⁾	685	657	577	2,122	1,875
Wealth sales ⁽¹⁾ by business group					
Canada	4,136	3,248	3,539	10,209	10,403
Asia	2,573	1,799	1,928	6,253	8,166
Total wealth sales excluding Asset Management ⁽¹⁾	6,709	5,047	5,467	16,462	18,569
Asset Management sales ⁽¹⁾	34,442	31,929	24,365	97,658	81,892
Total wealth sales ⁽¹⁾	41,151	36,976	29,832	114,120	100,461
Value of New Business ("VNB") ⁽¹⁾	252	235	244	869	844

⁽¹⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

Total Company insurance sales increased by \$108 million or 19% (\$102 million or 18%, excluding the impact of foreign exchange), in the third quarter of 2019 compared to the same period in 2018.

- Canada insurance sales were in line with the same period of 2018.
- U.S. insurance sales increased by 5%, excluding the impacts of foreign exchange translation, driven by growth in medical stop-loss sales.
- Asia insurance sales increased by 45%, excluding the impacts of foreign exchange translation, driven by strong growth in most local insurance markets and in International.

Total Company wealth sales increased by \$11.3 billion or 38% (\$10.9 billion or 37%, excluding the impacts of foreign exchange), in the third quarter of 2019 compared to the same period in 2018.

- Canada wealth sales increased by 17%, driven by GRS.
- Asia wealth sales increased by 33%, driven by elevated money market sales in the Philippines, growth in the pension business in Hong Kong and the impacts of foreign exchange translation, partially offset by lower mutual fund sales in India due to weak market sentiment and volatility.
- Asset Management gross sales increased by 41%, largely attributable to higher mutual and managed fund sales in MFS, higher sales in SLC Management, and the impacts of foreign exchange translation.

The Company's VNB was \$252 million in the third quarter of 2019, an increase of 3% compared to the third quarter of 2018, largely due to growth from higher sales, partially offset by changes in the sales mix and the impact of lower interest rates.

⁽¹⁾ Our effective income tax rate on underlying net income is calculated using underlying net income and income tax expense associated with underlying net income, which excludes amounts attributable to participating policyholders.

2. Premiums and Deposits

(\$ millions)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
Net premium revenue	4,799	4,480	4,369	13,649	13,329
Segregated fund deposits	2,505	2,872	2,692	8,441	8,790
Mutual fund sales ⁽¹⁾	25,292	23,703	18,746	72,659	62,067
Managed fund sales ⁽¹⁾	12,200	10,539	7,962	32,715	29,274
ASO premium and deposit equivalents ⁽¹⁾	1,699	1,681	1,693	5,087	5,135
Total premiums and deposits ⁽¹⁾	46,495	43,275	35,462	132,551	118,595
Total adjusted premiums and deposits ⁽¹⁾⁽²⁾	46,207	42,583	35,604	131,115	120,365

⁽¹⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

⁽²⁾ Adjusted premiums and deposits is a non-IFRS financial measure that excludes from premiums and deposits the impacts of Constant Currency Adjustment and Reinsurance in Canada's GB Operations Adjustment as described in section M – Non-IFRS Financial Measures in this document.

Net premium revenue increased by \$430 million or 10% in the third quarter of 2019 compared to the same period in 2018, primarily driven by increased premium revenue in Asia, Canada, and U.S., and the impacts of foreign exchange translation. Net premium revenue increased by \$320 million or 2% in the first nine months of 2019 compared to the same period of 2018. The increase was primarily driven by higher premiums in U.S. and the impacts of foreign exchange translation.

Segregated fund deposits decreased by \$187 million or 7% in the third quarter of 2019 compared to the same period in 2018, primarily driven by decreases in Canada. Segregated fund deposits decreased by \$349 million or 4% in the first nine months of 2019 compared to the same period in 2018, due to lower deposits in Canada and Hong Kong in Asia.

Mutual fund sales increased by \$6.5 billion or 35% in the third quarter of 2019 compared to the same period in 2018. Mutual fund sales increased by \$10.6 billion or 17% in the first nine months of 2019 compared to the same period in 2018. The higher mutual fund sales in both the third quarter and first nine months of 2019 were primarily driven by higher sales in MFS, the Philippines in Asia, and the impacts of foreign exchange translation, partially offset by lower sales in India.

Managed fund sales increased by \$4.2 billion or 53% in the third quarter of 2019 compared to the same period in 2018, driven by higher sales in MFS, SLC Management, Asia, and the impacts of foreign exchange translation. Managed fund sales increased by \$3.4 billion or 12% for the first nine months of 2019 compared to the same period in 2018, driven by higher sales in MFS, SLC Management and Asia, and the impacts of foreign exchange translation.

ASO premium and deposit equivalents in the third quarter of 2019 remain consistent with the same period in 2018, reflecting higher results in Canada, offset by Asia. ASO premium and deposit equivalents decreased in the first nine months of 2019 compared to the same period in 2018, due to lower ASO premiums and deposit equivalents in Hong Kong in Asia, partially offset by Canada.

The impacts of foreign exchange translation increased total premiums and deposits by approximately \$0.4 billion and \$3.2 billion in the third quarter of 2019 and the first nine months of 2019, respectively.

3. Assets Under Management

AUM consists of general funds, segregated funds, and other AUM. Other AUM includes mutual funds and managed funds, which include institutional and other third-party assets managed by the Company.

(\$ millions)	Quarterly results				
	Q3'19	Q2'19	Q1'19	Q4'18	Q3'18
Assets under management⁽¹⁾					
General fund assets	180,206	174,325	172,348	168,765	162,439
Segregated funds	112,806	111,684	110,011	103,062	108,298
Mutual funds, managed funds and other AUM ⁽¹⁾	769,920	738,767	729,026	679,316	712,782
Total AUM ⁽¹⁾	1,062,932	1,024,776	1,011,385	951,143	983,519

⁽¹⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

AUM was \$1,062.9 billion as at September 30, 2019, compared to AUM of \$951.1 billion as at December 31, 2018. The increase in AUM of \$111.8 billion between December 31, 2018 and September 30, 2019 resulted primarily from:

- (i) an increase of \$126.8 billion from favourable market movements;
- (ii) an increase of \$12.6 billion from the BGO acquisition;
- (iii) an increase of \$6.7 billion of other business activities; partially offset by
- (iv) a decrease of \$24.0 billion from the impacts of foreign exchange translation; and
- (v) net outflows of mutual, managed, and segregated funds of \$10.2 billion.

For the third quarter of 2019, net inflows of mutual, managed and segregated funds were \$4.1 billion, primarily driven by net inflows from MFS of \$1.7 billion, SLC Management of \$1.5 billion, Asia of \$0.9 billion, and Canada of \$0.2 billion.

E. Financial Strength

	Quarterly results				
	Q3'19	Q2'19	Q1'19	Q4'18	Q3'18
LICAT ratio					
Sun Life Financial Inc.	146%	144%	145%	144%	145%
Sun Life Assurance	133%	133%	132%	131%	130%
Financial leverage ratio⁽¹⁾	22.8%	20.4%	21.1%	21.2%	21.9%
Dividend					
Dividend payout ratio ⁽¹⁾	38%	42%	42%	42%	40%
Dividends per common share (\$)	0.525	0.525	0.500	0.500	0.475
Capital					
Subordinated debt and innovative capital instruments ⁽²⁾	4,238	3,491	3,739	3,738	3,738
Participating policyholders' equity and non-controlling interests	1,045	974	930	864	802
Preferred shareholders' equity	2,257	2,257	2,257	2,257	2,257
Common shareholders' equity	20,896	21,427	21,525	21,449	20,577
Total capital	28,436	28,149	28,451	28,308	27,374

⁽¹⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

⁽²⁾ Innovative capital instruments consist of Sun Life Exchangeable Capital Securities, and qualify as regulatory capital. However, under IFRS they are reported as Senior debentures in our Consolidated Financial Statements. For additional information, see section I – Capital and Liquidity Management – 1 – Capital in our 2018 annual MD&A.

The Office of the Superintendent of Financial Institutions (“OSFI”) has developed the regulatory capital framework referred to as the Life Insurance Capital Adequacy Test for Canada. LICAT measures the capital adequacy of an insurer using a risk-based approach and includes elements that contribute to financial strength through periods when an insurer is under stress as well as elements that contribute to policyholder and creditor protection wind-up.

SLF Inc. is a non-operating insurance company and is subject to the LICAT guideline. As at September 30, 2019, SLF Inc.’s LICAT ratio was 146%, which was 2% higher than December 31, 2018. The favourable impacts of reported net income, market movements and net change in subordinated debt were offset by the impacts of the payment of dividends, the repurchases of common shares, OSFI’s 2019 LICAT guideline revisions, the de-registration of a U.S. reinsurer in the second quarter and the BGO acquisition.

Sun Life Assurance, SLF Inc.’s principal operating life insurance subsidiary, is also subject to the LICAT guideline. As at September 30, 2019, Sun Life Assurance’s LICAT ratio was 133%, compared to 131% as at December 31, 2018. The increase was primarily due to the favourable contribution of reported net income and market impacts, partially offset by dividends to SLF Inc. and the impact from OSFI’s 2019 LICAT guideline revisions. The Sun Life Assurance LICAT ratios in both periods are well above OSFI’s supervisory ratio of 100% and regulatory minimum ratio of 90%.

Our total capital consists of subordinated debt and other capital instruments, participating policyholders’ equity, total shareholders’ equity, which includes common shareholders’ equity and preferred shareholders’ equity, and non-controlling interest. As at September 30, 2019, our total capital was \$28.4 billion, compared to \$28.3 billion as at December 31, 2018. The increase in total capital was primarily due to total net income of \$1,899 million, the issuance of \$750 million principal amount of Series 2019-1 Subordinated Unsecured 2.38% Fixed/Floating Debentures (“Series 2019-1 Debentures”) detailed below and unrealized gains on AFS assets of \$439 million and change in participating policyholders’ equity of \$161 million, largely offset by the payment of \$920 million of dividends on common shares of SLF Inc. (“common shares”), the impact related to the BGO acquisition of \$856 million⁽¹⁾, \$592 million from the repurchase and cancellation of common shares, the impacts of foreign exchange translation loss of \$427 million included in other comprehensive income (loss), the redemption of \$250 million principal amount of Series 2014-1 Subordinated Unsecured 2.77% Fixed/Floating Debentures (“Series 2014-1 Debentures”) detailed below and changes in the remeasurement of defined benefit plans of \$99 million.

⁽¹⁾ For additional information, refer to Note 3 in our Interim Consolidated Financial Statements for the period ended September 30, 2019.

SLF Inc. and its wholly-owned holding companies had \$2.8 billion in cash and other liquid assets⁽¹⁾ as at September 30, 2019 (\$2.5 billion as at December 31, 2018). The increase in cash and other liquid assets in the first nine months of 2019 was primarily attributable to the \$1.5 billion of dividends from the operating companies including Sun Life Assurance and the issuance of \$750 million principal amount of Series 2019-1 Debentures detailed below, which were partially offset by the payment of \$920 million of dividends on common shares, \$592 million from the repurchase and cancellation of common shares, the redemption of \$250 million principal amount of Series 2014-1 Debentures detailed below and \$192 million paid in cash consideration related to the BGO acquisition.

On May 13, 2019, SLF Inc. redeemed all of the outstanding \$250 million principal amount of Series 2014-1 Debentures, in accordance with the redemption terms attached to such debentures. The redemption was funded from existing cash and other liquid assets.

On July 2, 2019, SLF Inc.'s Series D Senior Unsecured 5.70% Debentures ("Series D Debentures") matured and SLF Inc. repaid all of the outstanding \$300 million principal amount of such debentures together with all accrued and unpaid interest. Under LICAT, senior debentures do not qualify as available capital, as a result, the repayment of the Series D Debentures has no impact on the LICAT ratio of Sun Life Assurance or SLF Inc. In addition, a separate pool of assets had been set aside to support the redemption of these debentures. As such, the redemption did not affect the cash and other liquid assets held by SLF Inc. and its wholly-owned holding companies noted above.

On August 13, 2019, SLF Inc. completed its issuance of Series 2019-1 Debentures, with a principal amount of \$750 million, due 2029. Sun Life intends to use an amount equal to the net proceeds to finance or refinance eligible assets as defined in our Sustainability Bond Framework.

During the quarter, DBRS upgraded the security ratings for SLF Inc.'s senior unsecured debentures to "A (high)" from "A", SLF Inc.'s subordinated unsecured debentures to "A" from "A (low)" and SLF Inc.'s preferred shares to "Pfd-2 (high)" from "Pfd-2". DBRS also upgraded the financial strength rating of Sun Life Assurance to "AA" from "AA (low)".

Normal Course Issuer Bids

On August 14, 2019, SLF Inc. renewed its normal course issuer bid (the "2019 NCIB"). The 2019 NCIB remains in effect until August 13, 2020, or such earlier date as SLF Inc. may determine or as SLF Inc. has purchased an aggregate of 15.0 million common shares under the bid. During the third quarter of 2019, SLF Inc. purchased approximately 3.6 million common shares at a total cost of \$192 million, including approximately 0.9 million common shares at a cost of \$45 million that were purchased under SLF Inc.'s previous normal course issuer bid, which terminated on August 13, 2019 (the "2018 NCIB"). During the first nine months of 2019, SLF Inc. purchased approximately 11.4 million common shares at a total cost of \$592 million, including approximately 8.6 million common shares at a cost of \$445 million that were purchased under the 2018 NCIB. All of the common shares purchased under the 2018 NCIB and the 2019 NCIB were subsequently cancelled. As at September 30, 2019, the total aggregate common shares purchased and cancelled and associated cost under the 2018 NCIB were 17.2 million and \$870 million, respectively, and the total aggregate common shares purchased and cancelled and associated cost under the 2019 NCIB are 2.7 million and \$147 million, respectively.

F. Performance by Business Group

(\$ millions)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
Reported net income (loss)					
Canada	223	148	335	608	846
U.S.	(186)	94	(267)	32	(66)
Asset Management	221	229	241	669	665
Asia	170	134	164	384	430
Corporate	253	(10)	94	206	67
Total reported net income (loss)	681	595	567	1,899	1,942
Underlying net income (loss) ⁽¹⁾					
Canada	268	243	251	748	791
U.S.	135	110	139	395	393
Asset Management	251	245	251	723	698
Asia	138	147	110	407	383
Corporate	17	(6)	(21)	(8)	(36)
Total underlying net income (loss) ⁽¹⁾	809	739	730	2,265	2,229

⁽¹⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

Information describing the business groups and their respective business units is included in our 2018 annual MD&A. All factors discussed in this document that impact our underlying net income are also applicable to reported net income.

⁽¹⁾ Other liquid assets include cash equivalents, short-term investments, and publicly traded securities.

1. Canada

(\$ millions)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
Individual Insurance & Wealth	32	(3)	143	135	355
Group Benefits	59	80	51	213	223
Group Retirement Services	132	71	141	260	268
Reported net income (loss)	223	148	335	608	846
Market related impacts ⁽¹⁾	(44)	(72)	46	(117)	17
Assumption changes and management actions ⁽¹⁾	4	(20)	39	(16)	37
Other adjustments ⁽²⁾	(5)	(3)	(1)	(7)	1
Underlying net income (loss) ⁽³⁾	268	243	251	748	791
Reported ROE (%) ⁽³⁾	12.7%	8.5%	19.4%	11.6%	16.7%
Underlying ROE (%) ⁽³⁾	15.3%	13.8%	14.5%	14.2%	15.6%
Insurance sales ⁽³⁾	204	194	203	760	765
Wealth sales ⁽³⁾	4,136	3,248	3,539	10,209	10,403

⁽¹⁾ Represents an adjustment made to arrive at a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.

⁽²⁾ Mainly comprised of certain hedges in Canada that do not qualify for hedge accounting and acquisition, integration and restructuring costs. For further information, see section M – Non-IFRS Financial Measures in this document.

⁽³⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

Profitability

Quarterly Comparison – Q3 2019 vs. Q3 2018

Canada's reported net income decreased by \$112 million or 33% in the third quarter of 2019 compared to the same period in 2018, reflecting unfavourable market related impacts, predominantly from interest rates, and less favourable ACMA impacts. Underlying net income increased by \$17 million or 7% in the third quarter of 2019, compared to the same period in 2018, which includes tax matters from prior years of \$20 million. Underlying net income also reflected business growth, higher AFS gains and favourable expense experience, offset by unfavourable morbidity experience in Group Benefits ("GB") and lower new business gains.

Year-to-Date Comparison – Q3 2019 vs. Q3 2018

Canada's reported net income decreased by \$238 million or 28% in the first nine months of 2019 compared to the same period in 2018, reflecting unfavourable market related impacts, which included the impacts from interest rates and changes in the fair value of investment properties, partially offset by equity markets, and unfavourable ACMA impacts. Underlying net income decreased by \$43 million or 5% in the first nine months of 2019, compared to the same period in 2018, which includes tax matters from prior years of \$20 million. Underlying net income also reflected the impact of interest on par seed capital of \$75 million in the first quarter of 2018, unfavourable morbidity and credit experience, partially offset by business growth, favourable expense experience and higher AFS gains.

Growth

Quarterly Comparison – Q3 2019 vs. Q3 2018

Canada insurance sales in the third quarter of 2019 were in line with the same period in 2018. Canada individual insurance sales were \$85 million in the third quarter of 2019, a decrease of \$5 million or 6% compared to the same period in 2018, as a result of lower life insurance sales. Sales in GB were \$119 million in the third quarter of 2019, an increase of \$6 million or 5% compared to the same period in 2018 as a result of large case sales.

Canada wealth sales increased by \$597 million or 17% in the third quarter of 2019 compared to the same period in 2018. Individual wealth sales were in line with the same period in 2018. GRS sales were \$2.7 billion in the third quarter of 2019, an increase of \$603 million or 29% compared to the same period in 2018.

Year-to-Date Comparison – Q3 2019 vs. Q3 2018

Canada insurance sales in the first nine months of 2019 were in line with the same period in 2018. Canada individual insurance sales were \$272 million in the first nine months of 2019, a decrease of \$16 million or 6% compared to the same period in 2018, due to lower life insurance sales. Sales in GB were \$488 million in the first nine months of 2019, an increase of \$11 million or 2% compared to the same period in 2018, driven by large case sales.

Canada wealth sales decreased by \$194 million or 2% in the first nine months of 2019 compared to the same period last year in 2018. Individual wealth sales were \$4.5 billion in the first nine months of 2019, a decrease of \$256 million or 5% compared to the same period in 2018, reflecting a weaker RRSP season across the industry. GRS sales were \$5.7 billion in the first nine months of 2019, in line with the same period in 2018.

2. U.S.

(US\$ millions)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
Group Benefits	(4)	41	68	123	158
In-force Management	(136)	29	(273)	(100)	(206)
Reported net income (loss)	(140)	70	(205)	23	(48)
Market related impacts ⁽¹⁾	(21)	(8)	(4)	(40)	(25)
Assumption changes and management actions ⁽¹⁾	(218)	1	(301)	(219)	(302)
Acquisition, integration and restructuring ⁽¹⁾	(3)	(4)	(6)	(13)	(26)
Underlying net income (loss) ⁽²⁾	102	81	106	295	305
Reported ROE (%) ⁽²⁾	(21.0)%	9.9%	(30.6)%	1.1%	(2.3)%
Underlying ROE (%) ⁽²⁾	15.4%	11.6%	15.7%	14.4%	14.9%
After-tax profit margin for Group Benefits (%) ⁽²⁾	7.2%	7.3%	6.4%	7.2%	6.4%
Insurance sales ⁽²⁾	139	168	132	427	360

(C\$ millions)					
Reported net income (loss)	(186)	94	(267)	32	(66)
Underlying net income (loss) ⁽²⁾	135	110	139	395	393

⁽¹⁾ Represents an adjustment made to arrive at a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.

⁽²⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

Profitability

Quarterly Comparison – Q3 2019 vs. Q3 2018

U.S.'s reported net loss improved by \$81 million in the third quarter of 2019 compared to the same period in 2018. In U.S. dollars, U.S.'s reported net loss improved by US\$65 million, reflecting less unfavourable impacts from ACMA primarily pertaining to In-force Management, partially offset by unfavourable market related impacts, predominantly from interest rates. Underlying net income in the third quarter of 2019 was in line with the same period in 2018, reflecting favourable expense experience, a gain on a mortgage investment prepayment and business growth, offset by unfavourable morbidity experience in medical stop-loss relative to a strong third quarter of 2018 and lower investing activity and AFS gains. The impacts of foreign exchange translation decreased reported net income by \$2 million and increased underlying net income by \$1 million. The after-tax profit margin for Group Benefits⁽¹⁾ was 7.2% as of the third quarter of 2019, compared to 6.4% as of the third quarter of 2018.

Year-to-Date Comparison – Q3 2019 vs. Q3 2018

U.S.'s reported net income increased by \$98 million in the first nine months of 2019 compared to the same period in 2018. In U.S. dollars, U.S.'s reported net income increased by US\$71 million, reflecting less unfavourable impacts from ACMA and lower integration costs as the integration of the U.S. employee benefits business acquired in 2016 nears completion, partially offset by unfavourable market related impacts. Underlying net income in the first nine months of 2019 was in line with the same period in 2018. In U.S. dollars, underlying net income decreased by US\$10 million or 3%, reflecting the impact of interest on par seed capital of US\$28 million (\$35 million) in the first quarter of 2018, lower investing activity and AFS gains and less favourable morbidity experience, largely offset by favourable mortality experience, improved lapse and other policyholder behaviour experience, business growth, favourable expense experience and a gain on a mortgage investment prepayment. The impacts of foreign exchange translation increased reported net income and underlying net income by \$1 million and \$12 million, respectively.

⁽¹⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

Growth

Quarterly Comparison – Q3 2019 vs. Q3 2018

U.S. Group Benefits sales increased by US\$7 million or 5% in the third quarter of 2019 compared to the same period in 2018, driven primarily by increases in medical stop-loss sales.

Year-to-Date Comparison – Q3 2019 vs. Q3 2018

U.S. Group Benefits sales increased by US\$67 million or 19% in the first nine months of 2019 compared to the same period in 2018, primarily driven by increases in medical stop-loss sales.

3. Asset Management

Asset Management (C\$ millions)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
Reported net income	221	229	241	669	665
Fair value adjustments on MFS's share-based payment awards ⁽¹⁾	(8)	(11)	(10)	(27)	(33)
Acquisition, integration and restructuring ⁽¹⁾	(22)	(5)	–	(27)	–
Underlying net income ⁽²⁾	251	245	251	723	698
Assets under management (C\$ billions) ⁽²⁾	738.7	708.1	687.2	738.7	687.2
Gross sales (C\$ billions) ⁽²⁾	34.4	31.9	24.4	97.6	82.0
Net sales (C\$ billions) ⁽²⁾	3.2	(7.9)	(9.0)	(11.2)	(28.8)
MFS (C\$ millions)					
Reported net income	240	225	232	680	644
Fair value adjustments on MFS's share-based payment awards ⁽¹⁾	(8)	(11)	(10)	(27)	(33)
Underlying net income ⁽²⁾	248	236	242	707	677
Assets under management (C\$ billions) ⁽²⁾	655.5	639.9	625.9	655.5	625.9
Gross sales (C\$ billions) ⁽²⁾	31.6	30.3	22.8	90.9	76.4
Net sales (C\$ billions) ⁽²⁾	1.7	(8.1)	(9.5)	(14.2)	(29.8)
MFS (US\$ millions)					
Reported net income	182	168	178	512	500
Fair value adjustments on MFS's share-based payment awards ⁽¹⁾	(6)	(8)	(8)	(20)	(26)
Underlying net income ⁽²⁾	188	176	186	532	526
Pre-tax net operating profit margin ratio for MFS ⁽²⁾	40%	37%	40%	38%	38%
Average net assets (US\$ billions) ⁽²⁾	491.3	480.2	482.9	476.2	486.2
Assets under management (US\$ billions) ⁽²⁾⁽³⁾	495.2	488.8	485.0	495.2	485.0
Gross sales (US\$ billions) ⁽²⁾	24.0	22.6	17.4	68.4	59.5
Net sales (US\$ billions) ⁽²⁾	1.3	(6.1)	(7.3)	(10.6)	(23.1)
Asset appreciation (depreciation) (US\$ billions)	5.0	22.0	18.2	77.4	16.5
S&P 500 Index (daily average)	2,958	2,884	2,849	2,855	2,762
MSCI EAFE Index (daily average)	1,882	1,888	1,964	1,868	2,018
SLC Management (C\$ millions)					
Reported net income	(19)	4	9	(11)	21
Acquisition, integration and restructuring ⁽¹⁾	(22)	(5)	–	(27)	–
Underlying net income ⁽²⁾	3	9	9	16	21
Assets under management (C\$ billions) ⁽²⁾	83.2	68.2	61.3	83.2	61.3
Gross sales (C\$ billions) ⁽²⁾	2.8	1.6	1.6	6.7	5.5
Net sales (C\$ billions) ⁽²⁾	1.5	0.2	0.5	3.0	1.0

⁽¹⁾ Represents an adjustment made to arrive at a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.

⁽²⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

⁽³⁾ Monthly information on AUM is provided by MFS in its Corporate Fact Sheet, which can be found at www.mfs.com/CorpFact. The Corporate Fact Sheet also provides MFS's U.S. GAAP assets and liabilities as at September 30, 2019.

Profitability

Quarterly Comparison – Q3 2019 vs. Q3 2018

Asset Management's reported net income decreased by \$20 million or 8% in the third quarter of 2019 compared to the same period in 2018, reflecting higher acquisition costs in SLC Management related to the BGO acquisition. Underlying net income in the third quarter of 2019 was in line with the same period in 2018, reflecting consistent average net assets ("ANA") in MFS. The impacts of foreign exchange translation increased reported net income and underlying net income by \$2 million and \$3 million, respectively.

In U.S. dollars, MFS's reported net income the third quarter of 2019 was in line with the same period in 2018. Underlying net income in the third quarter of 2019 was in line with the same period in 2018, reflecting consistent ANA. The pre-tax net operating profit margin ratio for MFS⁽¹⁾ was 40% in the third quarter of 2019, in line with the same period last year.

SLC Management's reported net income decreased by \$28 million in the third quarter of 2019 compared to the same period in 2018, reflecting acquisition costs related to the BGO acquisition. Underlying net income, which included the contribution from BGO, is \$3 million, a decrease of \$6 million compared to the prior period, due to the timing of fee income and an increase in expenses.

Year-to-Date Comparison – Q3 2019 vs. Q3 2018

Asset Management's reported net income in the first nine months of 2019 was in line with the same period in 2018, reflecting lower fair value adjustments on MFS's share based payment awards, partially offset by acquisition costs related to the BGO acquisition. Underlying net income increased by \$25 million or 4% in the first nine months of 2019 compared to the same period in 2018, driven primarily by the favourable impacts of foreign exchange translation. The impacts of foreign exchange translation increased reported net income and underlying net income by \$21 million and \$22 million, respectively.

In U.S. dollars, MFS's reported net income increased by US\$12 million or 2% in the first nine months of 2019 compared to the same period in 2018, reflecting lower fair value adjustments on MFS's share based payment awards. Underlying net income increased by US\$6 million or 1% in the first nine months of 2019 compared to the same period in 2018, driven by expense management and investment income including returns on seed capital, partially offset by the impacts of lower ANA.

SLC Management's reported net income decreased by \$32 million in the first nine months of 2019 compared to the same period in 2018, largely reflecting acquisition costs related to the BGO acquisition. Underlying net income, which included the contribution from the BGO acquisition effective July 1, 2019, decreased by \$5 million, primarily due to the timing of fee income.

Growth

Asset Management's AUM was \$738.7 billion as at September 30, 2019, compared to \$649.7 billion as at December 31, 2018. The increase in AUM was primarily due to asset appreciation and the impacts of foreign exchange translation, partially offset by net outflows. MFS's AUM was US\$495.2 billion (\$655.5 billion) as at September 30, 2019, compared to US\$428.4 billion (\$584.2 billion) as at December 31, 2018. The increase of US\$66.8 billion was primarily driven by asset appreciation of US\$77.4 billion and gross sales of US\$68.4 billion, partially offset by redemptions of US\$79.0 billion, resulting in net fund outflows of US\$10.6 billion (\$14.2 billion) in the first nine months of 2019. In the third quarter of 2019, MFS reported positive net flows of US\$1.3 billion (\$1.7 billion) due to continued strong retail sales and timing of institutional redemptions.

In the third quarter of 2019, 92%, 93% and 94% of MFS's U.S. retail fund assets ranked in the top half of their Lipper categories based on ten-, five-, and three-year performance, respectively.

SLC Management's AUM was \$83.2 billion as at September 30, 2019, compared to \$65.5 billion as at December 31, 2018. The change in AUM includes \$12.6 billion attributable to the BGO acquisition.

Acquisition of BentallGreenOak

At the beginning of the quarter, we completed the acquisition of our majority stake in BentallGreenOak ("BGO"), which was the product of the merger of the Bentall Kennedy group of companies and GreenOak Real Estate, a global real estate investment firm. The acquisition increases our global real estate investment footprint, while adding organizational depth and a full spectrum of solutions including equity and debt real estate strategies. As a result of the acquisition, Total equity was reduced by \$856 million, primarily driven by the establishment of financial liabilities associated with the anticipated increase of our future ownership in BGO. For additional information, refer to Note 3 in our Interim Consolidated Financial Statements for the period ended September 30, 2019.

⁽¹⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

4. Asia

(\$ millions)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
Insurance and Wealth International	197 (27)	117 17	89 75	415 (31)	280 150
Reported net income (loss)	170	134	164	384	430
Market related impacts ⁽¹⁾	(15)	(14)	(12)	(71)	(8)
Assumption changes and management actions ⁽¹⁾	47	1	66	48	67
Acquisition, integration and restructuring ⁽¹⁾⁽²⁾	–	–	–	–	(12)
Underlying net income (loss) ⁽³⁾	138	147	110	407	383
Reported ROE (%) ⁽³⁾	12.1%	9.9%	13.3%	9.4%	11.8%
Underlying ROE (%) ⁽³⁾	9.8%	10.9%	8.9%	9.9%	10.5%
Insurance sales ⁽³⁾	297	238	202	793	647
Wealth sales ⁽³⁾	2,573	1,799	1,928	6,253	8,166

⁽¹⁾ Represents an adjustment made to arrive at a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.

⁽²⁾ The amount in 2018 pertains to a distribution arrangement in India for asset management.

⁽³⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

Profitability

Quarterly Comparison – Q3 2019 vs. Q3 2018

Asia's reported net income increased by \$6 million or 4% in the third quarter of 2019 compared to the same period in 2018, driven by the change in underlying net income, partially offset by less favourable ACMA impacts, relating to International partially offset by Insurance and Wealth. Underlying net income increased by \$28 million or 25% in the third quarter of 2019 compared to the same period in 2018, driven by higher AFS gains, favourable credit experience and business growth. The impacts of foreign exchange translation increased reported net income and underlying net income by \$6 million and \$4 million, respectively.

Year-to-Date Comparison – Q3 2019 vs. Q3 2018

Asia's reported net income decreased by \$46 million or 11% for the first nine months of 2019 compared to the same period in 2018, reflecting unfavourable market related impacts, predominantly from interest rates, and less favourable ACMA impacts, partially offset by the impact of acquisition, integration and restructuring costs in 2018. Underlying net income increased by \$24 million or 6% for the first nine months of 2019 compared to the same period in 2018, driven by business growth, higher AFS gains and improved expense experience, partially offset by lower new business gains in International. The impacts of foreign exchange translation increased reported net income and underlying net income by \$13 million.

Growth

Quarterly Comparison – Q3 2019 vs. Q3 2018

Asia insurance sales increased by \$95 million or 47% in the third quarter of 2019 compared to the same period in 2018. Asia individual insurance sales were \$290 million in the third quarter of 2019, an increase of 49% compared to the same period in 2018, driven by strong growth in most local insurance markets and in International.

Asia wealth sales increased by \$645 million or 33% in the third quarter of 2019 compared to the same period in 2018, driven by elevated money market sales in the Philippines and growth in the pension business in Hong Kong, partially offset by lower mutual fund sales in India due to weak market sentiment and volatility.

Year-to-Date Comparison – Q3 2019 vs. Q3 2018

Asia insurance sales increased by \$146 million or 23% in the first nine months of 2019 compared to the same period in 2018. Asia individual insurance sales were \$770 million in the first nine months of 2019, an increase of 24% compared to the same period in 2018. On a constant currency basis, individual insurance sales increased 21%, with all local insurance markets achieving strong growth, partially offset by lower sales in International.

Asia wealth sales decreased by \$1,913 million or 23% in the first nine months of 2019 compared to the same period in 2018. This decrease mainly reflected lower mutual fund sales in India due to weak market sentiment and volatility, partially offset by elevated money market sales in the Philippines and growth in the pension business in Hong Kong.

5. Corporate

(\$ millions)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
UK	279	39	134	347	219
Corporate Support	(26)	(49)	(40)	(141)	(152)
Reported net income (loss)	253	(10)	94	206	67
Market related impacts ⁽¹⁾	–	–	(4)	(9)	(13)
Assumption changes and management actions ⁽¹⁾	236	(2)	122	225	122
Acquisition, integration and restructuring ⁽¹⁾	–	(2)	(3)	(2)	(6)
Underlying net income (loss) ⁽²⁾	17	(6)	(21)	(8)	(36)

⁽¹⁾ Represents an adjustment made to arrive at a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.

⁽²⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

Profitability

Quarterly Comparison – Q3 2019 vs. Q3 2018

Corporate's reported net income increased by \$159 million in the third quarter of 2019 compared to the same period in 2018, driven by favourable ACMA impacts predominantly pertaining to the UK. Underlying net income increased by \$38 million in the third quarter of 2019, compared to the same period in 2018, which includes tax matters from prior years of \$58 million, partially offset by unfavourable expense experience and lower earnings from the run-off businesses. The impacts from foreign exchange translation decreased reported net income and underlying net income by \$13 million and \$1 million, respectively.

Year-to-Date Comparison – Q3 2019 vs. Q3 2018

Corporate's reported net income increased by \$139 million in the first nine months of 2019 compared to the same period in 2018, driven by favourable ACMA impacts predominantly pertaining to the UK. Underlying net loss improved by \$28 million in the first nine months of 2019, compared to the same period in 2018, which includes tax matters from prior years of \$58 million, partially offset by lower earnings from the run off businesses and higher regulatory expenses including the adoption of IFRS 17 *Insurance Contracts* ("IFRS 17"). The impacts of foreign exchange translation decreased reported net income by \$8 million and increased underlying net loss by \$2 million.

G. Investments

We had total general fund invested assets of \$161.9 billion as at September 30, 2019, compared to \$151.7 billion as at December 31, 2018. The increase in our general fund invested assets was primarily due to the impacts of declining interest rates and operational activity, partially offset by the unfavourable impacts from foreign exchange translation. Our general fund invested assets are well diversified across investment types, geographies and sectors with the majority of our portfolio invested in fixed income high-quality assets.

The following table sets out the composition of our general fund invested assets.⁽¹⁾

(\$ millions)	September 30, 2019		December 31, 2018	
	Carrying value	% of total carrying value	Carrying value	% of total carrying value
Cash, cash equivalents and short-term securities	8,647	5%	9,506	6%
Debt securities	82,167	51%	74,443	49%
Equity securities	4,925	3%	4,634	3%
Mortgages and loans	48,125	30%	46,822	31%
Derivative assets	2,193	1%	1,112	1%
Other invested assets	5,325	3%	4,830	3%
Policy loans	3,216	2%	3,222	2%
Investment properties	7,335	5%	7,157	5%
Total invested assets	161,933	100%	151,726	100%

⁽¹⁾ The values and ratios presented are based on the carrying value of the respective asset categories. Generally, the carrying values for fair value through profit or loss ("FVTPL") and AFS invested assets are equal to their fair values; however our mortgages and loans are generally carried at amortized cost. For invested assets supporting insurance contracts, in the event of default, if the amounts recovered are insufficient to satisfy the related insurance contract liability cash flows that the assets are intended to support, credit exposure may be greater than the carrying value of the assets.

1. Debt Securities

Our debt securities portfolio is actively managed through a regular program of purchases and sales aimed at optimizing yield, quality and liquidity, while ensuring that it remains well diversified and duration-matched to insurance contract liabilities. With the exception of certain countries where we have business operations, including Canada, the United States, the United Kingdom and the Philippines, our exposure to debt securities from any single country did not exceed 1% of total invested assets on our Interim Consolidated Financial Statements as at September 30, 2019.

The carrying value of FVTPL and AFS debt securities by geographic location is presented in the following table.

(\$ millions)	September 30, 2019				December 31, 2018			
	FVTPL debt securities	AFS debt securities	Total	% of Total	FVTPL debt securities	AFS debt securities	Total	% of Total
Debt securities								
Canada	28,401	4,676	33,077	40%	25,091	4,217	29,308	38%
United States	23,840	6,589	30,429	37%	21,329	5,917	27,246	37%
Europe	8,947	1,427	10,374	13%	8,840	1,278	10,118	14%
Asia	4,081	580	4,661	6%	3,673	445	4,118	6%
Other	2,475	1,151	3,626	4%	2,469	1,184	3,653	5%
Total debt securities	67,744	14,423	82,167	100%	61,402	13,041	74,443	100%

Our debt securities with a credit rating of “A” or higher represented 73% of the total debt securities as at September 30, 2019, compared to 72% as at December 31, 2018. Debt securities with a credit rating of “BBB” or higher represented 99% of total debt securities as at September 30, 2019, consistent with December 31, 2018.

Our gross unrealized losses as at September 30, 2019 for FVTPL and AFS debt securities were \$0.1 billion and \$0.03 billion, respectively, compared with \$1.4 billion and \$0.2 billion, respectively, as at December 31, 2018. The decrease in gross unrealized losses was largely due to the impacts from declining interest rates and the narrowing of credit spreads.

2. Mortgages and Loans

Mortgages and loans in this section are presented at their carrying value on our Interim Consolidated Financial Statements. Our mortgage portfolio consisted almost entirely of first mortgages and our loan portfolio consisted of private placement loans.

Mortgages and Loans by Geography

The carrying value of mortgages and loans by geographic location is presented in the following table.⁽¹⁾

(\$ millions)	September 30, 2019			December 31, 2018		
	Mortgages	Loans	Total	Mortgages	Loans	Total
Canada	9,190	13,297	22,487	8,557	13,238	21,795
United States	7,215	11,987	19,202	7,876	11,458	19,334
Europe	–	4,385	4,385	–	3,628	3,628
Asia	–	311	311	–	332	332
Other	–	1,740	1,740	–	1,733	1,733
Total	16,405	31,720	48,125	16,433	30,389	46,822
% of Total Invested Assets	10%	20%	30%	11%	20%	31%

⁽¹⁾ The geographic location for mortgages is based on the location of the property and for loans it is based on the country of the creditor’s parent.

As at September 30, 2019, we held \$16.4 billion of mortgages, consistent with December 31, 2018. Our mortgage portfolio consists entirely of commercial mortgages, including retail, office, multi-family, industrial and land properties. As at September 30, 2019, 34% of our commercial mortgage portfolio consisted of multi-family residential mortgages; there are no single-family residential mortgages. Our uninsured commercial portfolio had a weighted average loan-to-value ratio of approximately 55% as at September 30, 2019, consistent with December 31, 2018. While we generally limit the maximum loan-to-value ratio to 75% at issuance, we may invest in mortgages with a higher loan-to-value ratio in Canada if the mortgage is insured by the Canada Mortgage and Housing Corporation (“CMHC”). The estimated weighted average debt service coverage for our uninsured commercial portfolio is 1.76 times. Of the \$3.8 billion of multi-family residential mortgages in the Canadian commercial mortgage portfolio, 94% were insured by the CMHC.

As at September 30, 2019, we held \$31.7 billion of loans, compared to \$30.4 billion as at December 31, 2018. Private placement loans provide diversification by type of loan, industry segment and borrower credit quality. The private placement loan portfolio consists of senior secured and unsecured loans to large- and mid-market sized corporate borrowers, securitized lease/loan obligations secured by a variety of assets, and project finance loans in sectors such as power and infrastructure.

Mortgages and Loans Past Due or Impaired

The gross carrying value and allowance for mortgages and loans past due or impaired are presented in the following table.

(\$ millions)	September 30, 2019					
	Gross carrying value			Allowance for losses		
	Mortgages	Loans	Total	Mortgages	Loans	Total
Not past due	16,355	31,654	48,009	–	–	–
Past due:						
Past due less than 90 days	–	32	32	–	–	–
Past due 90 days or more	–	–	–	–	–	–
Impaired	105	99	204	55 ⁽¹⁾	65	120
Total	16,460	31,785	48,245	55	65	120

(\$ millions)	December 31, 2018					
	Gross carrying value			Allowance for losses		
	Mortgages	Loans	Total	Mortgages	Loans	Total
Not past due	16,427	30,332	46,759	–	–	–
Past due:						
Past due less than 90 days	–	14	14	–	–	–
Past due 90 days or more	–	–	–	–	–	–
Impaired	31	93	124	25 ⁽¹⁾	50	75
Total	16,458	30,439	46,897	25	50	75

⁽¹⁾ Includes \$20 million of sectoral provisions as at September 30, 2019, and \$21 million of sectoral provisions as at December 31, 2018.

Our impaired mortgages and loans net of allowances for losses were \$84 million as at September 30, 2019, compared to \$49 million as at December 31, 2018.

3. Derivative Financial Instruments

The values associated with our derivative instruments are presented in the following table. Notional amounts serve as the basis for payments calculated under derivatives contracts and are generally not exchanged.

(\$ millions)	September 30, 2019	December 31, 2018
Net fair value asset (liability)	(159)	(1,183)
Total notional amount	62,339	59,198
Credit equivalent amount ⁽¹⁾	780	542
Risk-weighted credit equivalent amount ⁽¹⁾	16	15

⁽¹⁾ Amounts presented are net of collateral received.

The net fair value of derivatives was a liability of \$159 million as at September 30, 2019, compared to a liability of \$1,183 million as at December 31, 2018. The change in net fair value was primarily due to the impacts of downward shifts in yield curves on interest rate contracts as well as the strengthening of the Canadian dollar against the U.S. dollar on foreign exchange contracts.

The total notional amount of our derivatives increased to \$62.3 billion as at September 30, 2019 from \$59.2 billion as at December 31, 2018. The change in notional amount is mainly attributable to an increase of \$5.0 billion in foreign exchange contracts used for hedging foreign currency assets, partially offset by a \$1.9 billion decrease in interest rate contracts primarily due to a reduction in interest rate exposure assets.

4. Asset Default Provision

We make provisions for possible future credit events in the determination of our insurance contract liabilities. The amount of the provision for asset default included in insurance contract liabilities is based on possible reductions in future investment yields that vary by factors such as type of asset, asset credit quality (rating), duration and country of origin. To the extent that an asset is written off, or disposed of, any amounts that were set aside in our insurance contract liabilities for possible future asset defaults in respect of that asset are released.

Our asset default provision reflects the provision relating to future credit events for fixed income assets currently held by the Company that support our insurance contract liabilities. Our asset default provision as at September 30, 2019 was \$2,640 million compared to \$2,389 million as at December 31, 2018. The increase of \$251 million was primarily due to yield curve movement, increases in the provision for assets purchased, net of dispositions and changes in credit ratings, offset by the release of provisions on fixed income assets supporting our insurance contract liabilities.

H. Risk Management

The shaded text and tables in this section H represent our disclosure on market risks in accordance with IFRS 7 *Financial Instruments – Disclosures* and is an integral part of our unaudited Interim Consolidated Financial Statements for the quarter ended September 30, 2019. The shading in this section does not imply that these disclosures are of any greater importance than non-shaded tables and text, and the Risk Management disclosure should be read in its entirety.

The Company has established a Risk Management Framework to assist in identifying, measuring, managing, monitoring and reporting risks. The Risk Management Framework covers all risks and these have been grouped into six major categories: credit, market, insurance, business and strategic, operational and liquidity risks.

Through our enterprise risk management processes, we oversee the various risk factors identified in the Risk Management Framework and provide reports to senior management and to the Board Committees at least quarterly. Our enterprise risk management processes and risk factors are described in our annual MD&A and AIF.

When referring to segregated funds in this section, it is inclusive of segregated fund guarantees, variable annuities and investment products and includes Run-off reinsurance in Corporate.

1. Market Risk Sensitivities

Our net income⁽¹⁾ is affected by the determination of policyholder obligations under our annuity and insurance contracts. These amounts are determined using internal valuation models and are recorded in our Consolidated Financial Statements, primarily as Insurance contract liabilities. The determination of these obligations requires management to make assumptions about the future level of equity market performance, interest rates, credit and swap spreads and other factors over the life of our products. Differences between our actual experience and our best estimate assumptions are reflected in our Consolidated Financial Statements. Refer to Additional Cautionary Language and Key Assumptions Related to Sensitivities in this section for important additional information regarding these estimates.

The market value of our investments in fixed income and equity securities fluctuates based on movements in interest rates and equity markets. The market value of fixed income assets designated as AFS that are held primarily in our surplus segment increases with declining interest rates and decreases with rising interest rates. The market value of equities designated as AFS and held primarily in our surplus segment increases (decreases) with rising (declining) equity markets. Changes in the market value of AFS assets flow through other comprehensive income (“OCI”) and are only recognized in net income when realized upon sale, or when considered impaired. The amount of realized gains (losses) recorded in net income in any period is equal to the unrealized gains (losses) or OCI position at the start of the period plus the change in market value during the current period up to the point of sale for those securities that were sold during the period. The sale or impairment of AFS assets held in surplus can therefore have the effect of modifying our net income sensitivity.

We realized \$47 million (pre-tax) in net gains on the sale of AFS assets during the third quarter of 2019 (\$19 million pre-tax in the third quarter of 2018). The net unrealized gains (losses) or OCI position on AFS fixed income and equity assets were \$314 million and \$69 million, respectively, after-tax as at September 30, 2019 (\$98 million and \$43 million, respectively, after-tax as at December 31, 2018).

⁽¹⁾ Net income in section H – Risk Management in this document refers to common shareholders’ net income.

Equity Market Sensitivities

The following table sets out the estimated immediate impact on, or sensitivity of, our net income and OCI and Sun Life Assurance's LICAT ratio to certain instantaneous changes in equity market prices as at September 30, 2019 and December 31, 2018.

As at September 30, 2019				
(\$ millions, unless otherwise noted)				
Change in Equity Markets ⁽¹⁾	25% decrease	10% decrease	10% increase	25% increase
Potential impact on net income ⁽²⁾⁽³⁾	\$ (300)	\$ (100)	\$ 100	\$ 250
Potential impact on OCI ⁽³⁾	\$ (100)	\$ (50)	\$ 50	\$ 100
Potential impact on LICAT ⁽²⁾⁽⁴⁾	1.5 point decrease	0.5 point decrease	0.5 point increase	0.5 point increase

As at December 31, 2018				
(\$ millions, unless otherwise noted)				
Change in Equity Markets ⁽¹⁾	25% decrease	10% decrease	10% increase	25% increase
Potential impact on net income ⁽²⁾⁽³⁾	\$ (300)	\$ (100)	\$ 100	\$ 250
Potential impact on OCI ⁽³⁾	\$ (100)	\$ (50)	\$ 50	\$ 100
Potential impact on LICAT ⁽²⁾⁽⁴⁾	2.0 point decrease	1.0 point decrease	0.5 point increase	1.0 point increase

⁽¹⁾ Represents the respective change across all equity markets as at September 30, 2019 and December 31, 2018. Assumes that actual equity exposures consistently and precisely track the broader equity markets. Since in actual practice equity-related exposures generally differ from broad market indices (due to the impact of active management, basis risk, and other factors), realized sensitivities may differ significantly from those illustrated above. Sensitivities include the impact of re-balancing equity hedges for dynamic hedging programs at 2% intervals (for 10% changes in equity markets) and at 5% intervals (for 25% changes in equity markets).

⁽²⁾ The market risk sensitivities include the estimated mitigation impact of our hedging programs in effect as at September 30, 2019 and December 31, 2018, and include new business added and product changes implemented prior to such dates.

⁽³⁾ Net income and OCI sensitivities have been rounded to the nearest \$50 million. The sensitivities exclude the market impacts on the income from our joint ventures and associates, which we account for on an equity basis.

⁽⁴⁾ The LICAT sensitivities illustrate the impact on Sun Life Assurance as at September 30, 2019 and December 31, 2018. LICAT ratios are rounded to the nearest 0.5%.

Interest Rate Sensitivities

The following table sets out the estimated immediate impact on, or sensitivity of, our net income and OCI and Sun Life Assurance's LICAT ratio to certain instantaneous changes in interest rates as at September 30, 2019 and December 31, 2018.

Sun Life Assurance's LICAT ratio generally decreases with rising interest rates and increases with declining interest rates, which is opposite to our net income sensitivity. Increases to interest rates will reduce the value of our assets and margins in our actuarial liabilities, resulting in a lower LICAT ratio, while decreases to interest rates will increase the value of our assets and margins in our actuarial liabilities. However, our sensitivity to interest rates may be non-linear, and can change, due to the inter-relationships between market rates, actuarial assumptions and LICAT calculations. In particular, changes to market conditions can shift the interest rate scenario applied in the LICAT formula causing a discontinuity where capital requirements change materially. With the decline in interest rates during the third quarter of 2019, a discontinuity occurs within the 50 basis point decrease sensitivity reducing the ratio by about 5 points. Following the discontinuity, the ratio improves as rates decline in line with the general pattern, resulting in a net decrease to our LICAT ratio of 3.5 points.

(\$ millions, unless otherwise noted)	As at September 30, 2019		As at December 31, 2018	
	50 basis point decrease	50 basis point increase	50 basis point decrease	50 basis point increase
Change in Interest Rates ⁽¹⁾				
Potential impact on net income ⁽²⁾⁽³⁾⁽⁴⁾	\$ (100)	\$ 100	\$ (100)	\$ 50
Potential impact on OCI ⁽³⁾	\$ 250	\$ (250)	\$ 250	\$ (250)
Potential impact on LICAT ⁽²⁾⁽⁵⁾	3.5 point decrease	2.5 point decrease	2.5 point increase	1.5 point decrease

⁽¹⁾ Interest rate sensitivities assume a parallel shift in assumed interest rates across the entire yield curve as at September 30, 2019 and December 31, 2018 with no change to the Actuarial Standards Board ("ASB") promulgated URR. Variations in realized yields based on factors such as different terms to maturity and geographies may result in realized sensitivities being significantly different from those illustrated above. Sensitivities include the impact of re-balancing interest rate hedges for dynamic hedging programs at 10 basis point intervals (for 50 basis point changes in interest rates).

⁽²⁾ The market risk sensitivities include the estimated mitigation impact of our hedging programs in effect as at September 30, 2019 and December 31, 2018, and include new business added and product changes implemented prior to such dates.

⁽³⁾ Net income and OCI sensitivities have been rounded to the nearest \$50 million. The sensitivities exclude the market impacts on the income from our joint ventures and associates, which we account for on an equity basis.

⁽⁴⁾ The majority of interest rate sensitivity, after hedging, is attributed to individual insurance products. We also have interest rate sensitivity, after hedging, from our fixed annuity and segregated funds products.

⁽⁵⁾ The LICAT sensitivities illustrate the impact on Sun Life Assurance as at September 30, 2019 and December 31, 2018. LICAT ratios are rounded to the nearest 0.5%.

2. Credit Spread and Swap Spread Sensitivities

We have estimated the immediate impact or sensitivity of our net income attributable to certain instantaneous changes in credit and swap spreads. The credit spread sensitivities reflect the impact of changes in credit spreads on our asset and liability valuations (including non-sovereign fixed income assets, provincial governments, corporate bonds, and other fixed income assets). The swap spread sensitivities reflect the impact of changes in swap spreads on swap-based derivative positions and liability valuations.

(\$ millions, unless otherwise noted)	Credit Spread Sensitivities ⁽¹⁾		Swap Spread Sensitivities	
	50 basis point decrease	50 basis point increase	20 basis point decrease	20 basis point increase
Net income sensitivity ⁽²⁾				
September 30, 2019	\$ (100)	\$ 50	\$ 50	\$ (50)
December 31, 2018	\$ (75)	\$ 75	\$ 25	\$ (25)

⁽¹⁾ In most instances, credit spreads are assumed to revert to long-term insurance contract liability assumptions generally over a five-year period.

⁽²⁾ Sensitivities have been rounded to the nearest \$25 million.

The credit and swap spread sensitivities assume a parallel shift in the indicated spreads across the entire term structure. Variations in realized spread changes based on different terms to maturity, geographies, asset classes and derivative types, underlying interest rate movements, and ratings may result in realized sensitivities being significantly different from those provided above. The credit spread sensitivity estimates exclude any credit spread impact that may arise in connection with asset positions held in segregated funds. Spread sensitivities are provided for the consolidated entity and may not be proportional across all reporting segments. Refer to Additional Cautionary Language and Key Assumptions Related to Sensitivities in this section for important additional information regarding these estimates.

3. General Account Insurance and Annuity Products

Most of our expected sensitivity to changes in interest rates and about two-thirds of our expected sensitivity to changes in equity markets are derived from our general account insurance and annuity products. We have implemented market risk management strategies to mitigate a portion of the market risk related to our general account insurance and annuity products.

Individual insurance products include universal life and other long-term life and health insurance products. Major sources of market risk exposure for individual insurance products include the reinvestment risk related to future premiums on regular premium policies, asset reinvestment risk on both regular premium and single premium policies and the guaranteed cost of insurance. Interest rate risk for individual insurance products is typically managed on a duration basis, within tolerance ranges set out in the applicable investment policy or guidelines. Targets and limits are established so that the level of residual exposure is commensurate with our risk appetite. Exposures are monitored frequently, and assets are re-balanced as necessary to maintain compliance within policy limits using a combination of assets and derivative instruments. A portion of the longer-term cash flows are backed with equities and real estate.

For participating insurance products and other insurance products with adjustability features, the investment strategy objective is to provide a total rate of return given a constant risk profile over the long-term.

Fixed annuity products generally provide the policyholder with a guaranteed investment return or crediting rate. Interest rate risk for these products is typically managed on a duration basis, within tolerance ranges set out in the applicable investment guidelines. Targets and limits are established such that the level of residual exposure is commensurate with our risk appetite. Exposures are monitored frequently, and are re-balanced as necessary to maintain compliance within prescribed tolerances using a combination of fixed income assets and derivative instruments.

Certain insurance and annuity products contain minimum interest rate guarantees. Market risk management strategies are implemented to limit potential financial loss due to reductions in asset earned rates relative to contract guarantees. These typically involve the use of hedging strategies utilizing interest rate derivatives such as interest rate floors, swaps and swaptions.

Certain insurance and annuity products contain features which allow the policyholders to surrender their policy at book value. Market risk management strategies are implemented to limit the potential financial loss due to changes in interest rate levels and policyholder behaviour. These typically involve the use of hedging strategies such as dynamic option replication and the purchase of interest rate swaptions.

Certain products have guaranteed minimum annuitization rates. Market risk management strategies are implemented to limit the potential financial loss and typically involve the use of fixed income assets, interest rate swaps, and swaptions.

4. Segregated Fund Guarantees

Approximately one-third of our equity market sensitivity and a small amount of interest rate risk sensitivity as at September 30, 2019 are derived from segregated fund products. These products provide benefit guarantees, which are linked to underlying fund performance and may be triggered upon death, maturity, withdrawal or annuitization. The cost of providing these guarantees is uncertain and depends upon a number of factors including general capital market conditions, our hedging strategies, policyholder behaviour and mortality experience, each of which may result in negative impacts on net income and capital.

The following table provides information with respect to the guarantees provided for our segregated fund products by business group.

As at September 30, 2019

(\$ millions)	Fund value	Amount at Risk ⁽¹⁾	Value of guarantees ⁽²⁾	Insurance contract liabilities ⁽³⁾
Canada	11,919	356	10,608	727
Asia	2,442	256	2,556	131
Corporate ⁽⁴⁾	2,272	230	1,111	252
Total	16,633	842	14,275	1,110

As at December 31, 2018

(\$ millions)	Fund value	Amount at Risk ⁽¹⁾	Value of guarantees ⁽²⁾	Insurance contract liabilities ⁽³⁾
Canada	11,202	792	10,742	552
Asia	2,798	444	3,165	147
Corporate ⁽⁴⁾	2,215	277	1,219	255
Total	16,215	1,513	15,126	954

⁽¹⁾ The Amount at Risk represents the excess of the value of the guarantees over fund values on all policies where the value of the guarantees exceeds the fund value. The Amount at Risk is not currently payable as the guarantees are only payable upon death, maturity, withdrawal, or annuitization if fund values remain below guaranteed values.

⁽²⁾ For guaranteed lifetime withdrawal benefits, the value of guarantees is calculated as the present value of the maximum future withdrawals assuming market conditions remain unchanged from current levels. For all other benefits, the value of guarantees is determined assuming 100% of the claims are made at the valuation date.

⁽³⁾ The insurance contract liabilities represent management's provision for future costs associated with these guarantees and include a provision for adverse deviation in accordance with Canadian actuarial standards of practice.

⁽⁴⁾ Corporate includes Run-off reinsurance, a closed block of reinsurance. The Run-off reinsurance business includes risks assumed through reinsurance of variable annuity products issued by various North American insurance companies between 1997 and 2001.

The movement of the items in the table above from December 31, 2018 to September 30, 2019 primarily resulted from the following factors:

- (i) the total fund values increased due to an increase in equity markets, which was partially offset by net redemptions from products closed to new business;
- (ii) the total amount at risk decreased due to an increase in equity markets and net redemptions from products closed to new business;
- (iii) the total value of guarantees decreased due to net redemptions from products closed to new business and the weakening of the U.S. dollar against the Canadian dollar; and
- (iv) the total insurance contract liabilities increased due to a decrease in interest rates, which was partially offset by an increase in equity markets and net redemptions from products closed to new business.

5. Segregated Fund Hedging

Our hedging programs use derivative instruments to mitigate the interest and equity related exposure of our segregated fund contracts. As at September 30, 2019, over 90% of our segregated fund contracts, as measured by associated fund values, were included in a hedging program. While a large percentage of contracts are included in the hedging program, not all of our market risk exposure related to these contracts is hedged. For those segregated fund contracts included in the hedging program, we generally hedge the value of expected future net claims costs and associated margins.

The following table illustrates the impacts of our hedging program related to our sensitivity to a 50 basis point decrease in interest rates and a 10% and 25% decrease in equity markets for segregated fund contracts as at September 30, 2019 and December 31, 2018.

Impacts of Segregated Fund Hedging

September 30, 2019

(\$ millions)	Changes in interest rates ⁽¹⁾		Changes in equity markets ⁽²⁾	
	50 basis point decrease	10% decrease	25% decrease	
Net income sensitivity ⁽³⁾⁽⁴⁾				
Before hedging	(200)	(150)	(450)	
Hedging impacts	200	100	350	
Net of hedging	–	(50)	(100)	

December 31, 2018

(\$ millions)	Changes in interest rates ⁽¹⁾		Changes in equity markets ⁽²⁾	
	50 basis point decrease	10% decrease	25% decrease	
Net income sensitivity ⁽³⁾⁽⁴⁾				
Before hedging	(150)	(150)	(450)	
Hedging impacts	150	100	350	
Net of hedging	–	(50)	(100)	

⁽¹⁾ Represents a parallel shift in assumed interest rates across the entire yield curve as at September 30, 2019 and December 31, 2018, with no change to the ASB promulgated URR. Variations in realized yields based on factors such as different terms to maturity and geographies may result in realized sensitivities being significantly different from those illustrated above. Sensitivities include the impacts of re-balancing interest rate hedges for dynamic hedging programs at 10 basis point intervals (for 50 basis point changes in interest rates).

⁽²⁾ Represents the change across all equity markets as at September 30, 2019 and December 31, 2018. Assumes that actual equity exposures consistently and precisely track the broader equity markets. Since in actual practice equity-related exposures generally differ from broad market indices (due to the impacts of active management, basis risk, and other factors), realized sensitivities may differ significantly from those illustrated above. Sensitivities include the impacts of re-balancing equity hedges for dynamic hedging programs at 2% intervals (for 10% changes in equity markets) and at 5% intervals (for 25% changes in equity markets).

⁽³⁾ Net income sensitivities have been rounded to the nearest \$50 million.

⁽⁴⁾ Since the fair value of benefits being hedged will generally differ from the financial statement value (due to different valuation methods and the inclusion of valuation margins in respect of financial statement values), this will result in residual volatility to interest rate and equity market shocks in net income and capital. The general availability and cost of these hedging instruments may be adversely impacted by a number of factors, including volatile and declining equity and interest rate market conditions.

6. Real Estate Risk

Real estate risk is the potential for financial loss arising from fluctuations in the value of, or future cash flows from, our investments in real estate. We are exposed to real estate risk and may experience financial losses resulting from the direct ownership of real estate investments or indirectly through fixed income investments secured by real estate property, leasehold interests, ground rents, and purchase and leaseback transactions. Real estate price risk may arise from external market conditions, inadequate property analysis, inadequate insurance coverage, inappropriate real estate appraisals, or from environmental risk exposures. We hold direct real estate investments that support general account liabilities and surplus, and fluctuations in value will impact our profitability and financial position. A material and sustained increase in interest rates may lead to deterioration in real estate values. An instantaneous 10% decrease in the value of our direct real estate investments as at September 30, 2019 would decrease net income⁽¹⁾ by approximately \$275 million (\$275 million decrease as at December 31, 2018). Conversely, an instantaneous 10% increase in the value of our direct real estate investments as at September 30, 2019 would increase net income by approximately \$275 million (\$275 million increase as at December 31, 2018).

⁽¹⁾ Net income sensitivities have been rounded to the nearest \$25 million.

7. Additional Cautionary Language and Key Assumptions Related to Sensitivities

Our market risk sensitivities are measures of our estimated change in net income and OCI for changes in interest rates and equity market price levels described above, based on interest rates, equity market prices and business mix in place as at the respective calculation dates. These sensitivities are calculated independently for each risk factor, generally assuming that all other risk variables stay constant. The sensitivities do not take into account indirect effects such as potential impacts on goodwill impairment or valuation allowances on deferred tax assets. The sensitivities are provided for the consolidated entity and may not be proportional across all reporting segments. Actual results can differ materially from these estimates for a variety of reasons, including differences in the pattern or distribution of the market shocks, the interaction between these risk factors, model error, or changes in other assumptions such as business mix, effective tax rates, policyholder behaviour, currency exchange rates and other market variables relative to those underlying the calculation of these sensitivities. The extent to which actual results may differ from the indicative ranges will generally increase with larger capital market movements. Our sensitivities as at December 31, 2018 have been included for comparative purposes only.

We have also provided measures of our net income sensitivity to instantaneous changes in credit spreads, swap spreads, real estate price levels, and capital sensitivities to changes in interest rates and equity price levels. The real estate sensitivities are non-IFRS financial measures. For additional information, see section M – Non-IFRS Financial Measures in this document. The cautionary language which appears in this section is also applicable to the credit spread, swap spread, real estate, and LICAT ratio sensitivities. In particular, these sensitivities are based on interest rates, credit and swap spreads, equity market, and real estate price levels as at the respective calculation dates and assume that all other risk variables remain constant. Changes in interest rates, credit and swap spreads, equity market, and real estate prices in excess of the ranges illustrated may result in other-than-proportionate impacts.

As these market risk sensitivities reflect an instantaneous impact on net income and OCI, they do not include impacts over time such as the effect on fee income in our asset management businesses.

The sensitivities reflect the composition of our assets and liabilities as at September 30, 2019 and December 31, 2018, respectively. Changes in these positions due to new sales or maturities, asset purchases/sales, or other management actions could result in material changes to these reported sensitivities. In particular, these sensitivities reflect the expected impact of hedging activities based on the hedge programs in place as at the September 30 and December 31 calculation dates. The actual impact of hedging activity can differ materially from that assumed in the determination of these indicative sensitivities due to ongoing hedge re-balancing activities, changes in the scale or scope of hedging activities, changes in the cost or general availability of hedging instruments, basis risk (i.e., the risk that hedges do not exactly replicate the underlying portfolio experience), model risk, and other operational risks in the ongoing management of the hedge programs or the potential failure of hedge counterparties to perform in accordance with expectations.

The sensitivities are based on methods and assumptions in effect as at September 30, 2019 and December 31, 2018, as applicable. Changes in the regulatory environment, accounting or actuarial valuation methods, models, or assumptions (including changes to the ASB promulgated URR) after those dates could result in material changes to these reported sensitivities. Changes in interest rates and equity market prices in excess of the ranges illustrated may result in other than proportionate impacts.

Our hedging programs may themselves expose us to other risks, including basis risk (i.e., the risk that hedges do not exactly replicate the underlying portfolio experience), volatility risk, derivative counterparty credit risk, and increased levels of liquidity risk, model risk and other operational risks. These factors may adversely impact the net effectiveness, costs, and financial viability of maintaining these hedging programs and therefore adversely impact our profitability and financial position. While our hedging programs are intended to mitigate these effects (e.g., hedge counterparty credit risk is managed by maintaining broad diversification, dealing primarily with highly rated counterparties, and transacting through over-the-counter contracts, cleared through central clearing houses, exchange-traded contracts or bilateral over-the-counter contracts negotiated directly between counterparties that include credit support annexes), residual risk, potential reported earnings and capital volatility remain.

For the reasons outlined above, our sensitivities should only be viewed as directional estimates of the underlying sensitivities of each factor under these specialized assumptions, and should not be viewed as predictors of our future net income, OCI, and capital. Given the nature of these calculations, we cannot provide assurance that actual impact will be consistent with the estimates provided.

Information related to market risk sensitivities and guarantees related to segregated fund products should be read in conjunction with the information contained in section M – Accounting and Control Matters – 1 – Critical Accounting Policies and Estimates in our 2018 annual MD&A. Additional information on market risk can be found in Note 6 of our 2018 Annual Consolidated Financial Statements and the Risk Factors section in the AIF.

I. Additional Financial Disclosure

1. Revenue

(\$ millions)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
Premiums					
Gross	5,370	5,088	4,928	15,400	15,046
Ceded	(571)	(608)	(559)	(1,751)	(1,717)
Net premiums	4,799	4,480	4,369	13,649	13,329
Net investment income					
Interest and other investment income	1,467	1,465	1,414	4,330	4,166
Fair value ⁽¹⁾ and foreign currency changes on assets and liabilities	1,718	2,626	(1,304)	8,498	(3,257)
Net gains (losses) on available-for-sale assets	47	33	19	103	96
Fee income	1,585	1,542	1,500	4,574	4,483
Total revenue	9,616	10,146	5,998	31,154	18,817
Adjusted revenue ⁽²⁾	8,001	7,579	7,444	22,798	22,567

⁽¹⁾ Represents the change in FVTPL assets and liabilities.

⁽²⁾ Adjusted revenue is a non-IFRS financial measure that excludes from revenue the impacts of Constant Currency Adjustment, FV Adjustment and Reinsurance in Canada's GB Operations Adjustment as described in section M – Non-IFRS Financial Measures in this document.

Revenue increased \$3,618 million or 60% in the third quarter of 2019 compared to the same period in 2018, mainly due to increases in the fair value of FVTPL assets and net premium growth. Revenue increased \$12,337 million or 66% in the first nine months of 2019 compared to the same period in 2018. The increase was mainly driven by increases in the fair value of FVTPL assets largely due to lower interest rate yields in 2019 compared to the same period in 2018. The impacts of foreign exchange translation in the third quarter of 2019 and the first nine months of 2019 increased revenue by \$37 million and \$353 million, respectively.

Adjusted revenue increased \$557 million or 7% in the third quarter of 2019 compared to the same period in 2018, primarily driven by increased net premium revenue in Asia and Canada. Adjusted revenue increased \$231 million or 1% in the first nine months of 2019 compared to the same period in 2018, primarily driven by higher net premium revenue in the U.S.

2. Changes in the Statements of Financial Position and in Shareholders' Equity

Total general fund assets were \$180.2 billion as at September 30, 2019, compared to \$168.8 billion as at December 31, 2018, primarily a result of an increase of \$8.5 billion from the change in value of FVTPL assets and an increase of \$5.7 billion from other business activities, partially offset by a decrease of \$2.8 billion from the impacts of foreign exchange translation.

Insurance contract liabilities (excluding other policy liabilities and assets) of \$123.6 billion as at September 30, 2019 increased by \$8.7 billion compared to December 31, 2018, mainly due to the change in balances on in-force policies (which include fair value changes on FVTPL assets supporting insurance contract liabilities) and balances arising from new policies, partially offset by the impacts of foreign exchange translation and ACMA.

Total shareholders' equity, including preferred share capital, was \$23.2 billion as at September 30, 2019, compared to \$23.7 billion as at December 31, 2018. The decrease in total shareholders' equity was primarily due to:

- (i) common share dividend payments of \$920 million;
- (ii) the impact related to the BGO acquisition of \$875 million;
- (iii) a decrease of \$592 million from the repurchase and cancellation of common shares;
- (iv) a decrease of \$427 million from the impacts of foreign exchange translation; and
- (v) changes in the remeasurement of defined benefit plans of \$99 million; partially offset by
- (vi) shareholders' net income of \$1,970 million in 2019, before preferred share dividends of \$71 million;
- (vii) net unrealized gains on AFS assets in OCI of \$439 million; and
- (viii) \$18 million from stock options exercised and \$4 million from stock-based compensation.

As at October 28, 2019, SLF Inc. had 587,646,777 common shares, 3,219,542 options to acquire SLF Inc. common shares, and 92,200,000 Class A Shares outstanding.

3. Cash Flows

(\$ millions)	Quarterly results		Year-to-date	
	Q3'19	Q3'18	2019	2018
Net cash and cash equivalents, beginning of period	6,321	5,459	7,194	5,956
Cash flows provided by (used in):				
Operating activities	193	1,118	867	1,951
Investing activities	(212)	(57)	(304)	(147)
Financing activities	(176)	(587)	(1,473)	(1,941)
Changes due to fluctuations in exchange rates	35	(66)	(123)	48
Increase (decrease) in cash and cash equivalents	(160)	408	(1,033)	(89)
Net cash and cash equivalents, end of period	6,161	5,867	6,161	5,867
Short-term securities, end of period	2,422	2,126	2,422	2,126
Net cash, cash equivalents and short-term securities, end of period	8,583	7,993	8,583	7,993

The operating activities of the Company generate cash flows which include net premium revenue, net investment income, fee income, and the sale and maturity of investments. They are the principal source of funds to pay for policyholder claims and benefits, commissions, operating expenses, and the purchase of investments. Cash flows used in investing activities primarily include transactions related to associates, joint ventures and acquisitions. Cash flows provided by and used in financing activities largely reflect capital transactions including payments of dividends, the issuance and repurchase of shares, as well as the issuance and retirement of debt instruments and preferred shares.

The cash flows used in financing activities in the third quarter of 2019 compared to the same period last year decreased primarily due to the issuance of subordinated debt, partially offset by the redemption of senior debentures in the third quarter of 2019.

4. Quarterly Financial Results

The following table provides a summary of our results for the eight most recently completed quarters. A more complete discussion of our historical quarterly results can be found in our interim and annual MD&A for the relevant periods.

(\$ millions, unless otherwise noted)	Quarterly results							
	Q3'19	Q2'19	Q1'19	Q4'18	Q3'18	Q2'18	Q1'18	Q4'17
Total revenue	9,616	10,146	11,392	8,180	5,998	6,826	5,993	8,648
Common shareholders' net income (loss)								
Reported	681	595	623	580	567	706	669	207
Underlying ⁽¹⁾	809	739	717	718	730	729	770	641
Diluted EPS (\$)								
Reported	1.15	1.00	1.04	0.96	0.93	1.16	1.09	0.34
Underlying ⁽¹⁾	1.37	1.24	1.20	1.19	1.20	1.20	1.26	1.05
Basic reported EPS (\$)								
Reported	1.15	1.00	1.04	0.96	0.94	1.16	1.10	0.34
Reported net income (loss) by segment								
Canada	223	148	237	96	335	262	249	172
U.S. ⁽²⁾	(186)	94	124	118	(267)	105	96	(63)
Asset Management	221	229	219	244	241	214	210	114
Asia ⁽²⁾	170	134	80	125	164	133	133	121
Corporate	253	(10)	(37)	(3)	94	(8)	(19)	(137)
Total reported net income (loss)	681	595	623	580	567	706	669	207
Underlying net income (loss) by segment ⁽¹⁾								
Canada	268	243	237	245	251	245	295	232
U.S. ⁽²⁾	135	110	150	121	139	125	129	95
Asset Management	251	245	227	227	251	216	231	226
Asia ⁽²⁾	138	147	122	140	110	145	128	111
Corporate	17	(6)	(19)	(15)	(21)	(2)	(13)	(23)
Total underlying net income (loss) ⁽¹⁾	809	739	717	718	730	729	770	641

⁽¹⁾ Represents a non-IFRS financial measure. See section M – Non-IFRS Financial Measures in this document.

⁽²⁾ Effective January 1, 2018, we transferred our International business unit from the U.S. to Asia, and comparative figures in 2017 have been changed to conform with the current year presentation.

Second Quarter 2019

Reported net income of \$595 million in the second quarter of 2019 decreased \$111 million compared to the second quarter of 2018, primarily reflecting unfavourable market related and ACMA impacts. Underlying net income in the second quarter of 2019 increased \$10 million to \$739 million compared to the same period in 2018, primarily driven by business growth, favourable expense experience and benefits from tax related items primarily in the U.S., partially offset by unfavourable morbidity experience in Canada and the U.S., lower new business gains in International in Asia and lower AFS gains in the U.S.

First Quarter 2019

Reported net income of \$623 million in the first quarter of 2019 decreased \$46 million from the first quarter of 2018, while underlying net income decreased \$53 million to \$717 million. This variance was primarily due to interest on par seed capital of \$110 million in the first quarter of 2018 and unfavourable credit experience, partially offset by favourable mortality, lapse and other policyholder behaviour, investing activity gains, morbidity experience and other experience.

Fourth Quarter 2018

Reported net income was \$580 million in the fourth quarter of 2018, an increase compared to the same quarter in 2017, reflecting the \$251 million charge in 2017 related to the enactment of the U.S. Tax Cuts and Jobs Act, positive impacts from other adjustments and ACMA, partially offset by market related impacts. Underlying net income in the fourth quarter of 2018 increased to \$718 million compared to 2017, driven by the effect of the lower income tax rate in the U.S., favourable expense experience that resulted from ongoing expense management and lower incentive compensation costs, and other experience, partially offset by mortality and morbidity experience.

Third Quarter 2018

Reported net income was \$567 million in the third quarter of 2018, reflecting a \$269 million unfavourable change in ACMA compared to the same quarter in 2017. Underlying net income was \$730 million, primarily driven by strong business growth, the lower income tax rate in the U.S. and higher investment income on surplus assets, partially offset by new business strain.

Second Quarter 2018

Reported net income was \$706 million in the second quarter of 2018, reflecting an \$82 million favourable change in market related impacts compared to the same quarter in 2017. Underlying net income was \$729 million, primarily driven by strong business growth and favourable morbidity experience, partially offset by expenses, credit experience and the impacts of investment activity on insurance contract liabilities.

First Quarter 2018

Reported net income was \$669 million in the first quarter of 2018, reflecting a \$79 million unfavourable change in market related impacts compared to the same quarter in 2017. Underlying net income was \$770 million, primarily driven by interest on par seed capital of \$110 million, strong business growth, the lower income tax rate in the U.S., as well as the impacts of investment activity on insurance contract liabilities, partially offset by weaker mortality and lapse experience.

Fourth Quarter 2017

Reported net income was \$207 million in the fourth quarter of 2017, reflecting unfavourable impacts of the U.S. tax reform, a restructuring charge, and the impacts from interest rates compared to the fourth quarter of 2016. Underlying net income was \$641 million, reflecting the growth in our wealth businesses and favourable morbidity and mortality experience.

J. Legal and Regulatory Matters

Information concerning legal and regulatory matters is provided in our Annual Consolidated Financial Statements, our annual MD&A, and the AIF, in each case for the year ended December 31, 2018, and in our Interim Consolidated Financial Statements for the period ended September 30, 2019.

K. Changes in Accounting Policies

We have adopted several amended IFRS standards in the current year. In addition, new IFRS standards were issued in the current year. We adopted IFRS 16 *Leases* ("IFRS 16"), which replaces IAS 17 *Leases* and related interpretations, on a modified retrospective basis as at January 1, 2019. The adoption of IFRS 16 reduced opening retained earnings by \$22 million on an after-tax basis as at January 1, 2019. For additional information, refer to Note 2 in our Interim Consolidated Financial Statements for the period ended September 30, 2019.

In 2017, a new accounting standard on insurance contracts, IFRS 17, was issued, replacing the current accounting standard on insurance contracts (IFRS 4 *Insurance Contracts*). The original effective date was January 1, 2021. In June 2019, the International Accounting Standards Board (“IASB”) issued an exposure draft (“ED”) that proposes targeted amendments to IFRS 17 for public consultation. As part of the ED, the IASB has proposed to defer the effective date by one year to January 1, 2022 as well as extend the deferral option of IFRS 9 *Financial Instruments* for insurers to that same date. Comments on the proposed amendments were due by September 25, 2019. The IASB will discuss comments received on the proposals before finalizing the amendments in 2020. We will consider the implications of these amendments as we assess the financial statement and business implications of the standard as a whole.

L. Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company’s financial reporting and the preparation of its financial statements in accordance with IFRS.

There were no changes in the Company’s internal control over financial reporting during the period, which began on July 1, 2019 and ended on September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

M. Non-IFRS Financial Measures

1. Underlying Net Income and Underlying EPS

Underlying net income (loss) and financial measures based on underlying net income (loss), including underlying EPS or underlying loss per share, and underlying ROE, are non-IFRS financial measures. Underlying net income (loss) removes from reported net income (loss) the impacts of the following items that create volatility in our results under IFRS and when removed assist in explaining our results from period to period:

- (a) market related impacts that differ from our best estimate assumptions, which include: (i) impacts of returns in equity markets, net of hedging, for which our best estimate assumptions are approximately 2% per quarter. This also includes the impacts of the basis risk inherent in our hedging program, which is the difference between the return on underlying funds of products that provide benefit guarantees and the return on the derivative assets used to hedge those benefit guarantees; (ii) the impacts of changes in interest rates in the reporting period and on the value of derivative instruments used in our hedging programs including changes in credit and swap spreads, and any changes to the assumed fixed income reinvestment rates in determining the actuarial liabilities; and (iii) the impacts of changes in the fair value of investment properties in the reporting period;
- (b) assumption changes and management actions, which include: (i) the impacts of revisions to the methods and assumptions used in determining our liabilities for insurance contracts and investment contracts; and (ii) the impacts on insurance contracts and investment contracts of actions taken by management in the current reporting period, referred to as management actions which include, for example, changes in the prices of in-force products, new or revised reinsurance on in-force business, and material changes to investment policies for assets supporting our liabilities; and
- (c) other adjustments:
 - (i) certain hedges in Canada that do not qualify for hedge accounting – this adjustment enhances the comparability of our net income from period to period, as it reduces volatility to the extent it will be offset over the duration of the hedges;
 - (ii) fair value adjustments on MFS’s share-based payment awards that are settled with MFS’s own shares and accounted for as liabilities and measured at fair value each reporting period until they are vested, exercised and repurchased – this adjustment enhances the comparability of MFS’s results with publicly traded asset managers in the United States;
 - (iii) acquisition, integration and restructuring costs (including impacts related to acquiring and integrating acquisitions); and
 - (iv) other items that are unusual or exceptional in nature.

All factors discussed in this document that impact our underlying net income are also applicable to reported net income.

All EPS measures in this document refer to fully diluted EPS, unless otherwise stated. As noted below, underlying EPS excludes the dilutive impacts of convertible instruments.

The following table sets out the amounts that were excluded from our underlying net income (loss) and underlying EPS, and provides a reconciliation to our reported net income (loss) and EPS based on IFRS.

Reconciliations of Select Net Income Measures

(\$ millions, unless otherwise noted)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
Reported net income	681	595	567	1,899	1,942
Equity market impacts					
Impacts from equity market changes	2	14	–	84	(20)
Basis risk impacts	7	6	5	3	(11)
Equity market impacts	9	20	5	87	(31)
Interest rate impacts ⁽¹⁾					
Impacts of interest rate changes	(104)	(99)	17	(325)	(48)
Impacts of credit spread movements	4	(22)	(3)	(45)	20
Impacts of swap spread movements	10	7	–	33	(22)
Interest rate impacts	(90)	(114)	14	(337)	(50)
Impacts of changes in the fair value of investment properties	(8)	(3)	6	(5)	46
Market related impacts	(89)	(97)	25	(255)	(35)
Assumption changes and management actions	–	(20)	(166)	(31)	(168)
Other adjustments:					
Certain hedges in Canada that do not qualify for hedge accounting	(5)	(5)	(1)	(9)	6
Fair value adjustments on MFS's share-based payment awards	(8)	(11)	(10)	(27)	(33)
Acquisition, integration and restructuring	(26)	(11)	(11)	(44)	(57)
Total of other adjustments	(39)	(27)	(22)	(80)	(84)
Underlying net income (loss)	809	739	730	2,265	2,229
Reported EPS (diluted) (\$)	1.15	1.00	0.93	3.19	3.18
Market related impacts (\$)	(0.16)	(0.16)	0.04	(0.42)	(0.06)
Assumption changes and management actions (\$)	–	(0.03)	(0.27)	(0.05)	(0.28)
Certain hedges in Canada that do not qualify for hedge accounting (\$)	(0.01)	(0.01)	–	(0.02)	0.01
Fair value adjustments on MFS's share-based payment awards (\$)	(0.01)	(0.02)	(0.02)	(0.05)	(0.05)
Acquisition, integration and restructuring (\$)	(0.04)	(0.02)	(0.02)	(0.07)	(0.10)
Impacts of convertible securities on diluted EPS (\$)	–	–	–	(0.01)	–
Underlying EPS (diluted) (\$)	1.37	1.24	1.20	3.81	3.66

⁽¹⁾ Our exposure to interest rates varies by product type, line of business, and geography. Given the long-term nature of our business, we have a higher degree of sensitivity in respect of interest rates at long durations.

2. Additional Non-IFRS Measures

Management also uses the following non-IFRS financial measures:

Return on equity. IFRS does not prescribe the calculation of ROE and therefore a comparable measure under IFRS is not available. To determine reported ROE and underlying ROE, respectively, reported net income (loss) and underlying net income (loss) is divided by the total weighted average common shareholders' equity for the period. The quarterly ROE is annualized.

Financial leverage ratio. This total debt to total capital ratio is ratio of debt plus preferred shares to total capital, where debt consists of all capital qualifying debt securities. Capital qualifying debt securities consist of subordinated debt and innovative capital instruments.

Dividend payout ratio. This is the ratio of dividends paid per share to diluted underlying EPS for the period.

Sales. In Canada, insurance sales consist of sales of individual insurance and group benefits products; wealth sales consist of sales of individual wealth products and sales in GRS. In the U.S., insurance sales consist of sales by Group Benefits. In Asia, insurance sales consist of the individual and group insurance sales by our subsidiaries and joint ventures and associates, based on our proportionate equity interest, in the Philippines, Hong Kong, Indonesia, India, China, Malaysia, Vietnam and sales from our International business unit; wealth sales consist of Hong Kong wealth sales, Philippines mutual fund sales, wealth sales by our India and China insurance joint ventures and associates, and Aditya Birla Sun Life AMC Limited's equity and fixed income mutual fund sales based on our proportionate equity interest, including sales as reported by our bank distribution partners. Asset Management sales consist of gross sales (inflows) for retail and institutional Clients; unfunded commitments are not included in sales. Sales are also expressed on a constant currency basis, which is a measure of sales that provides greater comparability across reporting periods by excluding the impacts of exchange rate fluctuations from the translation of functional currencies to the Canadian dollar. There is no directly comparable IFRS measure.

Value of New Business. VNB represents the present value of our best estimate of future distributable earnings, net of the cost of capital, from new business contracts written in a particular time period, except new business in our Asset Management pillar. The assumptions used in the calculations are generally consistent with those used in the valuation of our insurance contract liabilities except that discount rates used approximate theoretical return expectations of an equity investor. Capital required is based on the higher of Sun Life Assurance's LICAT operating target and local (country specific) operating target capital. VNB is a useful metric to evaluate the present value created from new business contracts. There is no directly comparable IFRS measure.

Adjusted revenue. This measure is an alternative measure of revenue that provides greater comparability across reporting periods, by excluding the impacts of: (i) exchange rate fluctuations, from the translation of functional currencies to the Canadian dollar, for comparisons ("Constant Currency Adjustment"); (ii) Fair value and foreign currency changes on assets and liabilities ("FV Adjustment"); and (iii) reinsurance for the insured business in Canada's GB operations ("Reinsurance in Canada's GB Operations Adjustment").

(\$ millions)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
Revenue	9,616	10,146	5,998	31,154	18,817
Constant Currency Adjustment	41	89	–	293	(32)
FV Adjustment	1,718	2,626	(1,304)	8,498	(3,257)
Reinsurance in Canada's GB Operations Adjustment	(144)	(148)	(142)	(435)	(461)
Adjusted revenue	8,001	7,579	7,444	22,798	22,567

Adjusted premiums and deposits. This measure is an alternative measure of premiums and deposits that provides greater comparability across reporting periods by excluding the impacts of: (i) the Constant Currency Adjustment; and (ii) the Reinsurance in Canada's GB Operations Adjustment.

(\$ millions)	Quarterly results			Year-to-date	
	Q3'19	Q2'19	Q3'18	2019	2018
Premiums and deposits	46,495	43,275	35,462	132,551	118,595
Constant Currency Adjustment	432	840	–	1,871	(1,309)
Reinsurance in Canada's GB Operations Adjustment	(144)	(148)	(142)	(435)	(461)
Adjusted premiums and deposits	46,207	42,583	35,604	131,115	120,365

Pre-tax net operating profit margin ratio for MFS. This ratio is a measure of the profitability of MFS, which excludes the impacts of fair value adjustments on MFS's share-based payment awards, investment income, and certain commission expenses that are offsetting. These commission expenses are excluded in order to neutralize the impacts these items have on the pre-tax operating profit margin ratio and have no impact on the profitability of MFS. There is no directly comparable IFRS measure.

After-tax profit margin for U.S. Group Benefits. This ratio assists in explaining our results from period to period and is a measure of profitability that expresses U.S. employee benefits and medical stop-loss underlying net income as a percentage of net premiums. This ratio is calculated by dividing underlying net income (loss) by net premiums for the trailing four quarters. There is no directly comparable IFRS measure.

Impacts of foreign exchange translation. Items impacting our Consolidated Statements of Operations, such as Revenue, Benefits and expenses, and Total net income (loss), are translated into Canadian dollars using average exchange rates for the respective period. For items impacting our Consolidated Statements of Financial Position, such as Assets and Liabilities, period end rates are used for currency translation purposes.

Several IFRS financial measures are presented on a constant currency adjusted basis to exclude the impacts of foreign exchange rate fluctuations. These measures are calculated using the average or period end foreign exchange rates, as appropriate, in effect at the date of the comparative period.

Assumption changes and management actions. In this document the impacts of ACMA on shareholders' net income (after-tax) is included in reported net income and is excluded in calculating underlying net income, as described in section C – Profitability in this document.

Note 7.A of our Interim Consolidated Financial Statements for the period ended September 30, 2019 shows the pre-tax impacts of method and assumption changes on shareholders' and participating policyholders' Insurance Contract Liabilities net of Reinsurance Assets, excluding changes in other policy liabilities and assets.

The view in this document of ACMA is the impacts on shareholders' reported net income (after tax). The Interim Consolidated Financial Statement for the period ended September 30, 2019 view is a component of the change in total company liabilities. The following table provides a reconciliation of the differences between the two measures.

(\$ millions)	Quarterly Results			Year-to-date	
	Q3'19	Q2'19	Q1'19	2019	2018
Impacts of method and assumption changes on Insurance Contract Liabilities (pre-tax) ⁽¹⁾	36	(27)	(6)	3	280
Less: Participating Policyholders ⁽²⁾	2	–	–	2	526
Impacts of method and assumption changes excluding participating policyholders (pre-tax)	34	(27)	(6)	1	(246)
Less: Tax	(50)	(7)	(1)	(58)	(85)
Impacts of method and assumption changes excluding participating policyholders (after-tax)	84	(20)	(5)	59	(161)
Add: Management Actions (after-tax) ⁽³⁾	25	–	(6)	19	9
Other (after-tax) ⁽⁴⁾	(109)	–	–	(109)	(16)
Assumption changes and management actions (after-tax) ⁽⁵⁾⁽⁶⁾	–	(20)	(11)	(31)	(168)

⁽¹⁾ Note 7.A of our Interim Consolidated Financial Statements for the period ended September 30, 2019 shows the pre-tax impacts of method and assumption changes on shareholders' and participating policyholders' Insurance contract liabilities net of Reinsurance Assets, excluding changes in other policy liabilities and assets, whereas the amounts shown in the table above are the shareholders' and participating policyholders' income impacts related to the amount shown in Note 7.A of our Interim Consolidated Financial Statements for the period ended September 30, 2019.

⁽²⁾ Adjustment to remove the pre-tax impacts of method and assumption changes on amounts attributed to participating policyholders.

⁽³⁾ Adjustment to include the after-tax impacts of management actions on insurance contract liabilities and investment contract liabilities which include, for example, changes in the prices of in-force products, new or revised reinsurance on in-force business, and material changes to investment policies for assets supporting our liabilities.

⁽⁴⁾ Adjustments to include the after-tax impacts of method and assumption changes on investment contracts and other policy liabilities.

⁽⁵⁾ Includes the tax impacts of ACMA on insurance contract liabilities and investment contract liabilities, reflecting the tax rates in the jurisdictions in which we do business.

⁽⁶⁾ ACMA is included in reported net income and is excluded in calculating underlying net income, as described in section C – Profitability in this document.

Real estate market sensitivities. Real estate market sensitivities are non-IFRS financial measures for which there are no directly comparable measures under IFRS so it is not possible to provide a reconciliation of these amounts to the most directly comparable IFRS measures.

Other. Management also uses the following non-IFRS financial measures for which there are no comparable financial measures in IFRS: (i) ASO premium and deposit equivalents, mutual fund sales, managed fund sales, insurance sales, and total premiums and deposits; (ii) AUM, mutual fund assets, managed fund assets, other AUM, and assets under administration; (iii) VNB which is used to measure the estimated lifetime profitability of new sales and is based on actuarial calculations; and (iv) ACMA, which is a component of our sources of earnings disclosure. Sources of earnings is an alternative presentation of our Consolidated Statements of Operations that identifies and quantifies various sources of income. The Company is required to disclose its sources of earnings by its principal regulator, OSFI.

N. Forward-looking Statements

From time to time, the Company makes written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation. Forward-looking statements contained in this document include statements (i) relating to our strategies, (ii) relating to our growth initiatives and other business objectives, (iii) related to our expected tax range for future years, (iv) set out in this document under the heading H – Risk Management – 1 – Market Risk Sensitivities – Interest Rate Sensitivities, (v) that are predictive in nature or that depend upon or refer to future events or conditions, and (vi) that include words such as "achieve", "aim", "ambition", "anticipate", "aspiration", "assumption", "believe", "could", "estimate", "expect", "goal", "initiatives", "intend", "may", "objective", "outlook", "plan", "project", "seek", "should", "strategy", "strive", "target", "will", and similar expressions. Forward-looking statements include the information concerning our possible or assumed future

results of operations. These statements represent our current expectations, estimates, and projections regarding future events and are not historical facts. Forward-looking statements are not a guarantee of future performance and involve risks and uncertainties that are difficult to predict. Future results and shareholder value may differ materially from those expressed in these forward-looking statements due to, among other factors, the matters set out in this document under the headings, C – Profitability – 5 – Income taxes, E – Financial Strength and H – Risk Management and in SLF Inc.’s 2018 AIF under the heading Risk Factors and the factors detailed in SLF Inc.’s other filings with Canadian and U.S. securities regulators, which are available for review at www.sedar.com and www.sec.gov, respectively.

Important risk factors that could cause our assumptions and estimates, and expectations and projections to be inaccurate and our actual results or events to differ materially from those expressed in or implied by the forward-looking statements contained in this document, are set out below. The realization of our forward-looking statements, essentially depends on our business performance which, in turn, is subject to many risks. Factors that could cause actual results to differ materially from expectations include, but are not limited to: **credit risks** – related to issuers of securities held in our investment portfolio, debtors, structured securities, reinsurers, counterparties, other financial institutions and other entities; **market risks** – related to the performance of equity markets; changes or volatility in interest rates or credit spreads or swap spreads; real estate investments; and fluctuations in foreign currency exchange rates; **insurance risks** – related to policyholder behaviour; mortality experience, morbidity experience and longevity; product design and pricing; the impact of higher-than-expected future expenses; and the availability, cost and effectiveness of reinsurance; **business and strategic risks** – related to global economic and political conditions; the design and implementation of business strategies; changes in distribution channels or Client behaviour including risks relating to market conduct by intermediaries and agents; the impact of competition; the performance of our investments and investment portfolios managed for Clients such as segregated and mutual funds; changes in the legal or regulatory environment, including capital requirements and tax laws; the environment, environmental laws and regulations; tax matters, including estimates and judgments used in calculating taxes; our international operations, including our joint ventures; market conditions that affect our capital position or ability to raise capital; downgrades in financial strength or credit ratings; and the impact of mergers, acquisitions and divestitures; **operational risks** – related to breaches or failure of information system security and privacy, including cyber-attacks; our ability to attract and retain employees; legal, regulatory compliance and market conduct, including the impact of regulatory inquiries and investigations; the execution and integration of mergers, acquisitions, strategic investments and divestitures; our information technology infrastructure; a failure of information systems and Internet-enabled technology; dependence on third-party relationships, including outsourcing arrangements; business continuity; model errors; information management; and **liquidity risks** – the possibility that we will not be able to fund all cash outflow commitments as they fall due.

The Company does not undertake any obligation to update or revise its forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events, except as required by law.