

CONSOLIDATED STATEMENTS OF OPERATIONS

| (unaudited, in millions of Canadian dollars except for per share amounts) | For the three months ended | | |
|--|----------------------------|-------------------|------|
| | March 31, 2016 | March 31, 2015 | |
| Revenue | | | |
| Premiums | | | |
| Gross | \$ 4,259 | \$ 3,723 | |
| Less: Ceded | 1,081 | 1,516 | |
| Net premiums | 3,178 | 2,207 | |
| Net investment income (loss): | | | |
| Interest and other investment income | 1,425 | 1,279 | |
| Fair value and foreign currency changes on assets and liabilities (Note 5) | 2,730 | 2,495 | |
| Net gains (losses) on available-for-sale assets | 75 | 96 | |
| Net investment income (loss) | 4,230 | 3,870 | |
| Fee income | 1,374 | 1,255 | |
| Total revenue | 8,782 | 7,332 | |
| Benefits and expenses | | | |
| Gross claims and benefits paid (Note 7) | 3,705 | 3,430 | |
| Increase (decrease) in insurance contract liabilities (Note 7) | 3,438 | 3,148 | |
| Decrease (increase) in reinsurance assets (Note 7) | (17) | (193) | |
| Increase (decrease) in investment contract liabilities (Note 7) | 10 | 12 | |
| Reinsurance expenses (recoveries) (Note 8) | (1,027) | (1,453) | |
| Commissions | 540 | 492 | |
| Net transfer to (from) segregated funds (Note 11) | (57) | 17 | |
| Operating expenses | 1,369 | 1,180 | |
| Premium taxes | 78 | 70 | |
| Interest expense | 81 | 72 | |
| Total benefits and expenses | 8,120 | 6,775 | |
| Income (loss) before income taxes | 662 | 557 | |
| Less: Income tax expense (benefit) (Note 9) | 92 | 95 | |
| Total net income (loss) | 570 | 462 | |
| Less: Net income (loss) attributable to participating policyholders and non-controlling interest | 6 | (5) | |
| Shareholders' net income (loss) | 564 | 467 | |
| Less: Preferred shareholders' dividends | 24 | 26 | |
| Common shareholders' net income (loss) | \$ 540 | \$ 441 | |
| Average exchange rates during the reporting periods: | | | |
| | U.S. dollars | 1.37 | 1.24 |
| | U.K. pounds | 1.97 | 1.88 |
| Earnings (loss) per share (Note 13) | | | |
| Basic | \$ 0.88 | \$ 0.72 | |
| Diluted | \$ 0.88 | \$ 0.72 | |
| Dividends per common share | \$ 0.39 | \$ 0.36 | |

The attached notes form part of these Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| (unaudited, in millions of Canadian dollars) | For the three months ended | |
|---|----------------------------|-------------------|
| | March 31, 2016 | March 31, 2015 |
| Total net income (loss) | \$ 570 | \$ 462 |
| Other comprehensive income (loss), net of taxes: | | |
| Items that may be reclassified subsequently to income: | | |
| Change in unrealized foreign currency translation gains (losses): | | |
| Unrealized gains (losses) before net investment hedges | (782) | 736 |
| Unrealized gains (losses) on net investment hedges | – | (14) |
| Change in unrealized gains (losses) on available-for-sale assets: | | |
| Unrealized gains (losses) | 116 | 214 |
| Reclassifications to net income (loss) | (46) | (58) |
| Change in unrealized gains (losses) on cash flow hedges: | | |
| Unrealized gains (losses) | (16) | (7) |
| Reclassifications to net income (loss) | 2 | 4 |
| Share of other comprehensive income (loss) in joint ventures and associates: | | |
| Unrealized gains (losses) | (22) | 65 |
| Reclassifications to net income (loss) upon change in control (Note 3) | (8) | – |
| Total items that may be reclassified subsequently to income | (756) | 940 |
| Items that will not be reclassified subsequently to income: | | |
| Remeasurement of defined benefit plans | (26) | (46) |
| Total items that will not be reclassified subsequently to income | (26) | (46) |
| Total other comprehensive income (loss) | (782) | 894 |
| Total comprehensive income (loss) | (212) | 1,356 |
| Less: Participating policyholders' and non-controlling interest comprehensive income (loss) | – | 1 |
| Shareholders' comprehensive income (loss) | \$ (212) | \$ 1,355 |

INCOME TAXES INCLUDED IN OTHER COMPREHENSIVE INCOME (LOSS)

| (unaudited, in millions of Canadian dollars) | For the three months ended | |
|---|----------------------------|-------------------|
| | March 31, 2016 | March 31, 2015 |
| Income tax benefit (expense): | | |
| Items that may be reclassified subsequently to income: | | |
| Unrealized foreign currency translation gains / losses, including net investment hedges | \$ – | \$ 2 |
| Unrealized gains / losses on available-for-sale assets | (31) | (66) |
| Reclassifications to net income for available-for-sale assets | 11 | 25 |
| Unrealized gains / losses on cash flow hedges | 3 | 2 |
| Reclassifications to net income for cash flow hedges | – | (1) |
| Total items that may be reclassified subsequently to income | (17) | (38) |
| Items that will not be reclassified subsequently to income: | | |
| Remeasurement of defined benefit plans | 12 | 18 |
| Total items that will not be reclassified subsequently to income | 12 | 18 |
| Total income tax benefit (expense) included in other comprehensive income (loss) | \$ (5) | \$ (20) |

The attached notes form part of these Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| (unaudited, in millions of Canadian dollars) | As at | |
|--|-------------------|----------------------|
| | March 31, 2016 | December 31, 2015 |
| Assets | | |
| Cash, cash equivalents and short-term securities (Note 5) | \$ 7,583 | \$ 8,983 |
| Debt securities (Note 5) | 71,371 | 69,896 |
| Equity securities (Note 5) | 5,323 | 5,313 |
| Mortgages and loans | 39,005 | 39,103 |
| Derivative assets | 2,680 | 1,866 |
| Other invested assets (Note 5) | 2,993 | 3,111 |
| Policy loans | 3,097 | 3,151 |
| Investment properties | 6,446 | 6,540 |
| Invested assets | 138,498 | 137,963 |
| Other assets | 4,747 | 4,567 |
| Reinsurance assets (Note 7) | 5,080 | 5,386 |
| Deferred tax assets | 1,589 | 1,372 |
| Intangible assets | 1,427 | 1,479 |
| Goodwill | 5,508 | 4,646 |
| Total general fund assets | 156,849 | 155,413 |
| Investments for account of segregated fund holders (Note 11) | 89,795 | 91,440 |
| Total assets | \$ 246,644 | \$ 246,853 |
| Liabilities and equity | | |
| Liabilities | | |
| Insurance contract liabilities (Note 7) | \$ 112,597 | \$ 110,227 |
| Investment contract liabilities (Note 7) | 2,896 | 2,913 |
| Derivative liabilities | 2,796 | 3,378 |
| Deferred tax liabilities | 448 | 405 |
| Other liabilities | 12,100 | 12,332 |
| Senior debentures | 2,248 | 2,248 |
| Subordinated debt | 2,841 | 2,492 |
| Total general fund liabilities | 135,926 | 133,995 |
| Insurance contracts for account of segregated fund holders (Note 11) | 82,754 | 83,670 |
| Investment contracts for account of segregated fund holders (Note 11) | 7,041 | 7,770 |
| Total liabilities | \$ 225,721 | \$ 225,435 |
| Equity | | |
| Issued share capital and contributed surplus | \$ 10,909 | \$ 10,900 |
| Shareholders' retained earnings and accumulated other comprehensive income | 9,828 | 10,350 |
| Total shareholders' equity | 20,737 | 21,250 |
| Participating policyholders' equity and non-controlling interest | 186 | 168 |
| Total equity | \$ 20,923 | \$ 21,418 |
| Total liabilities and equity | \$ 246,644 | \$ 246,853 |

Exchange rates at the end of the reporting periods:

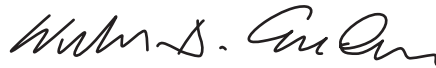
| | | |
|--------------|------|------|
| U.S. dollars | 1.30 | 1.38 |
| U.K. pounds | 1.87 | 2.04 |

The attached notes form part of these Interim Consolidated Financial Statements.

Approved on behalf of the Board of Directors on May 10, 2016.



Dean A. Connor
President and Chief Executive Officer



William D. Anderson
Director

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| (unaudited, in millions of Canadian dollars) | For the three months ended | |
|--|----------------------------|-------------------|
| | March 31, 2016 | March 31, 2015 |
| Shareholders: | | |
| Preferred shares | | |
| Balance, beginning and end of period | \$ 2,257 | \$ 2,257 |
| Common shares (Note 10) | | |
| Balance, beginning of period | 8,567 | 8,465 |
| Stock options exercised | 8 | 24 |
| Common shares purchased for cancellation | – | (43) |
| Issued under dividend reinvestment and share purchase plan | – | 21 |
| Balance, end of period | 8,575 | 8,467 |
| Contributed surplus | | |
| Balance, beginning of period | 76 | 83 |
| Share-based payments | 2 | 1 |
| Stock options exercised | (1) | (4) |
| Balance, end of period | 77 | 80 |
| Retained earnings | | |
| Balance, beginning of period | 7,891 | 6,762 |
| Net income (loss) | 564 | 467 |
| Dividends on common shares | (239) | (221) |
| Dividends on preferred shares | (24) | (26) |
| Common shares purchased for cancellation (Note 10) | – | (77) |
| Transaction with non-controlling interest (Note 3) | (47) | – |
| Balance, end of period | 8,145 | 6,905 |
| Accumulated other comprehensive income (loss), net of taxes (Note 14) | | |
| Balance, beginning of period | 2,459 | 1,164 |
| Total other comprehensive income (loss) for the period | (776) | 888 |
| Balance, end of period | 1,683 | 2,052 |
| Total shareholders' equity, end of period | \$ 20,737 | \$ 19,761 |
| Participating policyholders: | | |
| Balance, beginning of period | \$ 168 | \$ 141 |
| Net income (loss) | 6 | (5) |
| Total other comprehensive income (loss) for the period (Note 14) | (5) | 6 |
| Total participating policyholders' equity, end of period | \$ 169 | \$ 142 |
| Non-controlling interest: | | |
| Balance, beginning of period | \$ – | \$ – |
| Non-controlling interest arising from acquisition (Note 3) | 18 | – |
| Net income (loss) | – | – |
| Total other comprehensive income (loss) for the period (Note 14) | (1) | – |
| Total non-controlling interest, end of period | \$ 17 | \$ – |
| Total equity | \$ 20,923 | \$ 19,903 |

The attached notes form part of these Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| (unaudited, in millions of Canadian dollars) | For the three months ended | |
|--|----------------------------|-------------------|
| | March 31, 2016 | March 31, 2015 |
| Cash flows provided by (used in) operating activities | | |
| Total income (loss) before income taxes | \$ 662 | \$ 557 |
| Add: Interest expense related to financing activities | 71 | 74 |
| Operating items not affecting cash: | | |
| Increase (decrease) in contract liabilities | 3,397 | 3,044 |
| (Increase) decrease in reinsurance assets | (64) | (194) |
| Unrealized (gains) losses on invested assets | (2,797) | (1,649) |
| Other non-cash items | (423) | (1,514) |
| Operating cash items: | | |
| Deferred acquisition costs | 5 | (16) |
| Realized (gains) losses on assets | (516) | (270) |
| Sales, maturities and repayments of invested assets | 12,336 | 13,176 |
| Purchases of invested assets | (12,862) | (12,192) |
| Change in policy loans | (17) | (8) |
| Income taxes received (paid) | (127) | (190) |
| Mortgage securitization (Note 5) | 148 | 20 |
| Other cash items | 508 | 52 |
| Net cash provided by (used in) operating activities | 321 | 890 |
| Cash flows provided by (used in) investing activities | | |
| Net (purchase) sale of property and equipment | (20) | (18) |
| Investment in and transactions with joint ventures and associates | – | (3) |
| Acquisitions, net of cash and cash equivalents acquired (Note 3) | (1,237) | – |
| Other investing activities | (17) | (15) |
| Net cash provided by (used in) investing activities | (1,274) | (36) |
| Cash flows provided by (used in) financing activities | | |
| Increase in (repayment of) borrowed funds | (97) | 29 |
| Issuance of subordinated debt, net of issuance costs (Note 10) | 348 | – |
| Issuance of common shares on exercise of stock options | 7 | 20 |
| Common shares purchased for cancellation (Note 10) | – | (120) |
| Dividends paid on common and preferred shares | (259) | (222) |
| Interest expense paid | (62) | (53) |
| Net cash provided by (used in) financing activities | (63) | (346) |
| Changes due to fluctuations in exchange rates | (287) | 209 |
| Increase (decrease) in cash and cash equivalents | (1,303) | 717 |
| Net cash and cash equivalents, beginning of period | 6,512 | 3,364 |
| Net cash and cash equivalents, end of period | 5,209 | 4,081 |
| Short-term securities, end of period | 2,185 | 2,486 |
| Net cash and cash equivalents and short-term securities, end of period (Note 5) | \$ 7,394 | \$ 6,567 |

The attached notes form part of these Interim Consolidated Financial Statements.

Condensed Notes to the Interim Consolidated Financial Statements

(Unaudited, in millions of Canadian dollars except for per share amounts and where otherwise stated)

1. Significant Accounting Policies

Description of Business

Sun Life Financial Inc. ("SLF Inc.") is a publicly traded company domiciled in Canada and is the holding company of Sun Life Assurance Company of Canada ("Sun Life Assurance"). SLF Inc. and its subsidiaries are collectively referred to as "us", "our", "ours", "we", or "the Company".

Our Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* as issued and adopted by the International Accounting Standards Board ("IASB"). We have used accounting policies which are consistent with our accounting policies in our 2015 Annual Consolidated Financial Statements, except as disclosed in Note 2 below. Our Interim Consolidated Financial Statements should be read in conjunction with our 2015 Annual Consolidated Financial Statements, as interim financial statements do not include all the information incorporated in annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

2. Changes in Accounting Policies

Amended International Financial Reporting Standards Adopted in 2016

In May 2014, the IASB issued *Accounting for Acquisitions of Interests in Joint Operations*, which amends IFRS 11 *Joint Arrangements*. These amendments provide guidance on the accounting for an acquisition of an interest in a joint operation when the operation constitutes a business. These amendments are effective for annual periods beginning on or after January 1, 2016, applied prospectively. The adoption of these amendments did not have a material impact on our Interim Consolidated Financial Statements.

In May 2014, the IASB issued *Clarification of Acceptable Methods of Depreciation and Amortization*, which amends IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. These amendments clarify that, in general, revenue based methods of depreciation or amortization of property, plant and equipment and intangible assets should not be used. These amendments are effective for annual periods beginning on or after January 1, 2016, applied prospectively. The adoption of these amendments did not have a material impact on our Interim Consolidated Financial Statements.

In September 2014, the IASB issued *Annual Improvements to IFRSs 2012-2014 Cycle*, which includes minor amendments to various IFRSs, with some amendments applied prospectively and others applied retrospectively. These amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments did not have a material impact on our Interim Consolidated Financial Statements.

In December 2014, the IASB issued *Disclosure Initiative*, which amends IAS 1 *Presentation of Financial Statements*. The amendments are designed to encourage entities to use professional judgment to determine what information to disclose in the financial statements and accompanying notes by clarifying the guidance on materiality, presentation, and note structure. These amendments are effective for annual periods beginning on or after January 1, 2016. Certain disclosures in our Interim Consolidated Financial Statements were revised, including combining Property and equipment into Other assets. The amendments also require separate disclosure of the share of the other comprehensive income of joint ventures and associates, which is presented in our Interim Consolidated Statements of Comprehensive Income (Loss) adopted retrospectively.

In December 2014, the IASB issued *Investment Entities: Applying the Consolidation Exception*, which amends IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, and IAS 28 *Investment in Associates and Joint Ventures*. The amendments clarify certain accounting requirements related to investment entities, which are entities that evaluate the performance of their investments on a fair value basis and whose business purpose is to invest funds solely for returns from capital appreciation, investment income, or both. The amendments include permitting a non-investment entity to retain the fair value accounting applied by its investment entity joint venture or associate when applying the equity method of accounting. The amendments are effective for annual periods beginning on or after January 1, 2016, applied retrospectively. The adoption of this standard did not have a material impact on our Interim Consolidated Financial Statements.

Amended International Financial Reporting Standard Issued in 2016

In April 2016, the IASB issued *Clarifications to IFRS 15 Revenue from Contracts with Customers*, which provides additional guidance and relief on transition of IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). The amendments are effective for annual periods beginning on or after January 1, 2018. We are currently assessing the impact that IFRS 15, along with these amendments, will have on our Consolidated Financial Statements.

3. Acquisitions

Acquisition in Sun Life Financial United States

On March 1, 2016, we completed the purchase of the U.S. Employee Benefits business of Assurant, Inc. (“Assurant EB”) for total consideration of \$1,264 which consisted of a ceding commission and a payment for the acquisition of direct subsidiaries. The purchase price includes an estimated contingent consideration of \$21 that may be paid in cash over a 3-year period. The acquisition was effected through reinsurance agreements and the direct purchase of 100% of the voting shares of certain legal entities. The results and the net assets acquired, including goodwill, are recorded in our Sun Life Financial United States (“SLF U.S.”) reportable segment in Note 4. The acquisition adds new capabilities and increases the size and scale of this business segment.

The fair values of the net tangible assets acquired and the total consideration as at March 31, 2016, have been determined provisionally and are subject to adjustment. Provisional amounts for intangible assets have not been separately identified, valued or recognized as part of the purchase price allocation, pending the completion of a comprehensive valuation. As a result, goodwill, which is the excess of the purchase price over the fair value of the net identifiable assets acquired, will be adjusted retrospectively to the acquisition date in future reporting periods. Items on the statement of financial position that may be adjusted include insurance contract liabilities, intangible assets, goodwill, and deferred tax assets.

The components of the fair value of net tangible assets recognized from the acquisition of Assurant EB consist of the following:

As at March 1, 2016

| | |
|---|-------------------------|
| Fair value of consideration transferred | \$ 1,264 |
| Fair value of net tangible assets acquired: | |
| Assets acquired: | |
| Invested assets | \$ 2,345 ⁽¹⁾ |
| Other assets | 156 |
| Deferred tax asset | 208 |
| Total assets acquired | \$ 2,709 |
| Liabilities assumed: | |
| Insurance contract liabilities | \$ 2,302 |
| Other liabilities assumed | 105 |
| Total liabilities assumed | \$ 2,407 |
| Fair value of net tangible assets acquired | \$ 302 |
| Excess initially allocated to goodwill | \$ 962 |

⁽¹⁾ Includes cash and cash equivalents of \$53, debt securities of \$1,828, mortgages and loans of \$376, and equity securities of \$88.

Acquisition in Sun Life Financial Asia

On January 7, 2016, we completed a transaction to increase our ownership interest in our joint venture insurance company in Vietnam, PVI Sun Life Insurance Company Limited (“PVI Sun Life”), from 49% to 75% by acquiring from PVI Holdings an additional 26% of PVI Sun Life’s charter capital for cash consideration of \$49. We also entered into an agreement that allows PVI Holdings to sell all of its remaining outstanding shares in PVI Sun Life to us within a 10-year period, which is recognized as Transaction with non-controlling interest in our Interim Consolidated Statements of Changes in Equity. As a result of this transaction, we obtained control and re-measured our existing ownership interest in PVI Sun Life at fair value on the acquisition date, resulting in the recognition of a one-time, non-cash gain of \$31 recorded in Interest and other investment income in our Interim Consolidated Statements of Operations. This gain consists of \$23 related to the difference between the fair value and carrying value of our 49% interest in PVI Sun Life under the equity method of accounting and \$8 related to reclassification of cumulative translation difference from accumulated other comprehensive income to net income. The fair value of net identifiable assets includes cash and cash equivalents of \$2 and intangible assets of \$6. The acquired intangible asset is subject to amortization on a straight-line basis. Goodwill arising from this transaction was \$51, which primarily reflects expectations of future business. Non-controlling interest arising from acquisition was \$18, which was recognized as its proportionate share of the fair value of the net identifiable assets. The results and the net assets acquired, including goodwill, are recorded in our Sun Life Financial Asia (“SLF Asia”) reportable segment in Note 4.

4. Segmented Information

We have five reportable segments: Sun Life Financial Canada (“SLF Canada”), SLF U.S., Sun Life Financial Asset Management (“SLF Asset Management”), SLF Asia, and Corporate. These reportable segments operate in the financial services industry and reflect our management structure and internal financial reporting. Corporate includes the results of our United Kingdom (“U.K.”) business unit and our Corporate Support operations, which include run-off reinsurance operations as well as investment income, expenses, capital, and other items not allocated to our other business groups.

Revenues from our reportable segments are derived principally from life and health insurance, investment management and annuities, and mutual funds. Revenues not attributed to the strategic business units are derived primarily from Corporate investments and earnings on capital. Transactions between segments are executed and priced on an arm’s-length basis in a manner similar to transactions with third parties.

The expenses in each business segment may include costs or services directly incurred or provided on their behalf at the enterprise level. For other costs not directly attributable to one of our business segments, we use a management reporting framework that uses assumptions, judgments and methodologies for allocating overhead costs, and indirect expenses to our business segments.

Intersegment transactions consist primarily of internal financing agreements which are measured at fair values prevailing when the arrangements are negotiated. Intersegment investment income consists primarily of interest paid by SLF U.S. to Corporate. Intersegment fee income is primarily asset management fees paid by SLF Canada and Corporate to SLF Asset Management, and by SLF Asset Management to SLF U.S. Intersegment transactions are presented in the Consolidation adjustments column in the following tables.

Results by segment for the three months ended March 31 are as follows:

| | SLF Canada | SLF U.S. | SLF Asset Management | SLF Asia | Corporate | Consolidation adjustments | Total |
|------------------------------|---------------|-------------|-------------------------|-------------|-----------|------------------------------|--------|
| 2016 | | | | | | | |
| Gross premiums: | | | | | | | |
| Annuities | \$ 389 | \$ 2 | \$ – | \$ 4 | \$ 8 | \$ – | \$ 403 |
| Life insurance | 960 | 596 | – | 431 | 25 | – | 2,012 |
| Health insurance | 1,074 | 760 | – | 5 | 5 | – | 1,844 |
| Total gross premiums | 2,423 | 1,358 | – | 440 | 38 | – | 4,259 |
| Less: ceded premiums | 908 | 156 | – | 11 | 6 | – | 1,081 |
| Net investment income (loss) | 1,743 | 1,523 | 5 | 467 | 518 | (26) | 4,230 |
| Fee income | 243 | 57 | 979 | 80 | 35 | (20) | 1,374 |
| Total revenue | 3,501 | 2,782 | 984 | 976 | 585 | (46) | 8,782 |
| Less: | | | | | | | |
| Total benefits and expenses | 3,360 | 2,664 | 698 | 868 | 576 | (46) | 8,120 |
| Income tax expense (benefit) | (28) | 20 | 109 | 14 | (23) | – | 92 |
| Total net income (loss) | \$ 169 | \$ 98 | \$ 177 | \$ 94 | \$ 32 | \$ – | \$ 570 |
| 2015 | | | | | | | |
| Gross premiums: | | | | | | | |
| Annuities | \$ 350 | \$ 43 | \$ – | \$ – | \$ 5 | \$ – | \$ 398 |
| Life insurance | 906 | 535 | – | 257 | 26 | – | 1,724 |
| Health insurance | 1,030 | 561 | – | 4 | 6 | – | 1,601 |
| Total gross premiums | 2,286 | 1,139 | – | 261 | 37 | – | 3,723 |
| Less: ceded premiums | 1,355 | 146 | – | 9 | 6 | – | 1,516 |
| Net investment income (loss) | 2,426 | 801 | (1) | 252 | 407 | (15) | 3,870 |
| Fee income | 241 | 51 | 869 | 73 | 40 | (19) | 1,255 |
| Total revenue | 3,598 | 1,845 | 868 | 577 | 478 | (34) | 7,332 |
| Less: | | | | | | | |
| Total benefits and expenses | 3,463 | 1,790 | 622 | 498 | 436 | (34) | 6,775 |
| Income tax expense (benefit) | (10) | 20 | 98 | 11 | (24) | – | 95 |
| Total net income (loss) | \$ 145 | \$ 35 | \$ 148 | \$ 68 | \$ 66 | \$ – | \$ 462 |

5. Total Invested Assets and Related Net Investment Income

5.A Asset Classification

The carrying values of our debt securities, equity securities, and other invested assets presented in our Interim Consolidated Statements of Financial Position consist of the following:

| As at | Fair value through profit or loss | Available- for-sale | Other ⁽¹⁾ | Total |
|--------------------------|---|------------------------|----------------------|-----------|
| March 31, 2016 | | | | |
| Debt securities | \$ 58,855 | \$ 12,516 | \$ – | \$ 71,371 |
| Equity securities | \$ 4,511 | \$ 812 | \$ – | \$ 5,323 |
| Other invested assets | \$ 1,744 | \$ 326 | \$ 923 | \$ 2,993 |
| December 31, 2015 | | | | |
| Debt securities | \$ 56,785 | \$ 13,111 | \$ – | \$ 69,896 |
| Equity securities | \$ 4,426 | \$ 887 | \$ – | \$ 5,313 |
| Other invested assets | \$ 1,811 | \$ 327 | \$ 973 | \$ 3,111 |

⁽¹⁾ Other consists primarily of investments accounted for using the equity method of accounting.

5.B Fair Value and Foreign Currency Changes on Assets and Liabilities

Fair value and foreign currency changes on assets and liabilities recorded to net income consist of the following:

| For the three months ended March 31, | 2016 | 2015 |
|--|----------|----------|
| Fair value change: | | |
| Cash, cash equivalents and short-term securities | \$ (18) | \$ 18 |
| Debt securities | 1,385 | 2,254 |
| Equity securities | 61 | 148 |
| Derivative investments | 1,828 | (683) |
| Other invested assets | (48) | 46 |
| Total change in fair value through profit or loss assets and liabilities | \$ 3,208 | \$ 1,783 |
| Fair value changes on investment properties | 25 | 56 |
| Foreign exchange gains (losses) ⁽¹⁾ | (503) | 656 |
| Fair value and foreign currency changes on assets and liabilities | \$ 2,730 | \$ 2,495 |

⁽¹⁾ Primarily arises from the translation of foreign currency denominated available-for-sale assets and mortgages and loans. Any offsetting amounts arising from foreign currency derivatives are included in the fair value change on derivative investments.

5.C Impairment of Available-For-Sale Assets

We recognized impairment losses on available-for-sale assets of \$1 and \$1 during the three months ended March 31, 2016, and 2015, respectively.

5.D Cash, Cash Equivalents and Short-Term Securities

Cash, cash equivalents and short-term securities presented in our Interim Consolidated Statements of Financial Position and Net cash, cash equivalents and short-term securities presented in our Interim Consolidated Statements of Cash Flows consist of the following:

| As at | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|--|-------------------|----------------------|-------------------|
| Cash | \$ 1,676 | \$ 1,856 | \$ 1,338 |
| Cash equivalents | 3,722 | 4,822 | 2,920 |
| Short-term securities | 2,185 | 2,305 | 2,486 |
| Cash, cash equivalents and short-term securities | 7,583 | 8,983 | 6,744 |
| Less: Bank overdraft, recorded in Other liabilities | 189 | 166 | 177 |
| Net cash, cash equivalents and short-term securities | \$ 7,394 | \$ 8,817 | \$ 6,567 |

5.E Mortgage Securitization

We securitize certain insured fixed rate commercial mortgages through the creation of mortgage-backed securities under the National Housing Act Mortgage-Backed Securities (“NHA MBS”) Program sponsored by the Canada Mortgage and Housing Corporation (“CMHC”). The NHA MBS are then sold to Canada Housing Trust, a government-sponsored security trust that issues securities to third-party investors under the Canadian Mortgage Bond (“CMB”) program. The securitization of these assets does not qualify for derecognition as we have not transferred substantially all of the risks and rewards of ownership. Specifically, we continue to be exposed to prepayment and interest rate risk associated with these assets. There are no expected credit losses on the securitized mortgages as the mortgages were already insured by the CMHC prior to securitization. These assets continue to be recognized as Mortgages and loans in our Interim Consolidated Statements of Financial Position. Proceeds from securitization transactions are recognized as secured borrowings and included in Other liabilities in our Interim Consolidated Statements of Financial Position.

Receipts of principal on the securitized mortgages are deposited into a principal reinvestment account (“PRA”) to meet our repayment obligation upon maturity under the CMB program. The assets in the PRA are typically comprised of cash and cash equivalents and certain asset-backed securities. We are exposed to reinvestment risk due to the amortizing nature of the securitized mortgages relative to our repayment obligation for the full principal amount due at maturity. We mitigate the reinvestment risk using interest rate swaps.

The carrying value and fair value of the securitized mortgages as at March 31, 2016 are \$798 and \$813, respectively (\$654 and \$668 as at December 31, 2015). The carrying value and fair value of the associated liabilities as at March 31, 2016 are \$815 and \$845, respectively (\$667 and \$689 as at December 31, 2015). The carrying value of asset-backed securities in the PRA as at March 31, 2016 and December 31, 2015 are \$22 and \$17, respectively. There are no cash and cash equivalents in the PRA as at March 31, 2016 and December 31, 2015.

The fair value of the secured borrowings from mortgage securitization is based on the methodologies and assumptions for asset-backed securities described in Note 5 of our 2015 Annual Consolidated Financial Statements. The fair value of these liabilities is categorized in Level 2 of the fair value hierarchy as at March 31, 2016 and December 31, 2015.

5.F Fair Value Measurement

The fair value methodologies and assumptions for assets and liabilities carried at fair value as well as disclosures on unobservable inputs, sensitivities, and valuation processes for Level 3 assets can be found in Note 5 of our 2015 Annual Consolidated Financial Statements.

5.F.i Fair Value Hierarchy

We categorize our assets and liabilities carried at fair value, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three-level fair value hierarchy as follows:

Level 1: Fair value is based on the unadjusted quoted prices for identical assets or liabilities in an active market. The types of assets and liabilities classified as Level 1 generally include cash and cash equivalents, certain U.S. government and agency securities, exchange-traded equity securities, and certain segregated and mutual fund units held for account of segregated fund holders.

Level 2: Fair value is based on quoted prices for similar assets or liabilities traded in active markets, or prices from valuation techniques that use significant observable inputs, or inputs that are derived principally from or corroborated with observable market data through correlation or other means. The types of assets and liabilities classified as Level 2 generally include Canadian federal, provincial and municipal government, other foreign government and corporate debt securities, certain asset-backed securities, over-the-counter derivatives, and certain segregated and mutual fund units held for account of segregated fund holders.

Level 3: Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs. These unobservable inputs reflect our expectations about the assumptions market participants would use in pricing the asset or liability. The types of assets and liabilities classified as Level 3 generally include certain corporate bonds, certain other invested assets, and investment properties.

Our assets and liabilities that are carried at fair value on a recurring basis by hierarchy level are as follows:

| As at | March 31, 2016 | | | | December 31, 2015 | | | |
|---|----------------|------------|----------|------------|-------------------|------------|----------|------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | | | | |
| Cash, cash equivalents and short-term securities | \$ 7,031 | \$ 552 | \$ – | \$ 7,583 | \$ 8,233 | \$ 750 | \$ – | \$ 8,983 |
| Debt securities – fair value through profit or loss | 1,209 | 57,107 | 539 | 58,855 | 1,205 | 55,053 | 527 | 56,785 |
| Debt securities – available-for-sale | 420 | 11,973 | 123 | 12,516 | 430 | 12,576 | 105 | 13,111 |
| Equity securities – fair value through profit or loss | 2,565 | 1,783 | 163 | 4,511 | 2,562 | 1,694 | 170 | 4,426 |
| Equity securities – available-for-sale | 635 | 170 | 7 | 812 | 709 | 178 | – | 887 |
| Derivative assets | 27 | 2,653 | – | 2,680 | 30 | 1,836 | – | 1,866 |
| Other invested assets | 844 | 129 | 1,097 | 2,070 | 888 | 144 | 1,106 | 2,138 |
| Investment properties | – | – | 6,446 | 6,446 | – | – | 6,540 | 6,540 |
| Total invested assets measured at fair value | \$ 12,731 | \$ 74,367 | \$ 8,375 | \$ 95,473 | \$ 14,057 | \$ 72,231 | \$ 8,448 | \$ 94,736 |
| Investments for account of segregated fund holders | \$ 26,452 | \$ 62,608 | \$ 735 | \$ 89,795 | \$ 27,714 | \$ 62,961 | \$ 765 | \$ 91,440 |
| Total assets measured at fair value | \$ 39,183 | \$ 136,975 | \$ 9,110 | \$ 185,268 | \$ 41,771 | \$ 135,192 | \$ 9,213 | \$ 186,176 |
| Liabilities | | | | | | | | |
| Investment contract liabilities | \$ – | \$ – | \$ 4 | \$ 4 | \$ – | \$ – | \$ 4 | \$ 4 |
| Derivative liabilities | 3 | 2,793 | – | 2,796 | 8 | 3,370 | – | 3,378 |
| Total liabilities measured at fair value | \$ 3 | \$ 2,793 | \$ 4 | \$ 2,800 | \$ 8 | \$ 3,370 | \$ 4 | \$ 3,382 |

Debt securities – fair value through profit or loss consist of the following:

| As at | March 31, 2016 | | | | December 31, 2015 | | | |
|---|----------------|-----------|---------|-----------|-------------------|-----------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Canadian federal government | \$ – | \$ 2,246 | \$ 18 | \$ 2,264 | \$ – | \$ 2,342 | \$ 41 | \$ 2,383 |
| Canadian provincial and municipal government | – | 11,461 | 102 | 11,563 | – | 10,516 | 39 | 10,555 |
| U.S. government and agency | 1,209 | 143 | 7 | 1,359 | 1,205 | 59 | 8 | 1,272 |
| Other foreign government | – | 5,805 | 27 | 5,832 | – | 5,883 | 33 | 5,916 |
| Corporate | – | 34,396 | 326 | 34,722 | – | 33,325 | 343 | 33,668 |
| Asset-backed securities: | | | | | | | | |
| Commercial mortgage-backed securities | – | 1,587 | 6 | 1,593 | – | 1,516 | 1 | 1,517 |
| Residential mortgage-backed securities | – | 1,127 | 7 | 1,134 | – | 1,052 | 8 | 1,060 |
| Collateralized debt obligations | – | 33 | 21 | 54 | – | 34 | 28 | 62 |
| Other | – | 309 | 25 | 334 | – | 326 | 26 | 352 |
| Total debt securities – fair value through profit or loss | \$ 1,209 | \$ 57,107 | \$ 539 | \$ 58,855 | \$ 1,205 | \$ 55,053 | \$ 527 | \$ 56,785 |

Debt securities – available-for-sale consist of the following:

| As at | March 31, 2016 | | | | December 31, 2015 | | | |
|--|----------------|-----------|---------|-----------|-------------------|-----------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Canadian federal government | \$ – | \$ 1,664 | \$ – | \$ 1,664 | \$ – | \$ 1,637 | \$ – | \$ 1,637 |
| Canadian provincial and municipal government | – | 931 | – | 931 | – | 836 | – | 836 |
| U.S. government and agency | 420 | – | – | 420 | 430 | – | – | 430 |
| Other foreign government | – | 740 | – | 740 | – | 737 | 1 | 738 |
| Corporate | – | 6,765 | 82 | 6,847 | – | 7,463 | 63 | 7,526 |
| Asset-backed securities: | | | | | | | | |
| Commercial mortgage-backed securities | – | 912 | 4 | 916 | – | 940 | – | 940 |
| Residential mortgage-backed securities | – | 320 | – | 320 | – | 308 | – | 308 |
| Collateralized debt obligations | – | 211 | – | 211 | – | 221 | – | 221 |
| Other | – | 430 | 37 | 467 | – | 434 | 41 | 475 |
| Total debt securities – available-for-sale | \$ 420 | \$ 11,973 | \$ 123 | \$ 12,516 | \$ 430 | \$ 12,576 | \$ 105 | \$ 13,111 |

There were no significant transfers between Level 1 and Level 2 for the three months ended March 31, 2016 and March 31, 2015.

The following table provides a reconciliation of the beginning and ending balances for assets that are categorized in Level 3:

| For the three months ended | Debt securities – fair value through profit or loss | Debt securities – available-for-sale | Equity securities – fair value through profit or loss | Equity securities – available-for-sale | Other invested assets | Investment properties | Total invested assets measured at fair value | Investments for account of segregated fund holders | Total assets measured at fair value |
|---|---|--------------------------------------|---|--|-----------------------|-----------------------|--|--|-------------------------------------|
| March 31, 2016 | | | | | | | | | |
| Beginning balance | \$ 527 | \$ 105 | \$ 170 | \$ – | \$ 1,106 | \$ 6,540 | \$ 8,448 | \$ 765 | \$ 9,213 |
| Included in net income ⁽¹⁾⁽³⁾ | (3) | 2 | (7) | – | (54) | 14 | (48) | 2 | (46) |
| Included in OCI ⁽³⁾ | – | (1) | – | – | (1) | – | (2) | – | (2) |
| Purchases | 68 | 25 | 21 | 7 | 85 | 87 | 293 | 33 | 326 |
| Sales | (4) | (1) | – | – | (36) | (70) | (111) | (13) | (124) |
| Settlements | (8) | (1) | (17) | – | – | – | (26) | – | (26) |
| Transfers into Level 3 ⁽²⁾ | – | – | – | – | – | – | – | – | – |
| Transfers (out) of Level 3 ⁽²⁾ | (21) | – | – | – | – | – | (21) | (7) | (28) |
| Foreign currency translation ⁽⁴⁾ | (20) | (6) | (4) | – | (3) | (125) | (158) | (45) | (203) |
| Ending balance | \$ 539 | \$ 123 | \$ 163 | \$ 7 | \$ 1,097 | \$ 6,446 | \$ 8,375 | \$ 735 | \$ 9,110 |

| | | | | | | | | | |
|---|------|--------|--------|------|---------|-------|---------|------|---------|
| Gains (losses) included in earnings relating to instruments still held at the reporting date ⁽¹⁾ | \$ – | \$ (1) | \$ (7) | \$ – | \$ (54) | \$ 13 | \$ (49) | \$ 2 | \$ (47) |
|---|------|--------|--------|------|---------|-------|---------|------|---------|

For the three months ended

| March 31, 2015 | | | | | | | | | |
|---|----------|--------|--------|------|--------|----------|----------|--------|----------|
| Beginning balance | \$ 891 | \$ 280 | \$ 125 | \$ – | \$ 788 | \$ 6,108 | \$ 8,192 | \$ 530 | \$ 8,722 |
| Included in net income ⁽¹⁾⁽³⁾ | 21 | 5 | 6 | – | 32 | 44 | 108 | 28 | 136 |
| Included in OCI ⁽³⁾ | – | 3 | – | – | – | – | 3 | – | 3 |
| Purchases | 125 | 126 | 23 | – | 67 | 51 | 392 | 27 | 419 |
| Sales | (2) | – | – | – | (11) | (91) | (104) | (7) | (111) |
| Settlements | (11) | (4) | – | – | – | – | (15) | (1) | (16) |
| Transfers into Level 3 ⁽²⁾ | 18 | 8 | – | – | – | – | 26 | 10 | 36 |
| Transfers (out) of Level 3 ⁽²⁾ | (52) | – | – | – | – | – | (52) | – | (52) |
| Foreign currency translation ⁽⁴⁾ | 55 | 19 | 7 | – | 5 | 148 | 234 | 24 | 258 |
| Ending balance | \$ 1,045 | \$ 437 | \$ 161 | \$ – | \$ 881 | \$ 6,260 | \$ 8,784 | \$ 611 | \$ 9,395 |

| | | | | | | | | | |
|---|-------|------|------|------|-------|-------|--------|-------|--------|
| Gains (losses) included in earnings relating to instruments still held at the reporting date ⁽¹⁾ | \$ 18 | \$ 3 | \$ 5 | \$ – | \$ 33 | \$ 84 | \$ 143 | \$ 26 | \$ 169 |
|---|-------|------|------|------|-------|-------|--------|-------|--------|

⁽¹⁾ Included in Net investment income (loss) for Total invested assets measured at fair value in our Interim Consolidated Statements of Operations.

⁽²⁾ Transfers into Level 3 occur when the pricing inputs used lack observable market data, and as a result, no longer meet the Level 1 or 2 definitions at the reporting date. Transfers out of Level 3 occur when the pricing inputs become more transparent and satisfy the Level 1 or 2 criteria and are primarily the result of observable market data being available at the reporting date, thus removing the requirement to rely on inputs that lack observability.

⁽³⁾ Total gains and losses in net income (loss) and other comprehensive income (“OCI”) are calculated assuming transfers into or out of Level 3 occur at the beginning of the period. For transfers into Level 3 during the reporting period, the entire change in fair value for the period is included in the table above. For transfers out of Level 3 during the reporting period, the change in fair value for the period is excluded from the table above.

⁽⁴⁾ Foreign currency translation relates to the foreign exchange impact of translating Level 3 assets of foreign subsidiaries from their functional currencies to Canadian dollars.

6. Financial Instrument and Insurance Risk Management

Our risk management policies and procedures for managing risks related to financial instruments and insurance contracts can be found in Notes 6 and 7, respectively, of our 2015 Annual Consolidated Financial Statements.

Our financial instrument market risk sensitivities are included in our Management’s Discussion and Analysis (“MD&A”) for the three months ended March 31, 2016. The shaded text and tables in the Risk Management section of the MD&A represent our disclosures on market risk sensitivities in accordance with IFRS 7 *Financial Instruments: Disclosures* and include discussions on how we measure our risk and our objectives, policies, and methodologies for managing this risk. Therefore, the shaded text and tables in the MD&A represent an integral part of these Interim Consolidated Financial Statements.

7. Insurance Contract Liabilities and Investment Contract Liabilities

7.A Insurance Contract Liabilities

7.A.i Changes in Insurance Contract Liabilities and Reinsurance Assets

Changes in Insurance contract liabilities and Reinsurance assets are as follows:

| For the three months ended March 31, | 2016 | | | 2015 | | |
|--|--------------------------------|--------------------|------------|--------------------------------|--------------------|------------|
| | Insurance contract liabilities | Reinsurance assets | Net | Insurance contract liabilities | Reinsurance assets | Net |
| Balances, before Other policy liabilities and assets, beginning of period | \$ 103,730 | \$ 4,812 | \$ 98,918 | \$ 95,243 | \$ 3,671 | \$ 91,572 |
| Change in balances on in-force policies | 2,480 | (10) | 2,490 | 2,310 | (51) | 2,361 |
| Balances arising from new policies | 952 | 30 | 922 | 710 | 186 | 524 |
| Method and assumption changes | 6 | (3) | 9 | 128 | 58 | 70 |
| Increase (decrease) in Insurance contract liabilities and Reinsurance assets | 3,438 | 17 | 3,421 | 3,148 | 193 | 2,955 |
| Acquisitions (Note 3) | 2,196 | — | 2,196 | — | — | — |
| Foreign exchange rate movements | (3,208) | (256) | (2,952) | 3,417 | 297 | 3,120 |
| Balances before Other policy liabilities and assets | 106,156 | 4,573 | 101,583 | 101,808 | 4,161 | 97,647 |
| Other policy liabilities and assets | 6,441 | 507 | 5,934 | 6,158 | 422 | 5,736 |
| Total Insurance contract liabilities and Reinsurance assets, end of period | \$ 112,597 | \$ 5,080 | \$ 107,517 | \$ 107,966 | \$ 4,583 | \$ 103,383 |

7.B Investment Contract Liabilities

7.B.i Changes in Investment Contract Liabilities

Changes in investment contract liabilities without discretionary participation features ("DPF") are as follows:

| For the three months ended March 31, | 2016 | | 2015 | |
|--------------------------------------|------------------------|----------------------------|------------------------|----------------------------|
| | Measured at fair value | Measured at amortized cost | Measured at fair value | Measured at amortized cost |
| Balance, beginning of period | \$ 4 | \$ 2,208 | \$ 16 | \$ 2,142 |
| Deposits | — | 114 | — | 98 |
| Interest | — | 11 | — | 11 |
| Withdrawals | — | (100) | — | (130) |
| Fees | — | (1) | — | — |
| Other | — | 5 | — | 5 |
| Foreign exchange rate movements | — | (1) | 1 | 3 |
| Balance, end of period | \$ 4 | \$ 2,236 | \$ 17 | \$ 2,129 |

Changes in investment contract liabilities with DPF are as follows:

| For the three months ended March 31, | 2016 | 2015 |
|--|--------|--------|
| Balance, beginning of period | \$ 701 | \$ 661 |
| Change in liabilities on in-force policies | (1) | 1 |
| Increase (decrease) in liabilities | (1) | 1 |
| Foreign exchange rate movements | (44) | 56 |
| Balance, end of period | \$ 656 | \$ 718 |

7.C Gross Claims and Benefits Paid

Gross claims and benefits paid consist of the following:

| For the three months ended March 31, | 2016 | 2015 |
|--|-----------------|-----------------|
| Maturities and surrenders | \$ 665 | \$ 710 |
| Annuity payments | 473 | 432 |
| Death and disability benefits | 939 | 899 |
| Health benefits | 1,319 | 1,141 |
| Policyholder dividends and interest on claims and deposits | 309 | 248 |
| Total gross claims and benefits paid | \$ 3,705 | \$ 3,430 |

8. Reinsurance (Expenses) Recoveries

Reinsurance (expenses) recoveries consist of the following:

| For the three months ended March 31, | 2016 | 2015 |
|--|-----------------|-----------------|
| Recovered claims and benefits | \$ 904 | \$ 1,237 |
| Commissions | 14 | 14 |
| Reserve adjustments | 25 | 69 |
| Operating expenses and other | 84 | 133 |
| Reinsurance (expenses) recoveries | \$ 1,027 | \$ 1,453 |

9. Income Taxes

Our effective income tax rate differs from the combined Canadian federal and provincial statutory income tax rate as follows:

| For the three months ended March 31, | 2016 | | 2015 ⁽¹⁾ | |
|---|---------------|-------------|---------------------|-------------|
| | | % | | % |
| Total net income (loss) | \$ 570 | | \$ 462 | |
| Add: Income tax expense (benefit) | 92 | | 95 | |
| Total net income (loss) before income taxes | \$ 662 | | \$ 557 | |
| Taxes at the combined Canadian federal and provincial statutory income tax rate | \$ 177 | 26.8 | \$ 149 | 26.8 |
| Increase (decrease) in rate resulting from: | | | | |
| Higher (lower) effective rates on income subject to taxation in foreign jurisdictions | (3) | (0.5) | 8 | 1.4 |
| Tax (benefit) cost of unrecognized tax losses and tax credits | 1 | 0.2 | 1 | 0.2 |
| Tax exempt investment income | (64) | (9.7) | (52) | (9.3) |
| Adjustments in respect of prior periods, including resolution of tax disputes | (13) | (2.0) | (7) | (1.2) |
| Other | (6) | (0.9) | (4) | (0.8) |
| Total tax expense (benefit) and effective income tax rate | \$ 92 | 13.9 | \$ 95 | 17.1 |

⁽¹⁾ In the second quarter of 2015, a provincial corporate tax rate increase from 10% to 12% was enacted in Alberta, Canada. As a result, our statutory tax rate increased from 26.5% to 26.75% (rounded to 26.8% in the table above) in 2015 and future years.

Statutory income tax rates in other jurisdictions in which we conduct business range from 0% to 35%, which creates a tax rate differential and corresponding tax provision difference compared to the Canadian federal and provincial statutory rate when applied to foreign income not subject to tax in Canada. Generally, higher earnings in jurisdictions with higher statutory tax rates, such as the U.S., result in an increase of our tax expense, while earnings arising in tax jurisdictions with statutory rates lower than 26.75% reduce our tax expense. These differences are reported in Higher (lower) effective rates on income subject to taxation in foreign jurisdictions.

Tax exempt investment income includes tax rate differences related to various types of investment income that is taxed at rates lower than our statutory income tax rate, such as dividend income, capital gains arising in Canada, and various others. Fluctuations in foreign exchange rates, changes in market values of real estate properties and other investments have an impact on the amount of these tax rate differences.

Adjustments in respect of prior periods, including the resolution of tax disputes for the three months ended March 31, 2016 relate to prior years' tax filings in Canada. In 2015, the adjustments mainly related to the resolution of tax audits in Canada and the U.S., as well as finalization of tax filings in the U.K.

10. Capital Management

10.A Capital

Our capital base is structured to exceed minimum regulatory and internal capital targets, and maintain strong credit and financial strength ratings while maintaining a capital efficient structure. We strive to achieve an optimal capital structure by balancing the use of debt and equity financing. Capital is managed both on a consolidated basis under principles that consider all the risks associated with the business as well as at the business group level under the principles appropriate to the jurisdiction in which each operates. We manage the capital for all of our international subsidiaries on a local statutory basis in a manner commensurate with their individual risk profiles. Further details on our capital, and how it is managed, are included in Note 22 of our 2015 Annual Consolidated Financial Statements.

As part of the revisions to the 2016 Minimum Continuing Capital and Surplus Requirements (“MCCSR”) Guidance of the Office of the Superintendent of Financial Institutions, Canada (“OSFI”), disclosure of MCCSR ratios for holding companies and non-operating life companies is now required. SLF Inc.’s MCCSR ratio as at March 31, 2016 exceeded the minimum regulatory target. Our principal operating insurance subsidiary in Canada, Sun Life Assurance, is also subject to the MCCSR capital rules. Sun Life Assurance’s MCCSR ratio as at March 31, 2016 exceeded the minimum regulatory target; as well, it also exceeded the supervisory target applicable to operating insurance companies. In the U.S., Sun Life Assurance operates through a branch which is subject to U.S. regulatory supervision and it exceeded the levels under which regulatory action would be required as at March 31, 2016. In addition, other subsidiaries of SLF Inc. that must comply with local capital or solvency requirements in the jurisdiction in which they operate maintained capital levels above minimum local requirements as at March 31, 2016.

Our capital base consists mainly of common shareholders’ equity, participating policyholders’ equity, preferred shareholders’ equity, and certain other capital securities that qualify as regulatory capital.

10.B Significant Capital Transactions

10.B.i Common Shares

Changes in common shares issued and outstanding are as follows:

| For the three months ended March 31, | 2016 | | 2015 | |
|--|------------------|----------|------------------|----------|
| | Number of shares | Amount | Number of shares | Amount |
| Common shares (in millions of shares) | | | | |
| Balance, beginning of period | 612.3 | \$ 8,567 | 613.1 | \$ 8,465 |
| Stock options exercised | 0.3 | 8 | 0.6 | 24 |
| Common shares purchased for cancellation ⁽¹⁾ | – | – | (3.0) | (43) |
| Shares issued under the dividend reinvestment and share purchase plan ⁽²⁾ | – | – | 0.5 | 21 |
| Balance, end of period | 612.6 | \$ 8,575 | 611.2 | \$ 8,467 |

⁽¹⁾ On November 10, 2014, SLF Inc. launched a normal course issuer bid to purchase and cancel up to 9 million common shares. The program expired on November 9, 2015. The purchases were made through the facilities of the Toronto Stock Exchange and alternative Canadian trading platforms (the “Exchanges”), at prevailing market rates. The common shares purchased and cancelled under this program during the first quarter of 2015 were purchased at an average price per share of \$39.32 for a total price of \$120. The total amount paid to purchase the shares was allocated to Common shares and Retained earnings in our Interim Consolidated Statements of Changes in Equity. The amount allocated to Common shares was based on the average cost per common share and amounts paid above the average cost was allocated to Retained earnings.

⁽²⁾ Common shares issued under the SLF Inc.’s Dividend Reinvestment and Share Purchase Plan (“DRIP”) for dividend reinvestments in 2015 were issued from treasury at no discount. SLF Inc. also issued an insignificant number of common shares from treasury at no discount for optional cash purchases. Commencing with the dividends paid on March 31, 2016, common shares acquired under the DRIP are purchased by the plan agent on behalf of participants, on the open market through the Exchanges.

10.B.ii Subordinated Debt

On February 19, 2016, SLF Inc. issued \$350 principal amount of Series 2016-1 Subordinated Unsecured 3.10% Fixed/Floating Debentures due 2026 (the “Debentures”). The net proceeds of \$348 were used to partially fund the acquisition of Assurant EB and for general corporate purposes. The Debentures bear interest at a fixed rate of 3.10% per annum payable in equal semi-annual instalments to, but excluding February 19, 2021. From February 19, 2021 to, but excluding the maturity date of February 19, 2026, the Debentures will bear interest at a variable rate equal to the Canadian dollar offered rate for three-month bankers’ acceptances (“CDOR”) plus 2.20% per annum payable in quarterly instalments. At SLF Inc.’s option, and subject to prior approval of OSFI, SLF Inc. may redeem the Debentures, in whole or in part, on or after February 19, 2021 at a redemption price equal to par, together with accrued and unpaid interest to, but excluding, the date fixed for redemption. The Debentures are direct, unsecured subordinated obligations of SLF Inc. and rank equally and rateably with all other subordinated unsecured indebtedness of SLF Inc. The Debentures qualify as capital for Canadian regulatory purposes.

11. Segregated Funds

11.A Investments for Account of Segregated Fund Holders

The carrying value of investments held for segregated fund holders are as follows:

| As at | March 31, 2016 | December 31, 2015 |
|--|-------------------|----------------------|
| Segregated and mutual fund units | \$ 75,393 | \$ 76,076 |
| Equity securities | 10,372 | 11,169 |
| Debt securities | 2,977 | 3,217 |
| Cash, cash equivalents and short-term securities | 737 | 719 |
| Investment properties | 444 | 479 |
| Mortgages | 34 | 36 |
| Other assets | 211 | 152 |
| Total assets | \$ 90,168 | \$ 91,848 |
| Less: Liabilities arising from investing activities | \$ 373 | \$ 408 |
| Total investments for account of segregated fund holders | \$ 89,795 | \$ 91,440 |

11.B Changes in Insurance Contracts and Investment Contracts for Account of Segregated Fund Holders

Changes in insurance contracts and investment contracts for account of segregated fund holders are as follows:

| For the three months ended | Insurance contracts | | Investment contracts | |
|---|---------------------|-------------------|----------------------|-------------------|
| | March 31, 2016 | March 31, 2015 | March 31, 2016 | March 31, 2015 |
| Balances, beginning of period | \$ 83,670 | \$ 76,736 | \$ 7,770 | \$ 7,202 |
| Additions to segregated funds: | | | | |
| Deposits | 2,706 | 2,378 | 25 | 33 |
| Net transfer (to) from general funds | (57) | 17 | – | – |
| Net realized and unrealized gains (losses) | (868) | 4,095 | (19) | 379 |
| Other investment income | 454 | 381 | 43 | 44 |
| Total additions | \$ 2,235 | \$ 6,871 | \$ 49 | \$ 456 |
| Deductions from segregated funds: | | | | |
| Payments to policyholders and their beneficiaries | 2,166 | 2,138 | 134 | 107 |
| Management fees | 193 | 198 | 18 | 20 |
| Taxes and other expenses | 56 | 48 | 3 | 6 |
| Foreign exchange rate movements | 736 | (598) | 623 | (321) |
| Total deductions | \$ 3,151 | \$ 1,786 | \$ 778 | \$ (188) |
| Net additions (deductions) | \$ (916) | \$ 5,085 | \$ (729) | \$ 644 |
| Balances, end of period | \$ 82,754 | \$ 81,821 | \$ 7,041 | \$ 7,846 |

12. Commitments, Guarantees and Contingencies

Guarantees of Sun Life Assurance Preferred Shares and Subordinated Debentures

SLF Inc. has provided a guarantee on the \$150 of 6.30% subordinated debentures due 2028 issued by Sun Life Assurance. Claims under this guarantee will rank equally with all other subordinated indebtedness of SLF Inc. SLF Inc. has also provided a subordinated guarantee of the preferred shares issued by Sun Life Assurance from time to time, other than such preferred shares which are held by SLF Inc. and its affiliates. Sun Life Assurance has no outstanding preferred shares subject to the guarantee. As a result of these guarantees, Sun Life Assurance is entitled to rely on exemptive relief from most continuous disclosure and the certification requirements of Canadian securities laws.

The following tables set forth certain consolidating summary financial information for SLF Inc. and Sun Life Assurance (consolidated):

| Results for the three months ended | SLF Inc. (unconsolidated) | Sun Life Assurance (consolidated) | Other subsidiaries of SLF Inc. (combined) | Consolidation adjustment | SLF Inc. (consolidated) |
|---|------------------------------|---|--|-----------------------------|----------------------------|
| March 31, 2016 | | | | | |
| Revenue | \$ 391 | \$ 7,215 | \$ 2,290 | \$ (1,114) | \$ 8,782 |
| Shareholders' net income (loss) | \$ 564 | \$ 329 | \$ (98) | \$ (231) | \$ 564 |
| March 31, 2015 | | | | | |
| Revenue | \$ 88 | \$ 6,407 | \$ 1,278 | \$ (441) | \$ 7,332 |
| Shareholders' net income (loss) | \$ 467 | \$ 363 | \$ 68 | \$ (431) | \$ 467 |
| Assets and liabilities as at | SLF Inc. (unconsolidated) | Sun Life Assurance (consolidated) | Other subsidiaries of SLF Inc. (combined) | Consolidation adjustment | SLF Inc. (consolidated) |
| March 31, 2016 | | | | | |
| Invested assets | \$ 21,520 | \$ 131,736 | \$ 5,770 | \$ (20,528) | \$ 138,498 |
| Total other general fund assets | \$ 9,791 | \$ 22,688 | \$ 22,085 | \$ (36,213) | \$ 18,351 |
| Investments for account of segregated fund holders | \$ – | \$ 89,748 | \$ 47 | \$ – | \$ 89,795 |
| Insurance contract liabilities | \$ – | \$ 112,919 | \$ 7,418 | \$ (7,740) | \$ 112,597 |
| Investment contract liabilities | \$ – | \$ 2,896 | \$ – | \$ – | \$ 2,896 |
| Total other general fund liabilities | \$ 10,574 | \$ 22,812 | \$ 18,350 | \$ (31,303) | \$ 20,433 |
| December 31, 2015 | | | | | |
| Invested assets | \$ 20,695 | \$ 130,977 | \$ 5,794 | \$ (19,503) | \$ 137,963 |
| Total other general fund assets | \$ 10,922 | \$ 21,279 | \$ 22,265 | \$ (37,016) | \$ 17,450 |
| Investments for account of segregated fund holders | \$ – | \$ 91,389 | \$ 51 | \$ – | \$ 91,440 |
| Insurance contract liabilities | \$ – | \$ 110,568 | \$ 7,029 | \$ (7,370) | \$ 110,227 |
| Investment contract liabilities | \$ – | \$ 2,913 | \$ – | \$ – | \$ 2,913 |
| Total other general fund liabilities | \$ 10,367 | \$ 22,386 | \$ 20,380 | \$ (32,278) | \$ 20,855 |

13. Earnings (Loss) Per Share

Details of the calculation of the net income (loss) and the weighted average number of shares used in the earnings per share computations are as follows:

| For the three months ended March 31, | 2016 | 2015 |
|---|---------|---------|
| Common shareholders' net income (loss) for basic earnings per share | \$ 540 | \$ 441 |
| Add: increase in income due to convertible instruments ⁽¹⁾ | 3 | 3 |
| Common shareholders' net income (loss) on a diluted basis | \$ 543 | \$ 444 |
| Weighted average number of common shares outstanding for basic earnings per share (in millions) | 612 | 613 |
| Add: dilutive impact of stock options ⁽²⁾ (in millions) | 1 | 1 |
| Add: dilutive impact of convertible instruments ⁽¹⁾ (in millions) | 5 | 5 |
| Weighted average number of common shares outstanding on a diluted basis (in millions) | 618 | 619 |
| Basic earnings (loss) per share | \$ 0.88 | \$ 0.72 |
| Diluted earnings (loss) per share | \$ 0.88 | \$ 0.72 |

⁽¹⁾ The convertible instruments are the Sun Life Exchangeable Capital Securities ("SLEECs") – Series B issued by Sun Life Capital Trust.

⁽²⁾ Excludes the impact of 2 million stock options for the three months ended March 31, 2016 (2 million for the three months ended March 31, 2015) because these stock options were antidilutive for the period.

14. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss), net of taxes, are as follows:

| For the three months ended March 31, | 2016 | | | 2015 | | |
|---|------------------------------|-----------------------------------|------------------------|------------------------------|-----------------------------------|------------------------|
| | Balance, beginning of period | Other comprehensive income (loss) | Balance, end of period | Balance, beginning of period | Other comprehensive income (loss) | Balance, end of period |
| Items that may be reclassified subsequently to income: | | | | | | |
| Unrealized foreign currency translation gains (losses), net of hedging activities | \$ 2,385 | \$ (782) | \$ 1,603 | \$ 783 | \$ 722 | \$ 1,505 |
| Unrealized gains (losses) on available-for-sale assets | 225 | 70 | 295 | 523 | 156 | 679 |
| Unrealized gains (losses) on cash flow hedges | 3 | (14) | (11) | 6 | (3) | 3 |
| Share of other comprehensive income (loss) in joint ventures and associates | 76 | (30) | 46 | 21 | 65 | 86 |
| Items that will not be reclassified subsequently to income: | | | | | | |
| Remeasurement of defined benefit plans | (218) | (26) | (244) | (169) | (46) | (215) |
| Unrealized gains (losses) on transfers to investment properties | 6 | – | 6 | 6 | – | 6 |
| Total | \$ 2,477 | \$ (782) | \$ 1,695 | \$ 1,170 | \$ 894 | \$ 2,064 |
| Total attributable to: | | | | | | |
| Participating policyholders | \$ 18 | \$ (5) | \$ 13 | \$ 6 | \$ 6 | \$ 12 |
| Non-controlling interest | – | (1) | (1) | – | – | – |
| Shareholders | 2,459 | (776) | 1,683 | 1,164 | 888 | 2,052 |
| Total | \$ 2,477 | \$ (782) | \$ 1,695 | \$ 1,170 | \$ 894 | \$ 2,064 |

15. Subsequent Events

On April 4, 2016, SLF Inc. announced its intention to redeem all of the outstanding \$950 principal amount of Series B Senior Unsecured 4.95% Fixed/Floating Debentures, which are redeemable at SLF Inc.'s option on June 1, 2016, at a redemption price equal to the principal amount together with accrued and unpaid interest to that date.

On April 11, 2016, we completed a transaction to increase our ownership in one of our joint ventures in India, Birla Sun Life Insurance Company Limited ("BSLI"), from 26% to 49% by purchasing additional shares of BSLI from Aditya Birla Nuvo Limited for consideration of \$329.