

Sun Life Financial Inc.

Management's Discussion and Analysis

For the period ended June 30, 2023

Dated August 8, 2023

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About Sun Life

Sun Life is a leading international financial services organization providing asset management, wealth, insurance and health solutions to individual and institutional 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 June 30, 2023, Sun Life had total assets under management ("AUM") of \$1.37 trillion. 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

Sun Life Financial Inc. ("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. 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 management's discussion and analysis ("MD&A"). We prepare our unaudited Interim Consolidated Financial Statements using International Financial Reporting Standards ("IFRS"), the accounting requirements of the Office of the Superintendent of Financial Institutions ("OSFI") and 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.

On January 1, 2023 we adopted IFRS 17 *Insurance Contracts* ("IFRS 17"), which replaces IFRS 4 *Insurance Contracts*. IFRS 17 establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts. On January 1, 2023, we also adopted IFRS 9 *Financial Instruments* ("IFRS 9"), which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The nature and effects of the key changes in our critical accounting policies and estimated impacts from the adoption of the new standards are summarized in section L - Changes in Accounting Policies in this document. For more information including the measurement and classification of opening balances, refer to Note 2 of our Interim Consolidated Financial Statements for the period ended June 30, 2023.

Unless otherwise noted, all amounts are in Canadian dollars. Amounts in this document are impacted by rounding.

Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9

2022 results have been restated for the adoption of IFRS 17 and the related IFRS 9 classification overlay ("the new standards"). The restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards. The majority of the actions taken to re-balance asset portfolios and transition asset-liability management execution to an IFRS 17 basis occurred in Q1'23. Accordingly, analysis based on 2022 comparative results may not necessarily be indicative of future trends, and should be interpreted with this context. Using sensitivities to analyze the outlook for market risk and related impacts (e.g., interest rate sensitivities) will be more representative starting with the sensitivities disclosed for Q1'23 and onward in section I - Risk Management in each quarter's respective MD&A document. Certain 2022 restated results and 2023 interim results in the Drivers of Earnings and CSM Movement Analysis were refined to more accurately reflect how management views the business. As these results are not audited, or have not yet been audited, they may still be subject to change.

Underlying net income by Business Types

Sun Life has a diversified mix of businesses and our earnings by business type support the understanding and analysis of our results:

- **Wealth & asset management:** Sun Life's wealth & asset management businesses generate recurring fee income and/or spread on investment products.
- **Group - Health & Protection:** Group businesses provide health and protection benefits to employer and government plan members. The products generally have shorter-term coverage periods, and more frequent repricing. The revenues are driven by premiums for coverage provided as well as fee-based earnings (i.e., Administrative Services Only plans, and dental fees).
- **Individual - Protection:** Generally, individual protection business has a longer-term profitability profile and is more sensitive to experience trends. The premiums include a margin for providing protection and are invested to earn a return over the expected amounts required to fulfill insurance liabilities.

The following provides an overview of the business types in Sun Life's business segments/business groups:

		Business Segments				
Business Types	Asset Management	Canada	US	Asia	Corporate	
Wealth & asset management	MFS Investment Management SLC Management	Individual Wealth Group Retirement Services		Individual wealth & asset management ¹⁾		
Group – Health & Protection		Sun Life Health	Group Benefits ²⁾ Dental			
Individual - Protection		Individual Insurance	In-force Management ³⁾	Individual protection ⁴⁾		
Corporate expenses & other				Regional Office	Corporate Support	

¹⁾ Includes wealth & asset management businesses in the Philippines, Hong Kong, China and India.

²⁾ Includes Employee Benefits, as well as Health and Risk Solutions (medical stop-loss).

³⁾ Effective Q2 2023, the UK payout annuities run-off business was moved from the Corporate business segment to the U.S. business segment upon the sale of SLF of Canada UK Limited ("Sun Life UK"). For additional information, refer to Note 3 of our Interim Consolidated Financial Statements for the period ended June 30, 2023.

⁴⁾ Includes individual protection businesses in ASEAN, Hong Kong, Joint Ventures and High-Net-Worth. Group businesses in Asia have been included with Individual – Protection.

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 non-IFRS financial measures and, if applicable, reconciliations to the closest IFRS measures are available in section N - Non-IFRS Financial Measures in this document and the Supplementary Financial Information package 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 O - 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, 2022. These documents are filed with securities regulators in Canada and are available at www.sedarplus.ca. 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)

Profitability	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22 ⁽¹⁾	2023	2022 ⁽¹⁾
Net income (loss)					
Underlying net income (loss) ⁽²⁾	920	895	808	1,815	1,528
Reported net income (loss) - Common shareholders	660	806	930	1,466	1,595
Diluted earnings per share ("EPS") (\$)					
Underlying EPS (diluted) ⁽²⁾	1.57	1.52	1.38	3.09	2.61
Reported EPS (diluted)	1.12	1.37	1.58	2.49	2.72
Return on equity ("ROE") (%)					
Underlying ROE ⁽²⁾	17.7%	17.3%	16.7%	17.5%	15.6%
Reported ROE ⁽²⁾	12.7%	15.6%	19.2%	14.2%	16.3%
Growth	Q2'23	Q1'23	Q2'22⁽¹⁾	2023	2022⁽¹⁾
Sales					
Wealth sales & asset management gross flows ⁽²⁾⁽³⁾	42,397	46,349	56,279	88,746	113,235
Group - Health & Protection sales ⁽²⁾	656	543	320	1,199	710
Individual - Protection sales ⁽²⁾	604	511	416	1,115	825
Total AUM (\$ billions)⁽²⁾	1,366.8	1,363.6	1,257.4	1,366.8	1,257.4
New business Contractual Service Margin ("CSM")⁽²⁾	270	232	189	502	332
Financial Strength	Q2'23	Q1'23	As at January 1, 2023⁽⁴⁾		
LICAT ratios⁽⁴⁾⁽⁵⁾					
Sun Life Financial Inc.	148%	148%	142%		
Sun Life Assurance ⁽⁶⁾	139%	144%	139%		
Financial leverage ratio⁽²⁾⁽⁷⁾	23.3%	23.2%	23.7%		
Book value per common share (\$)	34.86	35.34	34.60		
Weighted average common shares outstanding for basic EPS (millions)	587	587	586		
Closing common shares outstanding (millions)	587	587	586		

⁽¹⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards. See the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in section A - How We Report Our Results in this document.

⁽²⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document.

⁽³⁾ Effective January 1, 2023, Canada wealth sales & asset management gross flows have been updated to exclude retained sales. Prior period amounts have been updated to reflect this change.

⁽⁴⁾ OSFI's 2023 LICAT Guideline, effective January 1, 2023, specifies that available capital for LICAT purposes includes the Contractual Service Margin. Prior period restatement and resubmissions are not mandated. Pro-forma January 1, 2023 LICAT ratios are disclosed to illustrate transition impact. These pro-forma calculations will not be formally submitted to OSFI.

⁽⁵⁾ Life Insurance Capital Adequacy Test ("LICAT") ratio. Our LICAT ratios are calculated in accordance with the OSFI-mandated guideline.

⁽⁶⁾ Sun Life Assurance Company of Canada ("Sun Life Assurance") is SLF Inc.'s principal operating life insurance subsidiary.

⁽⁷⁾ Effective January 1, 2023, the calculation for the financial leverage ratio was updated to include the CSM balance (net of taxes) in the denominator. The CSM (net of taxes) was \$9.1 billion as at June 30, 2023 (March 31, 2023 - \$9.0 billion; January 1, 2023 - \$8.7 billion).

C. Profitability

The following table reconciles our Common shareholders' net income ("reported net income") and underlying net income. All factors discussed in this document that impact underlying net income are also applicable to reported net income. Certain adjustments and notable items also impact the CSM, such as mortality experience and assumption changes; see section E - Contractual Service Margin in this document for more information.

(\$ millions, after-tax)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22 ⁽¹⁾	2023	2022 ⁽¹⁾
Underlying net income by business type⁽²⁾:					
Wealth & asset management	419	411	420	830	842
Group - Health & Protection	360	303	238	663	361
Individual - Protection	265	291	215	556	464
Corporate expenses & other	(124)	(110)	(65)	(234)	(139)
Underlying net income⁽²⁾	920	895	808	1,815	1,528
Add: Market-related impacts ⁽¹⁾⁽³⁾	(220)	(64)	118	(284)	116
Assumption changes and management actions ("ACMA") ⁽³⁾	7	(5)	(22)	2	(49)
Other adjustments ⁽³⁾	(47)	(20)	26	(67)	—
Reported net income - Common shareholders	660	806	930	1,466	1,595
Underlying ROE ⁽²⁾	17.7%	17.3%	16.7%	17.5%	15.6%
Reported ROE ⁽²⁾	12.7%	15.6%	19.2%	14.2%	16.3%
Notable items attributable to reported and underlying net income⁽²⁾:					
Mortality	19	(26)	(3)	(7)	(113)
Morbidity	93	61	36	154	21
Lapse and other policyholder behaviour ("policyholder behaviour")	(2)	(8)	(8)	(10)	(12)
Expenses	(7)	(5)	(6)	(12)	2
Credit	(3)	(6)	5	(9)	(13)
Other ⁽⁴⁾	9	22	(13)	31	(20)

⁽¹⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards. See the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in section A - How We Report Our Results in this document.

⁽²⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document. For more information about business types in Sun Life's business groups, see section A - How We Report Our Results in this document.

⁽³⁾ Represents an adjustment made to arrive at a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment, including pre-tax amounts.

⁽⁴⁾ Other notable items are recorded in Net Insurance Service Result and Net Investment Result in the Drivers of Earnings analysis. For more details, see section N - Non-IFRS Financial Measures in this document.

Quarterly Comparison - Q2'23 vs. Q2'22

Underlying net income⁽¹⁾ of \$920 million increased \$112 million or 14%, driven by:

- **Wealth & asset management**⁽¹⁾ down \$1 million: Higher investment income driven by volume growth and an increase in yields was largely offset by lower fee-based earnings in MFS⁽²⁾, reflecting equity market declines over the past year, as well as higher expenses in Canada.
- **Group - Health & Protection**⁽¹⁾ up \$122 million: Strong performance driven by good premium growth and better disability experience in Canada and the U.S., as well as a full quarter of DentaQuest contributions.
- **Individual - Protection**⁽¹⁾ up \$50 million: Higher premiums reflecting good sales momentum during the past year in Asia, and improved insurance experience in Canada and the U.S.
- **Corporate expenses & other**⁽¹⁾ \$(59) million increased net loss driven by higher operating expenses including incentive compensation and an increase in debt financing costs.
- Higher earnings on surplus reflecting an increase in realized gains and net interest income from higher rates.

Reported net income of \$660 million decreased \$270 million or 29%, driven by:

- Market-related impacts primarily reflecting interest rates and real estate investments⁽³⁾;
- Prior year gain on the sale-leaseback of the Wellesley office in the U.S.; and
- Fair value changes in management's ownership of MFS shares; partially offset by
- The increase in underlying net income.

⁽¹⁾ Refer to section N - Non-IFRS Financial Measures in this document for a reconciliation between reported net income and underlying net income.

⁽²⁾ MFS Investment Management ("MFS").

⁽³⁾ Real estate investments comprises real estate experience and changes in fair value of real estate investments held in surplus. Real estate experience reflects the difference between the actual value of real estate investments compared to management's longer-term expected returns supporting insurance contract liabilities ("real estate experience").

Foreign exchange translation led to an increase of \$27 million and \$25 million in underlying net income and reported net income, respectively.

Underlying ROE was 17.7% and reported ROE was 12.7% (Q2'22 - 16.7% and 19.2%, respectively).

1. Market-related impacts

Market-related impacts represent the difference between actual versus expected market movements. Market-related impacts resulted in a decrease of \$220 million to reported net income, reflecting real estate investments and interest rate impacts. The decline in total value of real estate investments was driven by investment experience in Canada and Asia and losses in the SLC Management surplus account from capitalization rate expansion. Interest rate impacts primarily reflected non-parallel curve changes during the quarter.

2. Assumption changes and management actions

The net impact of assumption changes and management actions was an increase of \$7 million to reported net income reflecting various small enhancements.

3. Other adjustments

Other adjustments decreased reported net income \$47 million, reflecting DentaQuest integration costs and amortization of acquired intangible assets, partially offset by a gain on the sale of Sun Life UK⁽¹⁾.

4. Experience-related items

In the second quarter of 2023, notable experience items included:

- Favourable mortality experience largely in Asia; and
- Favourable morbidity experience largely in Canada and in U.S. medical stop-loss.

5. Income taxes

Our statutory tax rate is impacted by various tax items, such as lower taxes on income subject to tax in foreign jurisdictions, tax-exempt investment income, and other sustainable tax benefits.

The Q2'23 effective income tax rate⁽²⁾ on underlying net income and reported net income was 19.7% and 14.6% respectively.

6. Impacts of foreign exchange translation

Foreign exchange translation led to an increase of \$27 million and \$25 million in underlying net income and reported net income, respectively.

Year-to-Date Comparison - Q2'23 vs. Q2'22

Underlying net income of \$1,815 million increased \$287 million or 19%, driven by:

- **Wealth & asset management** down \$12 million: Lower fee-based earnings in MFS, Canada, and Asia, reflecting equity market declines over the past year, as well as higher expenses in Canada, partially offset by higher investment income driven by volume growth and an increase in yields.
- **Group - Health & protection** up \$302 million: Strong performance driven by good premium growth, better disability experience in Canada and the U.S., as well as DentaQuest contributions.
- **Individual - Protection** up \$92 million: Higher premiums reflecting good sales momentum during the past year, and improved insurance experience in Canada and Asia.
- **Corporate expenses & other** \$(95) million increased net loss driven by higher operating expenses including incentive compensation and an increase in debt financing costs.
- Higher earnings on surplus reflecting an increase in realized gains and net interest income from higher rates.

Reported net income of \$1,466 million decreased \$129 million or 8%, driven by:

- Market-related impacts primarily reflecting interest rates and real estate investments⁽³⁾;
- Prior year gain on the sale-leaseback of the Wellesley office in the U.S.; and
- Fair value changes in management's ownership of MFS shares; largely offset by
- The increase in underlying net income; and
- Gain on the sale of the sponsored markets business in Canada⁽⁴⁾.

Foreign exchange translation led to an increase of \$59 million and \$53 million to underlying net income and reported net income, respectively.

Underlying ROE was 17.5% and reported ROE was 14.2% (2022 - 15.6% and 16.3%, respectively).

⁽¹⁾ On April 3, 2023, we completed the sale of SLF of Canada UK Limited to Phoenix Group Holdings plc ("the sale of Sun Life UK").

⁽²⁾ Our effective income tax rate on reported net income is calculated using Total income (loss) before income taxes, as detailed in Note 10 in our Interim Consolidated Financial Statements for the period ended June 30, 2023. Our effective income tax rate on underlying net income is calculated using pre-tax underlying net income, as detailed in section N - Non-IFRS Financial Measures in this document, and the associated income tax expense.

⁽³⁾ Real estate investments comprises real estate experience and changes in fair value of real estate investments held in surplus. Real estate experience reflects the difference between the actual value of real estate investments compared to management's longer-term expected returns supporting insurance contract liabilities ("real estate experience").

⁽⁴⁾ On February 1, 2023, we completed the sale of the sponsored markets business from Sun Life Assurance, a wholly owned subsidiary of SLF Inc., to Canadian Premier Life Insurance Company ("sale of the sponsored markets business").

1. Market-related impacts

Market-related impacts represent the difference between actual versus expected market movements. Market-related impacts resulted in a decrease of \$284 million to reported net income, reflecting real estate investments and interest rate impacts. The decline in total value of real estate investments was driven by investment experience in Canada and Asia and losses in the SLC Management surplus account from capitalization rate expansion. Interest rate impacts primarily reflected non-parallel curve changes during the year.

2. Assumption changes and management actions

The net impact of assumption changes and management actions was an increase of \$2 million to reported net income reflecting various small enhancements.

3. Other adjustments

Other adjustments decreased reported net income \$67 million, reflecting DentaQuest integration costs, amortization of acquired intangible assets, and SLC Management acquisition-related costs, partially offset by gains on the sale of the sponsored markets business in Canada and the sale of Sun Life UK.

4. Experience-related items

Notable experience items in the current year included:

- Favourable morbidity experience largely in Canada and in U.S. medical stop-loss; and
- Other experience was favourable reflecting various smaller items.

5. Income taxes

Our statutory tax rate is impacted by various tax items, such as lower taxes on income subject to tax in foreign jurisdictions, tax-exempt investment income, and other sustainable tax benefits.

The effective income tax rate on underlying net income⁽¹⁾ and reported net income was 18.5% and 15.5%, respectively.

6. Impacts of foreign exchange translation

Foreign exchange translation led to an increase of \$59 million and \$53 million in underlying net income and reported net income, respectively.

D. Growth

1. Sales and Gross Flows

(\$ millions)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22	2023	2022
Wealth sales & asset management gross flows by business segment⁽¹⁾					
Asset Management gross flows	37,651	40,829	49,640	78,480	99,067
Canada wealth sales & asset management gross flows ⁽²⁾	3,130	3,090	3,341	6,220	7,349
Asia wealth sales & asset management gross flows	1,616	2,430	3,298	4,046	6,819
Total wealth sales & asset management gross flows ⁽¹⁾	42,397	46,349	56,279	88,746	113,235
Group - Health & Protection sales by business segment⁽¹⁾					
Canada	153	145	92	298	312
U.S.	484	373	213	857	361
Asia ⁽³⁾	19	25	15	44	37
Total group sales ⁽¹⁾	656	543	320	1,199	710
Individual - Protection sales by business segment⁽¹⁾					
Canada	154	136	126	290	238
Asia	450	375	290	825	587
Total individual sales ⁽¹⁾	604	511	416	1,115	825
CSM - Impact of new insurance business ("New business CSM") ⁽¹⁾⁽⁴⁾	270	232	189	502	332

⁽¹⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document.

⁽²⁾ Effective January 1, 2023, Canada wealth sales & asset management gross flows have been updated to exclude retained sales. Prior period amounts have been updated to reflect this change.

⁽³⁾ In underlying net income by business type, Group businesses in Asia have been included with Individual – Protection. For more information about business types in Sun Life's business groups, see section A - How We Report Our Results in this document.

⁽⁴⁾ New business CSM represents growth from sales activity in the period, including individual protection sales (excluding joint ventures), and defined benefit solutions and segregated fund wealth sales in Canada.

⁽¹⁾ Our effective income tax rate on reported net income is calculated using Total income (loss) before income taxes, as detailed in Note 10 in our Interim Consolidated Financial Statements for the period ended June 30, 2023. Our effective income tax rate on underlying net income is calculated using pre-tax underlying net income, as detailed in section N - Non-IFRS Financial Measures in this document, and the associated income tax expense.

Total wealth sales & asset management gross flows decreased \$13.9 billion or 25% year-over-year (\$15.7 billion⁽¹⁾ or 28%⁽¹⁾, excluding foreign exchange translation).

- Asset Management gross flows decreased \$13.8 billion⁽¹⁾ or 28%⁽¹⁾, reflecting lower gross flows in MFS and SLC Management.
- Canada wealth sales & asset management gross flows decreased \$0.2 billion or 6%, reflecting lower defined benefit solution sales partially offset by higher defined contribution sales in Group Retirement Services ("GRS").
- Asia wealth sales & asset management gross flows decreased \$1.7 billion⁽¹⁾ or 52%⁽¹⁾, primarily reflecting lower money market fund sales in the Philippines.

Total group health & protection sales increased \$336 million or 105% from prior year (\$312 million⁽¹⁾ or 98%⁽¹⁾, excluding foreign exchange translation).

- Canada group sales increased \$61 million or 66%, reflecting higher large case sales.
- U.S. group sales increased \$247 million⁽¹⁾ or 116%⁽¹⁾, driven by higher dental⁽²⁾ and medical stop-loss sales.

Total individual protection sales increased \$188 million or 45% from prior year (\$177 million⁽¹⁾ or 43%⁽¹⁾, excluding foreign exchange translation).

- Canada individual sales increased \$28 million or 22%, reflecting higher participating whole life insurance sales.
- Asia individual sales increased \$149 million⁽¹⁾ or 51%⁽¹⁾, driven by higher sales in Hong Kong, China and India.

New business CSM represents growth derived from sales activity in the period. The impact of new insurance business drove a \$270 million increase in CSM, compared to new business CSM of \$189 million in the prior year, driven by growth in Canada individual protection sales, and in Asia from sales and favourable product mix in High-Net-Worth and Hong Kong.

2. Assets Under Management

AUM consists of general funds, the investments for segregated fund holders ("segregated funds") and third-party assets managed by the Company. Third-party AUM is comprised of institutional and managed funds, as well as other AUM related to our joint ventures.

(\$ millions)	Quarterly results				
	Q2'23	Q1'23	Q4'22	Q3'22	Q2'22
Assets under management⁽¹⁾					
General fund assets	196,575	201,792	198,316	198,181	191,786
Segregated funds	123,366	131,033	125,292	118,564	120,098
Third-party assets under management⁽¹⁾⁽²⁾					
Retail ⁽³⁾	557,093	543,847	527,617	505,679	508,214
Institutional, managed funds and other ⁽³⁾	527,344	528,897	507,673	485,670	475,394
Total third-party AUM ⁽¹⁾⁽²⁾	1,084,437	1,072,744	1,035,290	991,349	983,608
Consolidation adjustments ⁽²⁾	(37,536)	(41,947)	(40,337)	(38,725)	(38,054)
Total assets under management⁽¹⁾	1,366,842	1,363,622	1,318,561	1,269,369	1,257,438

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

⁽²⁾ Effective January 1, 2023, "Other AUM" was renamed to "Third-party AUM", and "Consolidation adjustments" is presented separately as consolidation adjustments apply to all components of total AUM.

⁽³⁾ Effective October 1, 2022, the classification of a MFS fund has changed from Institutional and managed funds to Retail. Other retail and trust accounts have also been reclassified from Institutional and managed funds to Retail. Prior periods have been restated.

AUM increased \$48.3 billion or 4% from December 31, 2022, primarily driven by:

- favourable market movements on the value of segregated, retail, institutional and managed funds of \$77.6 billion; and
- an increase of \$5.2 billion from AUM driven by the AAM acquisition⁽³⁾; partially offset by
- a decrease of \$24.5 billion from foreign exchange translation (excluding the impacts of general fund assets);
- net outflows from segregated funds and third-party AUM of \$5.0 billion;
- Client distributions of \$3.2 billion; and
- a decrease in AUM of general fund assets of \$1.7 billion.

Segregated fund and third-party AUM net outflows of \$2.2 billion during the quarter were comprised of:

(\$ billions)	Quarterly results				
	Q2'23	Q1'23	Q4'22	Q3'22	Q2'22
Net flows for Segregated fund and Third-party AUM:					
MFS	(5.3)	(5.8)	(16.1)	(13.4)	(7.0)
SLC Management	2.0	3.2	3.5	5.7	7.3
Canada, Asia and other	1.1	(0.2)	(0.1)	(0.6)	(0.2)
Total net flows for Segregated fund and Third-party AUM	(2.2)	(2.8)	(12.7)	(8.3)	0.1

⁽¹⁾ This change excludes the impacts of foreign exchange translation. For more information about these non-IFRS financial measures, see section N - Non-IFRS Financial Measures in this document.

⁽²⁾ Dental sales include sales from DentaQuest, acquired on June 1, 2022.

⁽³⁾ The acquisition of a majority stake in Advisors Asset Management, Inc. ("AAM acquisition"). For additional information, refer to Note 3 in our Interim Consolidated Financial Statements for the period ended June 30, 2023.

E. Contractual Service Margin

Contractual Service Margin represents a source of stored value for future insurance profits and qualifies as available capital for LICAT purposes. CSM is a component of insurance contract liabilities. The following table shows the change in CSM including its recognition into net income in the period, as well as the growth from new insurance sales activity.

(\$ millions)	For the six months ended June 30, 2023	For the full year ended December 31, 2022
Beginning of Period	10,865	9,797
Impact of new insurance business ⁽¹⁾⁽²⁾	502	762
Expected movements from asset returns & locked-in rates ⁽²⁾⁽³⁾	256	362
Insurance experience gains/losses ⁽²⁾	114	89
CSM recognized for services provided	(443)	(861)
Organic CSM Movement⁽²⁾	429	352
Impact of markets & other ⁽²⁾	7	37
Impact of change in assumptions ⁽²⁾	330	431
Currency impact	(111)	248
Disposition ⁽⁴⁾	(262)	—
Total CSM Movement	393	1,068
Contractual Service Margin, End of Period	11,258	10,865

⁽¹⁾ Impact of new insurance business on CSM, also referred to as "new business CSM", represents growth from sales activity in the period, including individual protection sales (excluding joint ventures), and defined benefit solutions and segregated fund wealth sales in Canada.

⁽²⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document.

⁽³⁾ Expected movements from asset returns & locked-in rates primarily reflects: i) the expected returns on assets supporting variable fee approach ("VFA") contracts and ii) the increase in average locked-in rates from the passage of time on in-force business and new business added at current rates. Locked-in rates refer to the term structure associated with locked-in discount rates, set when the insurance contract was sold, or on transition to IFRS 17. VFA contracts include Participating life insurance, Segregated funds, and Variable Universal Life ("VUL").

⁽⁴⁾ Relates to the sale of Sun Life UK. For additional information, refer to Note 3 in our Interim Consolidated Financial Statements for the period ended June 30, 2023.

Total CSM ended Q2'23 at \$11.3 billion, an increase of \$0.4 billion or 4% for the six months ended June 30, 2023:

- Organic CSM movement was driven by the impact of new insurance business, reflecting individual protection sales in Canada and Asia.
- Favourable insurance experience in Canada, partially offset by Asia which included policyholder behaviour in Vietnam.
- Impact of change in assumptions include a contract modification resulting in a change in the fulfilment cash flows offset by CSM within insurance contract liabilities.
- Unfavourable currency impacts in Asia.
- A \$262 million reduction to the CSM balance from the sale of Sun Life UK.

F. Financial Strength

	IFRS 17 and IFRS 9			IFRS 4 and IAS 39 ⁽¹⁾		
(\$ millions, unless otherwise stated)	Q2'23	Q1'23	As at January 1, 2023 ⁽²⁾	Q4'22	Q3'22	Q2'22
LICAT ratio						
Sun Life Financial Inc. ⁽¹⁾⁽²⁾	148%	148%	142%	130%	129%	128%
Sun Life Assurance ⁽¹⁾⁽²⁾	139%	144%	139%	127%	123%	124%
Capital						
Subordinated debt	6,679	6,677	6,676	6,676	7,075	6,427
Innovative capital instruments ⁽³⁾	200	200	200	200	200	200
Equity in the participating account	354	303	268	1,837	1,764	1,713
Non-controlling interests	138	133	90	90	64	56
Preferred shares and other equity instruments	2,239	2,239	2,239	2,239	2,239	2,239
Common shareholders' equity ⁽⁴⁾	20,461	20,735	20,290	25,211	24,718	23,825
Contractual Service Margin ⁽²⁾⁽⁵⁾	11,258	11,243	10,865			
Total capital ⁽¹⁾⁽²⁾	41,329	41,530	40,628	36,253	36,060	34,460
Financial leverage ratio⁽¹⁾⁽⁵⁾⁽⁶⁾	23.3%	23.2%	23.7%	25.1%	26.4%	25.7%
Dividend						
Underlying dividend payout ratio ⁽¹⁾⁽⁶⁾	48%	47%	47%	43%	43%	45%
Dividends per common share (\$)	0.750	0.720	0.720	0.720	0.690	0.690
Book value per common share (\$) ⁽¹⁾	34.86	35.34	34.60	42.99	42.18	40.65

⁽¹⁾ This measure has not been restated for periods in 2022 and earlier as IFRS 17 and IFRS 9 were not the accounting standards in effect, and therefore were not applicable to our capital management practices at the time.

⁽²⁾ OSFI's 2023 LICAT Guideline, effective January 1, 2023, specifies that available capital for LICAT purposes includes the Contractual Service Margin. Prior period restatement and resubmissions are not mandated. Pro-forma January 1, 2023 LICAT ratios are disclosed to illustrate transition impact. These pro-forma calculations will not be formally submitted to OSFI. Additionally, effective January 1, 2023, total capital was updated to include the CSM balance.

⁽³⁾ Innovative capital instruments consist of Sun Life Exchangeable Capital Securities ("SLEECs"), see section I - Capital and Liquidity Management in the 2022 Annual MD&A.

⁽⁴⁾ Common shareholders' equity is equal to Total shareholders' equity less Preferred shares and other equity instruments.

⁽⁵⁾ Effective January 1, 2023, the calculation for the financial leverage ratio was updated to include the CSM balance (net of taxes) in the denominator. The CSM (net of taxes) was \$9.1 billion as at June 30, 2023 (March 31, 2023 - \$9.0 billion; January 1, 2023 - \$8.7 billion).

⁽⁶⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document.

1. Life Insurance Capital Adequacy Test

The Office of the Superintendent of Financial Institutions 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. Sun Life Assurance, SLF Inc.'s principal operating life insurance subsidiary, is also subject to the LICAT guideline.

SLF Inc.'s LICAT ratio of 142% and Sun Life Assurance's LICAT ratio of 139% as at January 1, 2023 increased 12 percentage points compared to December 31, 2022, from the transition to IFRS 17. The largest driver of change was the reduction in the LICAT base solvency buffer ("BSB") scalar from 1.05 to 1.0 which contributed seven percentage points.

SLF Inc.'s LICAT ratio of 148% as at June 30, 2023 increased six percentage points compared to January 1, 2023, driven by reported net income, the sale of Sun Life UK, and capital optimization. This was partially offset by shareholder dividend payments.

Sun Life Assurance's LICAT ratio of 139% as at June 30, 2023 was consistent to January 1, 2023, as the impact from reported net income and sale of Sun Life UK were offset by dividend payments to SLF Inc.

The Sun Life Assurance LICAT ratios in both periods are well above OSFI's supervisory ratio of 100% and regulatory minimum ratio of 90%.

2. Capital

On transition to the new standards, total capital of \$40.6 billion as at January 1, 2023 increased \$4.4 billion compared to December 31, 2022 driven by the establishment of the CSM, which includes transfers from Common shareholders' equity and equity in the participating account to the CSM.

Our total capital consists of subordinated debt and other capital instruments, CSM, equity in the participating account and total shareholders' equity which includes common shareholders' equity, preferred shares and other equity instruments, and non-controlling interests. As at June 30, 2023, our total capital was \$41.3 billion, an increase of \$0.7 billion compared to January 1, 2023. The increase to total capital included reported net income of \$1,466 million, an increase of \$393 million in CSM and net unrealized gains on fair value through other comprehensive income ("FVOCI") assets of \$82 million. This was partially offset by the payment of \$863 million of dividends on common shares of SLF Inc. ("common shares"), unfavourable impacts of foreign exchange translation of \$322 million included in other comprehensive income (loss) ("OCI") and the impact related to the acquisition of AAM of \$158 million⁽¹⁾.

Our capital and liquidity positions remain strong with a LICAT ratio of 148% at SLF Inc., a financial leverage ratio of 23.3%⁽²⁾ and \$2.0 billion in cash and other liquid assets⁽²⁾ as at June 30, 2023 in SLF Inc.⁽³⁾ (December 31, 2022 - \$1.1 billion).

Subsequent Events

For additional information, refer to Note 17 of our Interim Consolidated Financial Statements for the period ended June 30, 2023.

Effective July 1, 2023 we commenced our 15-year exclusive bancassurance partnership with Dah Sing Bank ("Dah Sing"). Under this partnership, Sun Life will be the exclusive provider of life insurance solutions to Dah Sing's approximately 570,000 retail banking customers, helping to fulfill their savings and protection needs at different life stages. This is Sun Life's first exclusive bancassurance partnership in Hong Kong and will be a valuable complement to our existing network of over 2,500 expert insurance advisors. Hong Kong is a thriving life insurance hub in Asia and bancassurance is a key distribution channel, accounting for more than 50% of the life insurance distribution mix in Hong Kong.

On July 4, 2023, SLF Inc. issued \$500 million principal amount of Series 2023-1 Subordinated Unsecured 5.50% Fixed/Floating Debentures due 2035. Sun Life intends to use an amount equal to the net proceeds from the offering to finance or refinance, in whole or in part, eligible assets as defined in our Sustainability Bond Framework.

On July 21, 2023, SLF Inc. announced its intention to redeem all of the outstanding \$1 billion principal amount of Series 2016-2 Subordinated Unsecured 3.05% Fixed/Floating Debentures, in accordance with the redemption terms attached to such debentures. The redemption will be funded from existing cash and liquid assets. SLF Inc. intends to redeem the debentures on September 19, 2023.

On July 26, 2023, we announced that we entered into an agreement to acquire Dialogue Health Technologies Inc. ("Dialogue") in which our current ownership interest will increase from approximately 23% to approximately 97% for estimated cash proceeds of \$277 million (for equity not currently owned by Sun Life or rolled by certain members of Dialogue's executive management). Dialogue is a Canadian based health and wellness virtual care platform and will form a part of our Canada business segment. The transaction is expected to close in 2023, subject to satisfaction of customary closing conditions.

On August 8, 2023, SLF Inc. announced that, subject to the approval of OSFI and the Toronto Stock Exchange ("TSX"), it intends to launch a normal course issuer bid to purchase up to 17 million of its common shares ("the NCIB"). Subject to receipt of regulatory and stock exchange approvals, the NCIB is expected to commence on August 21, 2023 and continue until August 20, 2024, or such earlier date as SLF Inc. may determine. Purchases under the NCIB may be made through the facilities of the TSX, other Canadian stock exchanges and/or alternative Canadian trading platforms, at prevailing market rates. Subject to regulatory approval, purchases under the NCIB may also be made by way of private agreements or share repurchase programs under issuer bid exemption orders issued by securities regulatory authorities. Any purchases made under an exemption order issued by a securities regulatory authority will generally be at a discount to the prevailing market price. The actual number of common shares purchased under the NCIB, and the timing of such purchases (if any), will be determined by SLF Inc. Any common shares purchased by SLF Inc. pursuant to the NCIB will be cancelled or used in connection with certain equity settled incentive arrangements. The NCIB will provide the Company with the flexibility to acquire common shares in order to return capital to shareholders as part of its overall capital management strategy.

⁽¹⁾ For additional information, refer to Note 3 in our interim Consolidated Financial Statements for the period ended June 30, 2023.

⁽²⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document.

⁽³⁾ SLF Inc. (the ultimate parent company) and its wholly-owned holding companies.

G. Performance by Business Segment

(\$ millions)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22 ⁽¹⁾	2023	2022 ⁽¹⁾
Underlying net income (loss)⁽²⁾					
Asset Management	296	282	295	578	616
Canada	372	316	299	688	505
U.S.	215	237	134	452	241
Asia	150	141	118	291	251
Corporate	(113)	(81)	(38)	(194)	(85)
Total underlying net income (loss) ⁽²⁾	920	895	808	1,815	1,528
Reported net income (loss) - Common shareholders					
Asset Management	248	254	298	502	609
Canada	210	329	476	539	732
U.S.	175	168	149	343	205
Asia	122	134	7	256	118
Corporate	(95)	(79)	—	(174)	(69)
Total reported net income (loss) - Common shareholders	660	806	930	1,466	1,595

⁽¹⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards. See the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in section A - How We Report Our Results in this document.

⁽²⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document.

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

1. Asset Management

Asset Management (C\$ millions)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22	2023	2022
Underlying net income ⁽¹⁾	296	282	295	578	616
Add: Market-related impacts ⁽²⁾	(31)	(7)	(17)	(38)	(17)
Management's ownership of MFS shares ⁽²⁾	(1)	17	42	16	51
Acquisition, integration and restructuring ⁽²⁾⁽³⁾	(11)	(33)	(18)	(44)	(33)
Intangible asset amortization ⁽²⁾	(5)	(5)	(4)	(10)	(8)
Reported net income - Common shareholders	248	254	298	502	609
Assets under management (C\$ billions) ⁽¹⁾	997.8	988.6	905.3	997.8	905.3
Gross flows (C\$ billions) ⁽¹⁾	37.7	40.8	49.6	78.5	99.1
Net flows (C\$ billions) ⁽¹⁾	(3.3)	(2.5)	0.3	(5.8)	(1.7)
MFS (C\$ millions)					
Underlying net income ⁽¹⁾	252	254	250	506	531
Add: Management's ownership of MFS shares ⁽²⁾	(1)	17	42	16	51
Reported net income - Common shareholders	251	271	292	522	582
Assets under management (C\$ billions) ⁽¹⁾	779.8	770.7	711.7	779.8	711.7
Gross flows (C\$ billions) ⁽¹⁾	33.3	34.5	40.5	67.8	81.1
Net flows (C\$ billions) ⁽¹⁾	(5.3)	(5.8)	(7.0)	(11.1)	(13.9)
MFS (US\$ millions)					
Underlying net income ⁽¹⁾	187	188	197	375	418
Add: Management's ownership of MFS shares ⁽²⁾	—	12	31	12	38
Reported net income - Common shareholders	187	200	228	387	456
Pre-tax net operating margin for MFS ⁽¹⁾	37%	37%	36%	37%	37%
Average net assets (US\$ billions) ⁽¹⁾	577.1	566.3	592.1	571.7	619.4
Assets under management (US\$ billions) ⁽¹⁾⁽⁴⁾	589.1	570.3	552.9	589.1	552.9
Gross flows (US\$ billions) ⁽¹⁾	24.8	25.5	31.7	50.3	63.8
Net flows (US\$ billions) ⁽¹⁾	(4.0)	(4.3)	(5.5)	(8.2)	(10.9)
Asset appreciation (depreciation) (US\$ billions)	22.8	26.7	(78.6)	49.5	(129.0)
SLC Management (C\$ millions)					
Underlying net income ⁽¹⁾	44	28	45	72	85
Add: Market-related impacts ⁽²⁾	(31)	(7)	(17)	(38)	(17)
Acquisition, integration and restructuring ⁽²⁾⁽³⁾	(11)	(33)	(18)	(44)	(33)
Intangible asset amortization ⁽²⁾	(5)	(5)	(4)	(10)	(8)
Reported net income (loss) - Common shareholders	(3)	(17)	6	(20)	27
Fee-related earnings ⁽¹⁾	62	68	52	130	106
Pre-tax fee-related earnings margin ⁽¹⁾⁽⁵⁾	24%	24%	23%	24%	23%
Pre-tax net operating margin ⁽¹⁾⁽⁵⁾	20%	21%	24%	20%	24%
Assets under management (C\$ billions) ⁽¹⁾	218.1	217.8	193.6	218.1	193.6
Gross flows - AUM (C\$ billions) ⁽¹⁾	4.4	6.3	9.2	10.7	17.9
Net flows - AUM (C\$ billions) ⁽¹⁾	2.0	3.2	7.3	5.3	12.2
Fee earning assets under management ("FE AUM") (C\$ billions) ⁽¹⁾	171.1	171.7	150.1	171.1	150.1
Gross flows - FE AUM (C\$ billions) ⁽¹⁾	4.2	5.0	6.8	9.3	14.9
Net flows - FE AUM (C\$ billions) ⁽¹⁾	2.0	2.5	5.0	4.6	10.5
Assets under administration ("AUA") (C\$ billions) ⁽¹⁾	49.9	50.1	—	49.9	—
Capital raising (C\$ billions) ⁽¹⁾	2.1	2.3	5.7	4.4	11.4
Deployment (C\$ billions) ⁽¹⁾	4.7	6.0	7.0	10.7	13.8

⁽¹⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document.

⁽²⁾ Represents an adjustment made to arrive at a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment, including pre-tax adjustments.

⁽³⁾ Amounts relate to acquisition costs for our SLC Management affiliates, BentallGreenOak, InfraRed Capital Partners, Crescent Capital Group LP and Advisors Asset Management, Inc, which include the unwinding of the discount for Other financial liabilities of \$21 million in Q2'23 and \$41 million for the first six months of 2023 (Q1'23 - \$20 million; Q2'22 - \$16 million; the first six months of 2022 - \$32 million).

⁽⁴⁾ 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' U.S. GAAP assets and liabilities as at December 31, 2022.

⁽⁵⁾ Based on a trailing 12-month basis. IFRS 9 was adopted on January 1, 2023, as such the Q2'22 pre-tax net operating margin reflects earnings on an IAS 39 basis. For more details, see section N - Non-IFRS Financial Measures in this document.

Profitability

Quarterly Comparison - Q2'23 vs. Q2'22

Asset Management underlying net income of \$296 million increased \$1 million driven by:

- **MFS** up \$2 million (down US\$10 million): Higher net investment income and the impacts from foreign exchange translation was largely offset by lower average net assets ("ANA") reflecting equity market declines over the past year and net outflows. The MFS pre-tax net operating profit margin⁽¹⁾ was 37% for Q2'23, compared to 36% in the prior year.
- **SLC Management** down \$1 million: Fee-related earnings⁽¹⁾ increased 19% driven by higher AUM, reflecting strong capital raising and deployment across the platform and the AAM acquisition. Fee-related earnings margin⁽¹⁾ and pre-tax net operating profit margin⁽¹⁾ for Q2'23 were 24% and 20%, respectively (Q2'22 - 23% and 24%, respectively). Underlying net income was in line with prior year, with the increase in fee-related earnings offset by higher earned operating income in the prior year that did not repeat.

Asset Management reported net income of \$248 million decreased \$50 million or 17%, driven by fair value changes in management's ownership of MFS shares and losses on real estate investments held in the SLC Management surplus account.

Foreign exchange translation led to an increase of \$13 million and \$12 million in underlying net income and reported net income, respectively.

Year-to-Date Comparison - Q2'23 vs. Q2'22

Asset Management underlying net income of \$578 million decreased \$38 million or 6% driven by:

- **MFS** down \$25 million (US\$43 million): Lower ANA reflecting equity market declines over the past year and net outflows, partially offset by higher net investment income and lower variable compensation costs.
- **SLC Management** down \$13 million: Fee-related earnings⁽¹⁾ increased 23% driven by higher AUM, reflecting strong capital raising and deployment across the platform and the AAM acquisition. Underlying net income was down from prior year as fee-related earnings growth was more than offset by higher financing costs on seed investments and higher compensation expenses.

Asset Management reported net income of \$502 million decreased \$107 million or 18% driven by the decline in underlying net income, fair value changes in management's ownership of MFS shares, losses on real estate investments held in the SLC Management surplus account, and SLC Management acquisition-related costs.

Foreign exchange translation led to an increase of \$29 million and \$27 million in underlying net income and reported net income, respectively.

Growth

Asset Management AUM of \$997.8 billion increased \$45.9 billion or 5% from December 31, 2022 driven by:

- Net asset value changes of \$49.7 billion; and
- AUM driven by the AAM acquisition of \$5.2 billion; partially offset by
- Net outflows of \$5.8 billion; and
- Client distributions of \$3.2 billion.

MFS' AUM increased US\$41.3 billion or 8% from December 31, 2022, driven by:

- Increase in asset values from higher equity markets of US\$49.5 billion, partially offset by net outflows of US\$8.2 billion.

In Q2'23, 98%, 92%, and 20% of MFS' U.S. retail mutual fund assets ranked in the top half of their Morningstar categories based on ten-, five- and three-year performance, respectively.

SLC Management's AUM increased \$8.4 billion or 4% from December 31, 2022 driven by:

- Net inflows of \$5.3 billion, the AAM acquisition of \$5.2 billion, and asset value changes of \$1.2 billion, partially offset by Client distributions of \$3.2 billion.
- Net inflows were comprised of capital raising and Client contributions, totaling \$10.7 billion, partially offset by outflows of \$5.4 billion.

SLC Management's FE AUM increased \$6.6 billion or 4% from December 31, 2022, driven by:

- The AAM acquisition of \$5.2 billion and net inflows of \$4.6 billion, partially offset by Client distributions of \$2.8 billion and asset value changes of \$0.3 billion.
- Net inflows were comprised of capital deployment and Client contributions, totaling \$9.3 billion, partially offset by outflows of \$4.7 billion.

⁽¹⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document.

2. Canada

(\$ millions)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22 ⁽¹⁾	2023	2022 ⁽¹⁾
Wealth & asset management ⁽²⁾	110	114	110	224	190
Group - Health & Protection ⁽²⁾	160	95	112	255	171
Individual - Protection ⁽²⁾	102	107	77	209	144
Underlying net income⁽²⁾	372	316	299	688	505
Add: Market-related impacts ⁽¹⁾⁽³⁾	(156)	(47)	202	(203)	267
ACMA ⁽³⁾	(6)	(2)	(22)	(8)	(34)
Acquisition, integration and restructuring ⁽³⁾	3	65	—	68	—
Intangible asset amortization ⁽³⁾	(3)	(3)	(3)	(6)	(6)
Reported net income - Common shareholders⁽¹⁾	210	329	476	539	732
Underlying ROE (%) ⁽²⁾	23.5%	18.3%	19.2%	20.8%	16.3%
Reported ROE (%) ⁽²⁾	13.2%	19.1%	30.6%	16.3%	23.7%
Wealth sales & asset management gross flows ⁽²⁾⁽⁴⁾	3,130	3,090	3,341	6,220	7,349
Group - Health & Protection sales ⁽²⁾	153	145	92	298	312
Individual - Protection sales ⁽²⁾	154	136	126	290	238

⁽¹⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards. See the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in section A - How We Report Our Results in this document.

⁽²⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document. For more information about business types in Sun Life's business groups, see section A - How We Report Our Results in this document.

⁽³⁾ Represents an adjustment made to arrive at a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment, including pre-tax adjustments.

⁽⁴⁾ Effective January 1, 2023, Canada wealth sales & asset management gross flows have been updated to exclude retained sales. Prior period amounts have been updated to reflect this change.

Profitability

Quarterly Comparison - Q2'23 vs. Q2'22

Underlying net income of \$372 million increased \$73 million or 24%, reflecting:

- **Wealth & asset management** in line with prior year: Increase in investment income driven by higher volume and yields, largely offset by higher expenses.
- **Group - Health & Protection** up \$48 million: Better disability experience reflecting higher margins, lower claims volumes, and shorter claims durations.
- **Individual - Protection** up \$25 million: Improved insurance experience as well as higher investment contributions.

Reported net income of \$210 million decreased \$266 million or 56%, reflecting market-related impacts primarily from interest rates and real estate experience, partially offset by the increase in underlying net income.

Year-to-Date Comparison - Q2'23 vs. Q2'22

Underlying net income of \$688 million increased \$183 million or 36%, reflecting:

- **Wealth & asset management** up \$34 million: Increase in investment income driven by higher volume and yields, partially offset by lower fee-based earnings reflecting equity market declines over the past year, and higher expenses.
- **Group - Health & Protection** up \$84 million: Better disability experience reflecting higher margins, lower claims volumes, and shorter claims durations.
- **Individual - Protection** up \$65 million: Higher premiums reflecting good sales momentum during the past year, improved insurance experience and higher investment contributions.
- Higher earnings on surplus reflecting an increase in realized gains and net interest income from higher rates.

Reported net income of \$539 million decreased \$193 million or 26%, reflecting market-related impacts primarily from interest rates and real estate experience, partially offset by the increase in underlying net income and a gain on the sale of the sponsored markets business.

Growth

Quarterly Comparison - Q2'23 vs. Q2'22

Canada's sales included:

- Wealth sales & asset management gross flows of \$3.1 billion were down 6%, reflecting lower defined benefit solution sales partially offset by higher defined contribution sales in GRS.
- Group sales of \$153 million were up 66%, reflecting higher large case sales.
- Individual sales of \$154 million were up 22%, reflecting higher participating whole life insurance sales.

Year-to-Date Comparison - Q2'23 vs. Q2'22

Canada's sales included:

- Wealth sales & asset management gross flows of \$6.2 billion were down 15%, reflecting lower defined contribution and defined benefit solution sales in GRS, as well as lower mutual fund sales in individual wealth.
- Group sales of \$298 million were down 4%, reflecting higher large case sales in the prior year.
- Individual sales of \$290 million were up 22%, reflecting higher participating whole life insurance sales.

3. U.S.

(US\$ millions)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22 ⁽¹⁾	2023	2022 ⁽¹⁾
Group - Health & Protection ⁽²⁾	149	154	103	303	154
Individual - Protection ⁽²⁾⁽³⁾	11	22	(1)	33	31
Underlying net income⁽²⁾	160	176	102	336	185
Add: Market-related impacts ⁽¹⁾⁽⁴⁾	(9)	(13)	(1)	(22)	(33)
ACMA ⁽⁴⁾	18	—	—	18	1
Acquisition, integration and restructuring ⁽⁴⁾⁽⁵⁾	(24)	(21)	(38)	(45)	(42)
Intangible asset amortization ⁽⁴⁾	(12)	(17)	(8)	(29)	(12)
Other ⁽⁴⁾⁽⁶⁾	—	—	58	—	58
Reported net income - Common shareholders⁽¹⁾	133	125	113	258	157
Underlying ROE (%) ⁽²⁾	13.8%	14.8%	11.2%	14.2%	11.8%
Reported ROE (%) ⁽²⁾	11.4%	10.5%	12.4%	10.9%	10.0%
After-tax profit margin for Group Benefits (%) ⁽²⁾⁽⁷⁾	10.2%	9.7%	4.7%	10.2%	4.7%
Group - Health & Protection sales ⁽²⁾	360	275	168	635	284

⁽¹⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards. See the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in section A - How We Report Our Results in this document.

⁽²⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document. For more information about business types in Sun Life's business groups, see section A - How We Report Our Results in this document.

⁽³⁾ Effective Q2'23, the UK payout annuities run-off business was moved from the Corporate business segment to the U.S. business segment upon the sale of Sun Life UK. For additional information, refer to Note 3 of our Interim Consolidated Financial Statements for the period ended June 30, 2023.

⁽⁴⁾ Represents an adjustment made to arrive at a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment, including pre-tax amounts.

⁽⁵⁾ Includes acquisition and integration costs associated with DentaQuest, acquired on June 1, 2022.

⁽⁶⁾ Other adjustments to arrive at a non-IFRS financial measure include other items that are unusual or exceptional in nature. See section N - Non-IFRS Financial Measures in this document.

⁽⁷⁾ Based on underlying net income, on a trailing four-quarter basis. IFRS 17 and IFRS 9 were adopted on January 1, 2023, as such the Q2'22 margin reflects underlying net income on an IFRS 4 and IAS 39 basis. For more details, see section N - Non-IFRS Financial Measures in this document.

Profitability

Quarterly Comparison - Q2'23 vs. Q2'22

Underlying net income of US\$160 million increased US\$58 million or 57%, driven by:

- **Group - Health & Protection** up US\$46 million: Strong performance across all businesses including good premium growth, contribution from the DentaQuest acquisition, higher investment contributions and favourable experience. Experience in the quarter included higher medical stop-loss margins and favourable group disability.
- **Individual - Protection** up US\$12 million: The inclusion of the UK payout annuity business⁽¹⁾ and insurance experience. Mortality experience in the quarter improved compared to the prior year.
- Higher earnings on surplus reflecting an increase in net interest income from higher rates.

Reported net income of US\$133 million increased US\$20 million or 18%, reflecting the increase in underlying net income and favourable ACMA, partially offset by a prior year gain on the sale-leaseback of the Wellesley office.

Foreign exchange translation led to an increase of \$11 million and \$10 million in underlying net income and reported net income, respectively.

⁽¹⁾ Effective Q2'23, the UK payout annuities run-off business was moved from the Corporate business segment to the U.S. business segment upon the sale Sun Life UK. For additional information, refer to Note 3 of our Interim Consolidated Financial Statements for the period ended June 30, 2023.

Year-to-Date Comparison - Q2'23 vs. Q2'22

Underlying net income of US\$336 million increased US\$151 million or 82%, driven by:

- **Group - Health & Protection** up US\$149 million: Strong performance across all businesses including good premium growth, contribution from the DentaQuest acquisition, higher investment contributions and favourable experience. Experience in the year included higher medical stop-loss margins and favourable group disability. Mortality improved significantly compared to pandemic-related experience in the prior year.
- **Individual - Protection** up US\$2 million: In line with the prior year.
- Higher earnings on surplus reflecting an increase in net interest income from higher rates.

Reported net income of US\$258 million increased US\$101 million or 64%, reflecting the increase in underlying net income, partially offset by a prior year gain on the sale-leaseback of the Wellesley office and amortization of DentaQuest acquired intangible assets.

Foreign exchange translation led to an increase of \$26 million and \$22 million in underlying net income and reported net income, respectively.

Growth

Quarterly Comparison - Q2'23 vs. Q2'22

U.S. group sales of US\$360 million were up US\$192 million driven by higher dental⁽¹⁾ and medical stop-loss sales.

Year-to-Date Comparison - Q2'23 vs. Q2'22

U.S. group sales of US\$635 million were up US\$351 million driven by higher dental⁽¹⁾ and medical stop-loss sales.

⁽¹⁾ Dental sales include sales from DentaQuest, acquired on June 1, 2022.

4. Asia

(\$ millions)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22 ⁽¹⁾	2023	2022 ⁽¹⁾
Wealth & asset management ⁽²⁾	13	15	15	28	36
Individual - Protection ⁽²⁾⁽³⁾	144	130	106	274	225
Regional Office expenses & other ⁽²⁾	(7)	(4)	(3)	(11)	(10)
Underlying net income (loss)⁽²⁾	150	141	118	291	251
Add: Market-related impacts ⁽¹⁾⁽⁴⁾	(12)	5	(103)	(7)	(106)
ACMA ⁽⁴⁾	(10)	(6)	—	(16)	(16)
Acquisition, integration and restructuring ⁽⁴⁾	(4)	(4)	(6)	(8)	(7)
Intangible asset amortization ⁽⁴⁾	(2)	(2)	(2)	(4)	(4)
Reported net income - Common shareholders⁽¹⁾	122	134	7	256	118
Underlying ROE (%) ⁽²⁾	10.9%	10.4%	10.2%	10.7%	10.9%
Reported ROE (%) ⁽²⁾	9.0%	9.9%	0.5%	9.4%	5.2%
Wealth sales & asset management gross flows ⁽²⁾	1,616	2,430	3,298	4,046	6,819
Individual - Protection sales ⁽²⁾	450	375	290	825	587
Group - Health & Protection sales ⁽²⁾⁽³⁾	19	25	15	44	37
New business CSM	118	102	70	220	121

⁽¹⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards. See the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in section A - How We Report Our Results in this document.

⁽²⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document. For more information about business types in Sun Life's business groups, see section A - How We Report Our Results in this document.

⁽³⁾ In underlying net income by business type, Group businesses in Asia have been included with Individual - Protection.

⁽⁴⁾ Represents an adjustment made to arrive at a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document.

Profitability

Effective the first quarter of 2023, the business units in Asia have been updated to: ASEAN, Hong Kong, Joint Ventures, High-Net-Worth, and Regional Office, to provide better information on our geographic and business strategies in the region. Prior to the first quarter of 2023, the business units in Asia were referred to as Local Markets and International Hubs in our interim and annual MD&A.

The following provides an overview of the new business units:

- ASEAN: *Philippines, Indonesia, Vietnam*
- Hong Kong
- Joint Ventures: *India, China, Malaysia*
- High-Net-Worth: *International, Singapore*
- Regional Office

Quarterly Comparison - Q2'23 vs. Q2'22

Underlying net income of \$150 million increased \$32 million or 27%, driven by:

- **Wealth & asset management** down \$2 million: Lower fee-based earnings reflecting lower AUM in the Philippines.
- **Individual - Protection** up \$38 million: Higher premiums reflecting good sales momentum during the past year, and improved expenses and lapse experience in our joint ventures. This was partially offset by less favourable morbidity experience in Hong Kong.
- **Regional office expenses & other** \$(4) million increased net loss: In line with the prior year.

Reported net income of \$122 million increased \$115 million, driven by market-related impacts, largely from interest rates partially offset by real estate experience, and the increase in underlying net income.

Foreign exchange translation led to an increase of \$3 million in underlying net income and reported net income.

Year-to-Date Comparison - Q2'23 vs. Q2'22

Underlying net income of \$291 million increased \$40 million or 16%, driven by

- **Wealth & asset management** down \$8 million: Lower fee-based earnings largely reflecting equity market declines over the past year, and lower AUM in the Philippines.
- **Individual - Protection** up \$49 million: Higher premiums reflecting good sales momentum during the past year, improved mortality, and contributions from joint ventures driven by favourable policyholder behaviour and expense experience, partially offset by lower investment contributions.
- **Regional office expenses & other** \$(1) million increased net loss: In line with the prior year.

Reported net income of \$256 million increased \$138 million, driven by market-related impacts largely from interest rates partially offset by real estate experience, and the increase in underlying net income.

Foreign exchange translation led to an increase of \$6 million and \$10 million in underlying net income and reported net income, respectively.

Growth

Quarterly Comparison - Q2'23 vs. Q2'22

Asia's sales included:

- Wealth sales & asset management gross flows of \$1.6 billion were down 52%⁽¹⁾, primarily reflecting lower money market fund sales in the Philippines.
- Individual sales of \$450 million were up 51%⁽¹⁾, driven by higher sales in Hong Kong, China and India.

New business CSM of \$118 million, compared to \$70 million in the prior year, was primarily driven by sales and favourable product mix in High-Net-Worth and Hong Kong.

Year-to-Date Comparison - Q2'23 vs. Q2'22

Asia's sales included:

- Wealth sales & asset management gross flows of \$4.0 billion were down 41%⁽¹⁾, primarily reflecting lower money market fund sales in the Philippines.
- Individual sales of \$825 million were up 38%⁽¹⁾, driven by higher sales in Hong Kong, India, China, and International.

New business CSM of \$220 million, compared to \$121 million in the prior year, was primarily driven by sales and favourable product mix in High-Net-Worth and Hong Kong.

⁽¹⁾This change excludes the impacts of foreign exchange translation. For more information about these non-IFRS financial measures, see section N - Non-IFRS Financial Measures in this document.

5. Corporate

(\$ millions)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22 ⁽¹⁾	2023	2022 ⁽¹⁾
Individual - Protection ⁽²⁾⁽³⁾	4	25	24	29	44
Corporate expenses & other ⁽²⁾	(117)	(106)	(62)	(223)	(129)
Underlying net income (loss)⁽²⁾	(113)	(81)	(38)	(194)	(85)
Add: Market-related impacts ⁽¹⁾⁽⁴⁾	(6)	2	37	(4)	15
ACMA ⁽⁴⁾	—	3	—	3	—
Acquisition, integration and restructuring ⁽⁴⁾	24	(3)	—	21	—
Other ⁽⁴⁾⁽⁵⁾	—	—	1	—	1
Reported net income (loss) - Common shareholders⁽¹⁾	(95)	(79)	—	(174)	(69)

⁽¹⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards. See the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in section A - How We Report Our Results in this document.

⁽²⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document. For more information about business types in Sun Life's business groups, see section A - How We Report Our Results in this document.

⁽³⁾ The UK annuities run-off businesses in Corporate has been included with Individual – Protection. Effective Q2'23, the UK annuities run-off business was moved from the Corporate business segment to the U.S. business segment upon the sale of Sun Life UK. For additional information, refer to Note 3 of our Interim Consolidated Financial Statements for the period ended June 30, 2023.

⁽⁴⁾ Represents an adjustment made to arrive at a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment, including pre-tax amounts.

⁽⁵⁾ Other adjustments to arrive at a non-IFRS financial measure include other items that are unusual or exceptional in nature. See section N - Non-IFRS Financial Measures in this document.

Profitability

Quarterly Comparison - Q2'23 vs. Q2'22

Underlying net loss was \$113 million compared to underlying net loss of \$38 million in the prior year, reflecting higher operating expenses including incentive compensation and an increase in debt financing costs, the impact from the sale of Sun Life UK, partially offset by higher investment income from surplus assets.

Reported net loss was \$95 million compared to nil reported net income in the prior year, reflecting the change in underlying net loss and market-related impacts, partially offset by a gain on the sale of Sun Life UK.

Year-to-Date Comparison - Q2'23 vs. Q2'22

Underlying net loss was \$194 million compared to underlying net loss of \$85 million in the prior year, reflecting higher operating expenses including incentive compensation and an increase in debt financing costs, the impact from the sale of Sun Life UK, partially offset by higher investment income from surplus assets.

Reported net loss was \$174 million compared to reported net loss of \$69 million in the prior year, reflecting the change in underlying net loss and market-related impacts, partially offset by a gain on the sale of Sun Life UK.

Sale of Sun Life UK

On April 3, 2023 we completed the sale of SLF of Canada UK Limited ("Sun Life UK") to Phoenix Group Holdings plc ("Phoenix Group") for approximately \$418 million (£248 million). Sun Life UK managed life and pension policies as well as payout annuities for UK Clients, was closed to new sales and operated as a run-off business since 2001. Under the agreement, we will retain our economic interest in the payout annuities business through a reinsurance treaty, which, effective Q2'23, is recorded in In-force Management within the U.S. business group. Phoenix Group is the UK's largest long-term savings and retirement business, with £259 billion⁽¹⁾ of assets under administration and approximately 13 million customers. As part of the sale, we will establish a long-term partnership to become a strategic asset management partner to Phoenix Group. Our asset management companies, MFS and SLC Management, will continue to manage approximately \$8 billion of Sun Life UK's general account. In addition, Phoenix Group has set a goal to invest approximately US\$25 billion in North American public and private fixed income and alternative investments over the next five years. MFS and SLC Management will be material partners to Phoenix Group in achieving this goal. In Q3'22, we recognized an impairment charge pertaining to the attributed goodwill that was not expected to be recovered through the sale. In Q2'23, we recognized a gain of \$19 million in reported net income. For additional information, refer to Note 3 of our Interim Consolidated Financial Statements for the period ended June 30, 2023.

⁽¹⁾ As at December 31, 2022.

H. Investments

Total general fund invested assets of \$165.8 billion as at June 30, 2023, were down \$3.0 billion from December 31, 2022. The decrease was primarily due to unfavourable impacts from foreign exchange translation partially offset by increases in net fair value from declining interest rates. Our general fund invested assets are well-diversified across investment types, geographies and sectors with the majority of our portfolio invested in high quality fixed income assets.

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

(\$ millions)	June 30, 2023		December 31, 2022	
	Carrying value	% of Total carrying value	Carrying value	% of Total carrying value
Cash, cash equivalents and short-term securities	10,348	6%	11,219	7%
Debt securities	72,469	44%	75,902	45%
Equity securities	7,187	4%	7,148	4%
Mortgages and loans	52,338	32%	51,253	30%
Derivative assets	2,178	1%	2,095	1%
Other invested assets	11,296	7%	11,070	7%
Investment properties	10,001	6%	10,102	6%
Total invested assets	165,817	100%	168,789	100%

⁽¹⁾ The values and ratios presented are based on the fair value of the respective asset categories. Generally, the carrying values for invested assets are equal to their fair values. 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

The 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. As at June 30, 2023, with the exception of certain countries where we have business operations, including Canada, the United States and the Philippines, our exposure to debt securities from any single country did not exceed 1% of total invested assets.

Debt Securities by Geography

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

(\$ millions)	June 30, 2023				December 31, 2022			
	FVTPL debt securities	FVOCI debt securities	Total	% of Total	FVTPL debt securities	FVOCI debt securities	Total	% of Total
Debt securities by geography:								
Canada	28,867	4,329	33,196	46%	26,613	6,064	32,677	43%
United States	19,638	5,752	25,390	35%	20,274	6,196	26,470	35%
Europe	3,817	1,468	5,285	7%	5,814	1,789	7,603	10%
Asia	4,835	814	5,649	8%	4,549	964	5,513	7%
Other	1,549	1,400	2,949	4%	2,107	1,532	3,639	5%
Total debt securities	58,706	13,763	72,469	100%	59,357	16,545	75,902	100%

Our gross unrealized losses as at June 30, 2023 for fair value through profit or loss ("FVTPL") and FVOCI debt securities were \$7,550 million and \$879 million, respectively (December 31, 2022 - \$9,384 million and \$1,521 million, respectively). The decrease in gross unrealized losses was largely due to declining long-term interest rates and the narrowing of credit spreads.

Debt Securities by Credit Rating

Debt securities with a credit rating of "A" or higher represented 72% of the total debt securities as at June 30, 2023 (December 31, 2022 - 72%). Debt securities with a credit rating of "BBB" or higher represented 99% of total debt securities as at June 30, 2023, (December 31, 2022 - 99%).

2. Mortgages and Loans

Our mortgage portfolio consisted almost entirely of first mortgages and our loan portfolio consisted of private placement loans. Changes to fair value estimates for loans was implemented on January 1, 2023. For additional details, refer to Note 2 in the Interim Consolidated Financial Statements for the period ended June 30, 2023.

Mortgages and Loans by Geography

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

(\$ millions)	June 30, 2023			December 31, 2022		
	Mortgages	Loans	Total	Mortgages	Loans	Total
Canada	9,515	12,309	21,824	9,363	12,433	21,796
United States	4,819	16,192	21,011	5,029	15,468	20,497
Europe	45	6,744	6,789	29	6,479	6,508
Asia	—	478	478	—	494	494
Other	—	2,236	2,236	—	1,958	1,958
Total mortgages and loans	14,379	37,959	52,338	14,421	36,832	51,253
% of Total invested assets	9%	23%	32%	8%	22%	30%

⁽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.

Mortgage Portfolio

As at June 30, 2023, we held \$14.4 billion of mortgages (December 31, 2022 - \$14.4 billion). Our mortgage portfolio consists entirely of commercial mortgages, as presented in the following table.

(\$ millions)	June 30, 2023			December 31, 2022		
	Insured	Uninsured	Total	Insured	Uninsured	Total
Mortgages:						
Retail	—	2,698	2,698	—	2,819	2,819
Office	—	2,836	2,836	—	3,014	3,014
Multi-family residential	3,692	1,316	5,008	3,592	1,422	5,014
Industrial	—	2,924	2,924	—	2,665	2,665
Other	461	452	913	443	466	909
Total mortgages	4,153	10,226	14,379	4,035	10,386	14,421
% of Total mortgages	29%	71%	100%	28%	72%	100%

Our mortgage portfolio consists entirely of commercial mortgages, including retail, office, multi-family, and industrial properties. As at June 30, 2023, 35% 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 52% as at June 30, 2023 (December 31, 2022 - 53%). 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 1.71 times. Of the \$3.9 billion of multi-family residential mortgages in the Canadian commercial mortgage portfolio, 93% were insured by the CMHC.

As at June 30, 2023, we held \$38.0 billion of loans (December 31, 2022 - \$36.8 billion). 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 corporate borrowers, securitized lease/loan obligations secured by a variety of assets, and project finance loans in sectors such as power and infrastructure.

As at June 30, 2023, our impaired mortgages and loans, net of allowances for losses, were \$10 million (December 31, 2022 - \$47 million).

3. Derivatives

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)	June 30, 2023	December 31, 2022
Net fair value asset (liability)	550	(256)
Total notional amount	68,413	69,768
Credit equivalent amount ⁽¹⁾	1,486	1,173
Risk-weighted credit equivalent amount ⁽¹⁾	34	26

⁽¹⁾ Amounts presented are net of collateral received.

The net fair value of derivatives was an asset of \$550 million as at June 30, 2023 (December 31, 2022 - liability of \$256 million). The increase in net fair value was driven by an increase in foreign exchange contracts due to the strengthening of Canadian dollar against U.S. dollar, increase in interest rate contracts driven by downward movement in yield curves and swap spread differentials between the U.S. and Canadian dollar.

The total notional amount of our derivatives decreased to \$68.4 billion as at June 30, 2023 (December 31, 2022 - \$69.8 billion). The change in notional amount is mainly attributable to a decrease in equity contracts for the replication of equity exposure.

4. Investment Properties

As at June 30, 2023, we held \$10.0 billion of investment properties (December 31, 2022 - \$10.1 billion). The decrease in our investment property portfolio is predominantly driven by a decline in market values in the office sector, partially offset by net purchases.

Investment Properties by Type and Geography

June 30, 2023							
(\$ millions)	Office	Industrial	Retail	Multi-family residential	Other	Total	% of Total by Geography
Canada	1,680	3,438	919	1,327	679	8,043	80%
United States	545	1,171	240	—	2	1,958	20%
Total	2,225	4,609	1,159	1,327	681	10,001	100%
% of Total by Type	22%	46%	12%	13%	7%	100%	

December 31, 2022							
(\$ millions)	Office	Industrial	Retail	Multi-family residential	Other	Total	% of Total by Geography
Canada	1,747	3,434	926	1,322	612	8,041	79%
United States	647	1,105	263	—	1	2,016	20%
Europe	12	16	17	—	—	45	1%
Total	2,406	4,555	1,206	1,322	613	10,102	100%
% of Total by Type	24%	45%	12%	13%	6%	100%	

5. Loss Allowance and Provision for Credit Losses

The balance of the total loss allowance was \$101 million⁽¹⁾ as at June 30, 2023 (January 1, 2023⁽²⁾ - \$93 million⁽¹⁾) and the provision for credit losses was \$8 million⁽¹⁾ for the six months ended June 30, 2023.

⁽¹⁾ Includes collateralized loan obligation ("CLO") total loss allowance of \$18 million as at June 30, 2023 (January 1, 2023 - \$18 million) and provision for credit losses of nil for the six months ended June 30, 2023.

⁽²⁾ For financial assets in which the impairment requirements of IFRS 9 applies, we have elected to continue presenting the loss allowance that was determined in accordance with IAS 39 for balances at December 31, 2022. For additional information, refer to Note 2 in our Interim Consolidated Financial Statements for the period ended June 30, 2023.

I. Risk Management

This section includes our disclosure on market risks and should be read in conjunction with our unaudited Interim Consolidated Financial Statements for the quarter ended June 30, 2023.

We have 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: market, insurance, credit, business and strategic, operational and liquidity risks. Risk appetite limits are established for equity, interest rate, credit spread, real estate and foreign currency 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 2022 Annual MD&A and AIF.

On adoption of IFRS 17 and IFRS 9, we have updated the descriptions of risk factors related to equity, interest rates, credit and swap spreads, and real estate. For more information about the adoption of IFRS 17 and IFRS 9, see Note 2 of the Interim Consolidated Financial Statements for the period ended June 30, 2023.

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.

Equity Risk

Equity risk is the potential for financial loss arising from declines or volatility in equity market prices. We are exposed to equity risk from a number of sources. A portion of our exposure to equity risk arises in connection with benefit guarantees on segregated fund products, some participating insurance contracts, some adjustable insurance contracts, and some universal life contracts. These benefit guarantees 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, the contractual service margin, and capital.

We generate revenue in our asset management businesses and from certain insurance and annuity contracts where fees are levied on account balances that are affected directly by equity market levels. Accordingly, we have further exposure to equity risk as adverse fluctuations in the market value of such assets will result in corresponding adverse impacts on revenue, income, and the contractual service margin. In addition, declining and volatile equity markets may have a negative impact on sales and redemptions (surrenders) in these businesses, and this may result in further adverse impacts on net income, the contractual service margin, and capital.

We also have direct exposure to equity markets from the investments supporting other general account liabilities, surplus, and employee benefit plans. These exposures fall within our risk-taking philosophy and appetite, and are therefore generally not hedged.

Interest Rate and Spread Risk

Interest rate and spread risk includes the potential for financial loss arising from changes in the value of insurance and investment contract liabilities and financial assets due to changes or volatility in interest rates or spreads. In practice, when asset cash flows and the policy obligations they support are not matched, this may result in the need to either sell assets to meet policy payments and expenses or reinvest excess asset cash flows in unfavourable interest rate or credit spread environments. This risk is managed in our asset-liability management program. Details of the asset-liability management program are discussed under the heading "Market Risk Management Governance and Control" in section J - Risk Management in our 2022 Annual MD&A.

Our primary exposure to interest rate and spread risk arises from insurance and investment contracts that contain guarantees in the form of minimum crediting rates, maximum premium rates, settlement options, guaranteed annuitization options and minimum benefits. If investment returns fall below guaranteed levels, we may be required to increase liabilities or capital in respect of these contracts. The guarantees attached to these products may be applicable to both past premiums collected and future premiums not yet received. Segregated fund contracts provide benefit guarantees that are linked to underlying fund performance and may be triggered upon death, maturity, withdrawal or annuitization. We are also exposed to interest rate risk through guaranteed annuitization options included primarily in retirement contracts and pension plans. These embedded options give policyholders the right to convert their investment into a pension on a guaranteed basis, thereby exposing us to declining long-term interest rates as the annuity guarantee rates come into effect. The cost of providing these guarantees is uncertain and depends upon a number of factors including the level and concentration of the guarantees relative to prevailing interest rates, credit spreads, non-fixed income returns, and policyholder behaviour. Exposure to guarantees is managed within our risk appetite limits through our asset-liability management program, which may include the use of hedging strategies utilizing interest rate derivatives such as interest rate floors, swaps, futures and swaptions. The impact of these guarantees on net income, contractual service margin and capital are included in the disclosed market risk sensitivities.

Declines in interest rates or narrowing spreads can result in compression of the net spread between interest earned on investments and interest credited to policyholders. Declines in interest rates or narrowing spreads can also result in increased asset calls, mortgage prepayments, and net reinvestment of positive cash flows at lower yields, and therefore adversely impact our profitability and financial position. Negative interest rates may additionally result in losses on our cash and short-term deposits and low or negative returns on our fixed income assets impacting our profitability. In contrast, increases in interest rates or a widening of credit spreads can reduce market values of fixed income assets, which may lead to lower capital or losses in the event of the liquidation of assets prior to maturity.

Significant changes or volatility in interest rates or spreads could have a negative impact on sales of certain insurance and annuity products, and adversely impact the expected pattern of redemptions (surrenders) on existing policies. Increases in interest rates or widening credit spreads may increase the risk that policyholders will surrender their contracts, potentially forcing us to liquidate assets at a loss. While we have established hedging programs in place and our insurance and annuity products often contain surrender mitigation features, these may not be sufficient to fully offset the adverse impact of changes in interest rates or spreads.

We also have direct exposure to interest rates and spreads from investments supporting other general account liabilities, surplus and employee benefit plans. Lower interest rates or a narrowing of spreads will result in reduced investment income on new fixed income asset purchases. Conversely, higher interest rates or wider spreads will reduce the value of our existing assets. These exposures fall within our risk-taking philosophy and appetite and are therefore generally not hedged.

A sustained low interest rate environment may adversely impact our net income, contractual service margin, capital, and our ability to implement our business strategy and plans in several ways, including:

- Lower sales of certain insurance and wealth products, which can in turn put pressure on our operating expense levels;
- Shifts in the expected pattern of redemptions (surrenders) on existing policies;
- Higher losses on new business;
- Reduced return on new fixed income asset purchases, and higher hedging costs;
- The impact of consequent changes in assumptions used to measure insurance contracts;
- Impairment of goodwill; and
- Valuation allowances against our deferred tax assets.

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 real estate investments that support general account liabilities and surplus, and fluctuations in value will affect our net income, contractual service margin, and capital. A material and sustained increase in interest rates may lead to deterioration in real estate values.

i. Market Risk Sensitivities

We use a variety of methods and measures to manage and quantify our market risk exposures. These include duration and key rate duration management, convexity measures, cash flow gap analysis, scenario testing, and sensitivity testing of earnings and regulatory capital ratios.

The measurement of liabilities and assets are affected by the level of equity market performance, interest rates, credit and swap spreads and other market risk variables. The following sections set out the estimated immediate impact on, or sensitivity of, our net income⁽¹⁾, contractual service margin, OCI and SLF Inc.'s LICAT ratio to certain instantaneous changes in market variables as at June 30, 2023 and December 31, 2022⁽²⁾.

The estimated sensitivities in the tables below reflect the impact of market movements on insurance contracts and investment contracts, assets backing insurance contracts, assets backing investment contracts, assets backing the surplus segment, and seed investments in our asset management subsidiaries.

Net income sensitivities to equity and real estate market movements are driven primarily by changes in the value of investments backing general account liabilities and surplus. Net income sensitivities to interest rates and spreads are driven by the net impact on liabilities and the assets backing them. Lower interest rates or a narrowing of spreads will result in increased liabilities for insurance contracts, offset by increased values of the assets backing general account liabilities. Higher interest rates or a widening of spreads will result in decreased liabilities for insurance contracts, offset by decreased values of the assets backing general account liabilities. Further detail on the impact of changes or volatility in market prices on assets and liabilities is provided under the headings "Equity Risk", "Interest Rate and Spread Risk", and "Real Estate Risk" above.

OCI sensitivities are impacted by changes in the market value of assets classified as FVOCI. The market value of FVOCI fixed income assets, which are held primarily in our surplus and investment contract segments, increases with lower interest rates or a narrowing of spreads, and decreases with higher interest rates or a widening of spreads.

Refer to Additional Cautionary Language and Key Assumptions Related to Sensitivities in this section for important additional information regarding these estimates.

⁽¹⁾ Net income in section I - Risk Management in this document refers to common shareholders' net income.

⁽²⁾ Effective January 1, 2023, we adopted IFRS 17 and IFRS 9, and certain financial assets were reclassified between measurement categories as permitted. December 31, 2022 amounts provided in the sensitivities in section I - Risk Management of this document have been adjusted to reflect these January 1, 2023 reclassifications. See Note 2 of the Interim Consolidated Financial Statements for the period ended June 30, 2023 for further details on the reclassifications.

1. Equity Market Sensitivities

The following table sets out the estimated immediate impact on, or sensitivity of, our net income, contractual service margin, OCI and SLF Inc.'s LICAT ratio to certain instantaneous changes in equity market prices as at June 30, 2023 and December 31, 2022⁽¹⁾.

(\$ millions, unless otherwise noted)		As at June 30, 2023			
Change in Equity Markets ⁽²⁾⁽³⁾⁽⁴⁾	25% decrease	10% decrease	10% increase	25% increase	
Potential impact on net income (after-tax)	(375)	(150)	150	400	
Potential impact on CSM (pre-tax)	(625)	(250)	225	575	
Potential impact on LICAT ratio ⁽⁵⁾	3.0% point decrease	1.0% point decrease	1.0% point increase	2.5% point increase	

(\$ millions, unless otherwise noted)		As at December 31, 2022 ⁽¹⁾			
Change in Equity Markets ⁽²⁾⁽³⁾⁽⁴⁾	25% decrease	10% decrease	10% increase	25% increase	
Potential impact on net income (after-tax)	(300)	(125)	125	325	
Potential impact on CSM (pre-tax)	(650)	(250)	250	625	
Potential impact on LICAT ratio ⁽⁵⁾	3.5% point decrease	1.0% point decrease	0.5% point increase	2.0% point increase	

- (1) Effective January 1, 2023, we adopted IFRS 17 and IFRS 9, and certain financial assets were reclassified between measurement categories as permitted. December 31, 2022 amounts provided in the sensitivities in section I - Risk Management of this document have been adjusted to reflect these January 1, 2023 reclassifications. See Note 2 of the Interim Consolidated Financial Statements for the period ended June 30, 2023 for further details on the reclassifications.
- (2) Represents the respective change across all equity markets as at June 30, 2023 and December 31, 2022. Assumes that actual equity exposures consistently and precisely track the broader equity markets. Since in actual practice equity-related exposures 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 hedging programs at 2% intervals (for 10% changes in equity markets) and at 5% intervals (for 25% changes in equity markets).
- (3) The market risk sensitivities include the estimated impact of our hedging programs in effect as at June 30, 2023 and December 31, 2022, and include new business added and product changes implemented prior to such dates.
- (4) Net income, CSM and OCI sensitivities have been rounded in increments of \$25 million. The sensitivities exclude the market impacts on the income from our joint ventures and associates, which we account for on an equity basis.
- (5) The LICAT sensitivities illustrate the impact on SLF Inc. as at June 30, 2023 and December 31, 2022. LICAT ratios are rounded in increments of 0.5%.

2. Interest Rate Sensitivities

The following table sets out the estimated immediate impact on, or sensitivity of, our net income, contractual service margin, OCI and SLF Inc.'s LICAT ratio to certain instantaneous changes in interest rates as at June 30, 2023 and December 31, 2022⁽¹⁾.

(\$ millions, unless otherwise noted)		As at June 30, 2023		As at December 31, 2022 ⁽¹⁾	
Change in Interest Rates ⁽²⁾⁽³⁾⁽⁴⁾	50 basis point decrease	50 basis point increase	50 basis point decrease	50 basis point increase	
Potential impact on net income (after-tax)	—	25	(100)	75	
Potential impact on CSM (pre-tax)	125	(125)	125	(150)	
Potential impact on OCI	225	(225)	225	(225)	
Potential impact on LICAT ratio ⁽⁵⁾	2.0% point increase	2.0% point decrease	1.5% point increase	2.5% point decrease	

- (1) Effective January 1, 2023, we adopted IFRS 17 and IFRS 9, and certain financial assets were reclassified between measurement categories as permitted. December 31, 2022 amounts provided in the sensitivities in section I - Risk Management of this document have been adjusted to reflect these January 1, 2023 reclassifications. See Note 2 of the Interim Consolidated Financial Statements for the period ended June 30, 2023 for further details on the reclassifications.
- (2) Interest rate sensitivities assume a parallel shift in assumed interest rates across the entire yield curve as at June 30, 2023 and December 31, 2022 with no change to the ultimate risk-free rate. 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 hedging programs at 10 basis point intervals (for 50 basis point changes in interest rates).
- (3) The market risk sensitivities include the estimated impact of our hedging programs in effect as at June 30, 2023 and December 31, 2022, and include new business added and product changes implemented prior to such dates.
- (4) Net income, CSM and OCI sensitivities have been rounded in increments of \$25 million. The sensitivities exclude the market impacts on the income from our joint ventures and associates, which we account for on an equity basis.
- (5) The LICAT sensitivities illustrate the impact on SLF Inc. as at June 30, 2023 and December 31, 2022. The sensitivities reflect the worst scenario as at June 30, 2023 and assume that a scenario switch does not occur in the quarter. LICAT ratios are rounded in increments of 0.5%.

The above sensitivities were determined using a 50 basis point change in interest rates and a 10% and 25% changes in our equity markets because we believe that these market shocks were reasonably possible as at June 30, 2023. Significant changes in market variables may result in other than proportionate impacts on our sensitivities.

(1) Effective January 1, 2023, we adopted IFRS 17 and IFRS 9, and certain financial assets were reclassified between measurement categories as permitted. December 31, 2022 amounts provided in the sensitivities in section I - Risk Management of this document have been adjusted to reflect these January 1, 2023 reclassifications. See Note 2 of the Interim Consolidated Financial Statements for the period ended June 30, 2023 for further details on the reclassifications.

3. Credit Spread and Swap Sensitivities

Credit spread sensitivities reflect the impact of changes in credit spreads on our asset and liability values (including provincial government bonds, corporate bonds, and other fixed income assets). Swap spread sensitivities reflect the impact of changes in swap spreads on swap-based derivative positions and liability values.

The following tables set out the estimated immediate impact on, or sensitivity of, our net income, contractual service margin, OCI and SLF Inc.'s LICAT ratio to certain instantaneous changes in credit spreads and our net income, contractual service margin, and OCI to certain changes in swap spreads as at June 30, 2023 and December 31, 2022⁽¹⁾.

(\$ millions, unless otherwise noted)	As at June 30, 2023		As at December 31, 2022 ⁽¹⁾	
Change in Credit Spreads ⁽²⁾⁽³⁾	50 basis point decrease	50 basis point increase	50 basis point decrease	50 basis point increase
Potential impact on net income (after-tax)	75	(100)	50	(50)
Potential impact on CSM (pre-tax)	100	(150)	75	(100)
Potential impact on OCI	200	(200)	200	(200)
Potential impact on LICAT ratio ⁽⁴⁾	1.5% point increase	2.0% point decrease	1.0% point increase	2.0% point decrease

⁽¹⁾ Effective January 1, 2023, we adopted IFRS 17 and IFRS 9, and certain financial assets were reclassified between measurement categories as permitted. December 31, 2022 amounts provided in the sensitivities in section I - Risk Management of this document have been adjusted to reflect these January 1, 2023 reclassifications. See Note 2 of the Interim Consolidated Financial Statements for the period ended June 30, 2023 for further details on the reclassifications.

⁽²⁾ The credit spread sensitivities assume a parallel shift in the indicated spreads across the entire term structure with no change to the ultimate liquidity premium. The sensitivities reflect a floor of zero on credit spreads where the spreads are not currently negative. 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.

⁽³⁾ Net income, CSM, and OCI sensitivities have been rounded in increments of \$25 million.

⁽⁴⁾ The LICAT sensitivities illustrate the impact on SLF Inc. as at June 30, 2023 and December 31, 2022. The sensitivities reflect the worst scenario as of June 30, 2023 and assume that a scenario switch does not occur in the quarter. LICAT ratios are rounded in increments of 0.5%.

(\$ millions, unless otherwise noted)	As at June 30, 2023		As at December 31, 2022 ⁽¹⁾	
Change in Swap Spreads ⁽²⁾⁽³⁾	20 basis point decrease	20 basis point increase	20 basis point decrease	20 basis point increase
Potential impact on net income (after-tax)	(25)	25	(25)	25

⁽¹⁾ Effective January 1, 2023, we adopted IFRS 17 and IFRS 9, and certain financial assets were reclassified between measurement categories as permitted. December 31, 2022 amounts provided in the sensitivities in section I - Risk Management of this document have been adjusted to reflect these January 1, 2023 reclassifications. See Note 2 of the Interim Consolidated Financial Statements for the period ended June 30, 2023 for further details on the reclassifications.

⁽²⁾ The 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.

⁽³⁾ Net income, CSM, and OCI sensitivities have been rounded in increments of \$25 million.

LICAT Interest Rate Scenario Switch

For SLF Inc., assuming no further scenario switches, no additional LICAT ratio impact is expected over the next five quarters.

For Sun Life Assurance, assuming no further scenario switches, no additional LICAT ratio impact is expected over the next five quarters.

⁽¹⁾ Effective January 1, 2023, we adopted IFRS 17 and IFRS 9, and certain financial assets were reclassified between measurement categories as permitted. December 31, 2022 amounts provided in the sensitivities in section I - Risk Management of this document have been adjusted to reflect these January 1, 2023 reclassifications. See Note 2 of the Interim Consolidated Financial Statements for the period ended June 30, 2023 for further details on the reclassifications.

4. Real Estate Sensitivities

The following tables set out the estimated immediate impact on, or sensitivity of, our net income, OCI and contractual service margin to certain instantaneous changes in the value of our real estate investments as at June 30, 2023 and December 31, 2022⁽¹⁾.

(\$ millions, unless otherwise noted) Change in Real Estate Values ⁽²⁾	As at June 30, 2023		As at December 31, 2022 ⁽¹⁾	
	10% decrease	10% increase	10% decrease	10% increase
Potential impact on net income (after-tax)	(475)	475	(500)	500
Potential impact on CSM (pre-tax)	(100)	100	(100)	100

⁽¹⁾ Effective January 1, 2023, we adopted IFRS 17 and IFRS 9, and certain financial assets were reclassified between measurement categories as permitted. December 31, 2022 amounts provided in the sensitivities in section I - Risk Management of this document have been adjusted to reflect these January 1, 2023 reclassifications. See Note 2 of the Interim Consolidated Financial Statements for the period ended June 30, 2023 for further details on the reclassifications.

⁽²⁾ Net income, CSM, and OCI sensitivities have been rounded in increments of \$25 million.

5. Segregated Funds Risk & Hedging

Certain segregated fund 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 activities, policyholder behaviour and mortality experience, each of which may result in negative impacts on net income, the contractual service margin and capital.

Our hedging programs use derivative instruments and fixed income assets to mitigate the interest rate and equity market exposure of our segregated fund contracts. As at June 30, 2023, over 90% of our segregated fund contracts, as measured by 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 risk adjustments for non-financial risk.

Our hedging strategy is applied both at the line of business or product level and at the total company level using a combination of hedging techniques such as re-balancing of short-dated interest rate and equity derivative contracts and longer-dated put options. We actively monitor our overall market exposure and may implement tactical hedge overlay strategies in order to align sensitivities with risk management objectives.

The impact of segregated fund guarantees and associated hedging programs on net income, contractual service margin and capital are included in the disclosed market risk sensitivities.

6. Additional Cautionary Language and Key Assumptions Related to Sensitivities

Our market risk sensitivities are measures of our estimated change in net income, OCI, CSM and LICAT ratio for changes in market risk variables described above, based on market risk variables and business in force as at the reporting date. 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.

We have provided measures of our net income sensitivity to instantaneous changes in equity markets, interest rates, credit spreads, swap spreads, real estate price levels, and capital sensitivities to changes in equity price levels, interest rates and credit spreads. The LICAT ratio and CSM sensitivities are non-IFRS financial measures, and for additional information, see section N - Non-IFRS Financial Measures in this document. The cautionary language which appears in this section is applicable to all net income, CSM, OCI and LICAT ratio sensitivities.

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 movements in risk variables. Our sensitivities as at December 31, 2022⁽¹⁾ have been included for comparative purposes only.

As these market risk sensitivities reflect an instantaneous impact on net income, CSM, OCI and SLF Inc.'s LICAT ratio, 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 June 30, 2023 and December 31, 2022⁽¹⁾, 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 hedging programs in place as at the June 30 and December 31⁽¹⁾ calculation dates. The actual impact of hedging activity can differ materially from that assumed in the estimated 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.

⁽¹⁾ Effective January 1, 2023, we adopted IFRS 17 and IFRS 9, and certain financial assets were reclassified between measurement categories as permitted. December 31, 2022 amounts provided in the sensitivities in section I - Risk Management of this document have been adjusted to reflect these January 1, 2023 reclassifications. See Note 2 of the Interim Consolidated Financial Statements for the period ended June 30, 2023 for further details on the reclassifications.

Our hedging programs may themselves expose us to other risks, including basis risk, volatility risk, and increased levels of derivative counterparty credit risk, 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 ("OTC") contracts cleared through central clearing houses, exchange-traded contracts or bilateral OTC contracts negotiated directly between counterparties that include credit support annexes), residual risk, potential reported earnings and capital volatility remain.

The sensitivities are based on methods and assumptions in effect as at June 30, 2023 and December 31, 2022⁽¹⁾, as applicable. Changes in the regulatory environment, assumptions or methods used to measure assets and liabilities after those dates could result in material changes to the estimated sensitivities. Changes in market risk variables in excess of the changes illustrated may result in other than proportionate impacts.

The sensitivities reflect the CSM as at June 30, 2023 and December 31, 2022⁽¹⁾. For insurance contracts measured using the VFA, where the change in the effect of the time value of money and financial risk not arising from the underlying items adjusts the CSM, changes in the CSM balance will affect the sensitivity of income to changes in market risk variables.

Our LICAT sensitivities may be non-linear and can change due to the interrelationship between market rates and spreads, actuarial assumptions and our LICAT calculations.

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

Information related to market risk sensitivities should be read in conjunction with the information contained in section M - Accounting and Control Matters - 1 - Critical Accounting Policies and Estimates in the 2022 Annual MD&A. Additional information on market risk can be found in Note 2 of the 2022 Annual Consolidated Financial Statements and the Risk Factors section in the 2022 AIF.

J. Additional Financial Disclosure

1. Revenue

(\$ millions)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22	2023	2022
Insurance revenue					
Annuities	563	568	567	1,131	1,138
Life insurance	1,314	1,290	1,223	2,604	2,407
Health insurance	3,406	3,424	2,615	6,830	4,903
Total insurance revenue	5,283	5,282	4,405	10,565	8,448
Net Investment income (loss)	449	4,800	(9,151)	5,249	(19,692)
Fee income	1,936	1,901	1,779	3,837	3,618
Total revenue	7,668	11,983	(2,967)	19,651	(7,626)

Revenue increased \$10.6 billion compared to the prior year, primarily driven by higher net investment income from fair value changes of assets. Foreign exchange translation led to a \$0.2 billion increase in revenue. By business group, revenue reflected higher net investment income in Canada, Asia, and the U.S., and higher insurance revenue primarily in the U.S.

Revenue increased \$27.3 billion in the first six months of 2023 compared to the same period in 2022, driven by higher net investment income from fair value changes of assets. Foreign exchange translation led to a \$0.6 billion increase in revenue. By business group, revenue reflected higher net investment income in Canada, Asia, and the U.S. and higher insurance revenue primarily in the U.S.

⁽¹⁾ Effective January 1, 2023, we adopted IFRS 17 and IFRS 9, and certain financial assets were reclassified between measurement categories as permitted. December 31, 2022 amounts provided in the sensitivities in section I - Risk Management of this document have been adjusted to reflect these January 1, 2023 reclassifications. See Note 2 of the Interim Consolidated Financial Statements for the period ended June 30, 2023 for further details on the reclassifications.

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

The net liabilities balance for insurance contracts issued⁽¹⁾ was \$128.9 billion as at June 30, 2023 (December 31, 2022 - \$131.2 billion), mainly due to dispositions and the change in insurance service result, partially offset by insurance finance income and expenses.

Total shareholders' equity, including preferred shares and other equity instruments, is \$22.7 billion as at June 30, 2023 (December 31, 2022 - \$22.5 billion). The change in total shareholders' equity included:

- (i) total shareholders' net income of \$1,506 million, before preferred share dividends of \$40 million; and
- (ii) net unrealized gains on FVOCI assets of \$82 million; partially offset by
- (iii) common share dividend payments of \$863 million;
- (iv) unfavourable impacts of foreign exchange translation of \$322 million included in other comprehensive income (loss) ("OCI"); and
- (v) the impact related to the AAM acquisition of \$158 million⁽²⁾.

As at July 28, 2023, SLF Inc. had 586,937,220 common shares, 3,860,750 options to acquire SLF Inc. common shares, and 52,200,000 Class A Shares outstanding.

3. Cash Flows

(\$ millions)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22	2023	2022
Net cash and cash equivalents, beginning of period	8,851	9,372	6,752	9,372	7,693
Cash flows provided by (used in):					
Operating activities	289	20	1,983	309	1,512
Investing activities	64	(244)	(2,589)	(180)	(2,641)
Financing activities	(756)	(264)	1,261	(1,020)	907
Changes due to fluctuations in exchange rates	(74)	(33)	78	(107)	14
Increase (decrease) in cash and cash equivalents	(477)	(521)	733	(998)	(208)
Net cash and cash equivalents, end of period	8,374	8,851	7,485	8,374	7,485
Short-term securities, end of period	1,824	1,981	1,843	1,824	1,843
Net cash, cash equivalents and short-term securities, end of period	10,198	10,832	9,328	10,198	9,328

Our operating activities 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.

Q2'23 cash flows provided by financing activities decreased year-over-year due to higher borrowing from credit facilities in the prior year.

⁽¹⁾ For more information about the changes in the net insurance contract liabilities, refer to Notes 7.A and 7.B of the Interim Consolidated Financial Statements for the period ended June 30, 2023.

⁽²⁾ For additional information, refer to Note 3 in our Interim Consolidated Financial Statements for the period ended June 30, 2023.

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											
	IFRS 17 and IFRS 9 ⁽¹⁾						IFRS 4 and IAS 39 ⁽¹⁾					
	Q2'23	Q1'23	Q4'22	Q3'22	Q2'22	Q1'22	Q4'22	Q3'22	Q2'22	Q1'22	Q4'21	Q3'21
Total revenue	7,668	11,983	8,494	4,901	(2,967)	(4,659)	12,301	8,630	2,011	380	12,995	8,510
Common shareholders' net income (loss)												
Underlying net income ⁽²⁾	920	895	892	949	808	720	990	949	892	843	898	902
Add: Market-related impacts ⁽³⁾	(220)	(64)	224	(361)	118	(2)	(136)	(160)	(152)	38	156	171
ACMA ⁽³⁾	7	(5)	12	(131)	(22)	(27)	54	7	—	1	(19)	95
Other adjustments ⁽³⁾⁽⁴⁾	(47)	(20)	37	(346)	26	(26)	43	(330)	45	(24)	43	(149)
Reported net income - Common shareholder	660	806	1,165	111	930	665	951	466	785	858	1,078	1,019
Diluted EPS (\$)												
Underlying ⁽²⁾	1.57	1.52	1.52	1.62	1.38	1.23	1.69	1.62	1.52	1.44	1.53	1.54
Reported	1.12	1.37	1.98	0.19	1.58	1.13	1.62	0.80	1.34	1.46	1.83	1.74
Basic reported EPS (\$)												
Reported	1.12	1.37	1.99	0.19	1.59	1.13	1.62	0.80	1.34	1.46	1.84	1.74
Underlying net income (loss) by segment⁽²⁾												
Asset Management	296	282	324	298	295	321	313	295	270	326	382	362
Canada	372	316	265	293	299	206	324	300	344	298	266	290
U.S.	215	237	230	227	134	107	240	216	154	118	72	110
Asia	150	141	135	153	118	133	152	175	148	152	130	145
Corporate	(113)	(81)	(62)	(22)	(38)	(47)	(39)	(37)	(24)	(51)	48	(5)
Total underlying net income (loss) ⁽²⁾	920	895	892	949	808	720	990	949	892	843	898	902
Add: Market-related impacts (pre-tax) ⁽³⁾	(298)	(99)	179	(400)	282	172	(273)	(212)	(109)	193	153	231
ACMA (pre-tax) ⁽³⁾	11	(5)	(26)	(153)	(30)	(30)	67	15	—	1	(23)	93
Other adjustments (pre-tax) ⁽³⁾⁽⁴⁾	(89)	(10)	(141)	(385)	29	(29)	(88)	(362)	57	(26)	67	(179)
Tax expense (benefit) on above items	116	25	261	100	(159)	(168)	255	76	(55)	(153)	(17)	(28)
Reported net income (loss) by segment - Common shareholders												
Asset Management	248	254	321	218	298	311	322	215	296	308	140	301
Canada	210	329	453	56	476	256	367	210	160	263	356	393
U.S.	175	168	202	125	149	56	110	94	213	169	85	46
Asia	122	134	92	—	7	111	98	125	131	161	446	288
Corporate	(95)	(79)	97	(288)	—	(69)	54	(178)	(15)	(43)	51	(9)
Total reported net income (loss) - Common shareholders	660	806	1,165	111	930	665	951	466	785	858	1,078	1,019

⁽¹⁾ IFRS 17 and IFRS 9 were adopted on January 1, 2023, see Note 2 of the Interim Consolidated Financial Statements for the period ended June 30, 2023.

⁽²⁾ Represents a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document.

⁽³⁾ Represents an adjustment made to arrive at a non-IFRS financial measure. For more details, see section N - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.

⁽⁴⁾ Other adjustments to arrive at a non-IFRS financial measure include other items that are unusual or exceptional in nature. See section N - Non-IFRS Financial Measures in this document.

First Quarter 2023

Underlying net income of \$895 million increased \$175 million or 24%, driven by:

- **Wealth & asset management** down \$11 million: Lower fee-based earnings in MFS, Canada, and Asia, reflecting equity market declines, largely offset by an increase in investment income driven by higher volumes and yields.
- **Group - Health & Protection** up \$180 million: Strong performance including premium growth, improved disability in Canada and the U.S., strong medical stop-loss margins, and improved U.S. mortality. DentaQuest results also contributed to the increase.
- **Individual - Protection** up \$42 million: Higher premiums reflecting good sales momentum during the past year, and improved mortality in Asia.
- **Corporate Support & other** \$(36) million increased net loss: Higher operating expenses including long-term incentive compensation and IFRS 17 project spend, as well as an increase in debt financing costs.
- Higher investment income reflecting an increase in realized gains from surplus assets and net interest income from higher rates.

Reported net income of \$806 million increased \$141 million or 21%, driven by the increase in underlying net income and gain on the sale of the sponsored markets business in Canada, partially offset by market-related impacts, and DentaQuest integration and SLC Management acquisition-related costs.

Fourth Quarter 2022⁽¹⁾

Reported net income of \$951 million decreased \$127 million or 12%, primarily reflecting unfavourable market-related impacts and DentaQuest integration costs, partially offset by the impact of the Canada Tax Rate Change, fair value changes on MFS' share-based payment awards and ACMA. Prior year reported net income included a gain on the initial public offering ("IPO") of our India asset management joint venture partially offset by an increase to SLC Management's acquisition-related liabilities. Underlying net income of \$990 million increased \$92 million or 10%, driven by business growth and experience in protection and health and contribution from the DentaQuest acquisition. This was partially offset by lower wealth and asset management earnings reflecting declines in global equity markets, and a higher effective tax rate compared to prior year.

Third Quarter 2022⁽¹⁾

Reported net income of \$466 million decreased \$553 million or 54% from prior year, primarily reflecting unfavourable market-related impacts, a \$170 million charge related to the sale of Sun Life UK, less favourable ACMA impacts, and an increase in SLC Management's acquisition-related liabilities, partially offset by fair value changes on MFS' share-based payment awards. Underlying net income of \$949 million increased \$47 million or 5%, driven by business growth and experience in protection and health including a strong contribution from the DentaQuest acquisition. This was partially offset by lower fee-based income in wealth and asset management, mainly driven by declines in global equity markets.

Second Quarter 2022⁽¹⁾

Q2'22 reported net income of \$785 million decreased \$115 million or 13%, reflecting unfavourable market-related impacts and DentaQuest acquisition costs, partially offset by fair value changes on MFS' share-based payment awards and a gain on the sale-leaseback of our Wellesley office in the U.S. Underlying net income of \$892 million was up slightly driven by business growth, new business gains, contribution from the DentaQuest acquisition, and lower incentive compensation expenses. This was largely offset by Asset Management results reflecting a decline in global equity markets driving lower average net assets, lower available-for-sale gains and morbidity experience in the U.S. Foreign exchange translation led to an increase of \$16 million and \$12 million in reported net income and underlying net income, respectively.

First Quarter 2022⁽¹⁾

Q1'22 reported net income of \$858 million decreased \$79 million or 8%, driven by less favourable market-related impacts, partially offset by a Q1'21 restructuring charge and lower fair value changes on MFS' share-based payment awards. Underlying net income of \$843 million was down slightly, driven by broad-based business growth, favourable expense experience and investment gains, offset by unfavourable mortality and morbidity experience, and lower AFS gains.

Fourth Quarter 2021⁽¹⁾

Q4'21 reported net income of \$1,078 million increased \$334 million or 45% compared to the prior year, driven by a \$297 million gain on the IPO of our India asset management joint venture and an increase in the value of our real estate investments, partially offset by a \$153 million increase in SLC Management's acquisition-related liabilities. Underlying net income of \$898 million increased \$36 million or 4%, driven by broad-based business growth across our pillars, with particular strength in asset management and wealth. Underlying net income also benefited from a lower effective tax rate in the quarter, largely offset by \$113 million of ongoing COVID-19-related mortality and morbidity experience. Foreign exchange translation led to a decline of \$33 million in reported net income and \$22 million in underlying net income.

Third Quarter 2021⁽¹⁾

Q3'21 reported net income of \$1,019 million increased \$269 million or 36% compared to the prior year, driven by favourable market-related impacts from changes in the fair value of investment properties, and ACMA, partially offset by a par allocation adjustment. Underlying net income of \$902 million increased by \$60 million or 7%, driven by business growth, favourable credit experience and higher tax-exempt investment income. This was partially offset by morbidity and expense experience, and the unfavourable impacts of foreign exchange translation. Mortality experience was elevated in the U.S. and Asia, but relatively in line with the prior year. During the Q3'21, the impacts of foreign exchange translation led to a decline of \$41 million in reported net income and \$36 million in underlying net income.

K. Legal and Regulatory Proceedings

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, 2022, and in our Interim Consolidated Financial Statements for the period ended June 30, 2023.

⁽¹⁾ This paragraph compares the results in two periods that preceded January 1, 2023 (prior to the adoption of IFRS 17 and IFRS 9), thus IFRS 4 and IAS 39 were the accounting standards in effect at the time. Refer to the results in the table above under the heading "IFRS 4 and IAS 39".

L. Changes in Accounting Policies

On January 1, 2023 we adopted IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*, detailed below. We have also adopted several amended IFRS standards in the current year, which had no material impact on our Consolidated Financial Statements. For additional information, refer to Note 2 in our Interim Consolidated Financial Statements for the period ended June 30, 2023.

1. Changes in Accounting Policies

We have included in this section a summary of changes in accounting policies.

1.A. Adoption of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* ("IFRS 17"), with an amendment issued in June 2020 to defer the effective date of IFRS 17 to annual periods beginning on or after January 1, 2023. This standard is to be applied using a retrospective approach, with at least one year of comparative results provided. If retrospective application to a group of insurance contracts is impracticable, a modified retrospective or fair value approach may be used. IFRS 17 replaces IFRS 4 *Insurance Contracts* ("IFRS 4") and impacts how we recognize, measure, present, and disclose our insurance contracts in our Consolidated Financial Statements.

IFRS 17 and IFRS 9 *Financial Instruments* ("IFRS 9") were effective for us beginning January 1, 2023. IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets and hedge accounting, and does not require restatement of comparative periods. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). We are permitted, under IFRS 17, to present comparative information on financial assets as if IFRS 9 were applicable during the comparative period ("classification overlay"). We have elected to apply the classification overlay to our financial assets and their comparative period results as if IFRS 9 had been effective since January 1, 2022. Certain comparative period information will continue to be presented in accordance with our previous accounting policies.

For initial measurement of insurance contracts at the transition date of January 1, 2022, we have elected to use the fair value approach for all groups for which the retrospective approach is impracticable. For more information on the application of the fair value approach at transition, see the heading "Fair Value Measurement" in Note 2.A.i in our Interim Consolidated Financial Statements for the period ended June 30, 2023.

IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. The key principles of IFRS 17 are as follows:

- Insurance contracts are those under which an entity accepts significant insurance risk from another party ("policyholder") by agreeing to compensate the policyholder if a specified uncertain future event ("insured event") adversely affects the policyholder.
- Insurance contracts issued and reinsurance contracts held are divided into groups that will be separately recognized and measured.
- Groups of insurance contracts are recognized and measured as the total of the following measurement components: a) the present value of future cash flows; b) a risk adjustment for non-financial risk ("RA"); and c) the Contractual Service Margin ("CSM"), an amount that represents the unearned profit of the group of contracts. These measurement components apply to groups of insurance contracts measured using the general measurement approach ("GMA") and the variable fee approach ("VFA"). The VFA applies to insurance contracts issued with direct participation features, which are substantially investment-related service contracts under which the policyholder is promised an investment return based on underlying items, such as segregated funds and certain participating insurance contracts. For short duration contracts, such as most of our group life and health business, a simplified measurement approach (the premium allocation approach ("PAA")) is applied. Under the PAA, insurance contracts are measured based on unearned profits and do not include a CSM.
- The profit from a group of insurance contracts is recognized into income over the period that insurance contract services are provided and as the non-financial risks related to providing the insurance contracts diminish.
- Insurance revenue, insurance service expenses and insurance finance income or expenses are presented separately.

Significant Differences between IFRS 17 and IFRS 4

The following section describes the most significant differences between IFRS 17 and the accounting policies applied under IFRS 4.

Scope

There is no substantial change in IFRS 17 compared to IFRS 4 with regards to which contracts fall within the scope of the standard. However, we have updated the accounting policy for classification that was adopted on the transition to IFRS 4 in 2011 to ensure consistency with the IFRS 17 definition of insurance contracts.

Under IFRS 17, an insurance contract is defined as a contract under which the issuer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if an insured event adversely affects the policyholder. In assessing whether "significant" insurance risk exists, certain contracts that were classified as insurance contracts under IFRS 4 were reclassified as investment contracts under IFRS 17. Such changes in classification were limited to certain deferred annuity products where the insurance risk is limited to the right to annuitize the maturity benefit, which fell short of the threshold for "significant" insurance risk.

Furthermore, IFRS 17 includes new requirements for the separation of distinct investment components and distinct goods or non-insurance service components of insurance contracts. At transition to IFRS 17, there were no distinct investment components and only immaterial distinct service components in our insurance contracts.

Unlike IFRS 4, IFRS 17 requires reinsurance contracts held to be measured separately from the underlying direct contracts. A reinsurance contract is an insurance contract issued by the reinsurer to compensate another entity for claims arising from one or more insurance contracts issued by that other entity ("underlying contracts").

Only contracts that transfer insurance risk to the reinsurer are considered reinsurance contracts held from the ceding entity's point of view. We have reinsurance treaties that transfer only non-insurance risks to the reinsurer, however these are not considered reinsurance contracts held in scope of IFRS 17, nor were they in scope of IFRS 4. Rather, they are insurance contracts purchased.

Reinsurance treaties that are part of the underlying items of participating insurance contracts (i.e., where all the cash flows of the reinsurance treaty are fully passed through to the participating insurance policyholders) are measured and reported separately.

Investment contracts with discretionary participation features ("DPF") are in scope of IFRS 17 and were in scope of IFRS 4. However, such contracts were reported with other investment contracts under IFRS 4, and are reported with insurance contracts under IFRS 17.

Measurement

The measurement of insurance contracts under IFRS 17 differs from the Canadian Asset Liability Method previously applied under IFRS 4. The most significant differences by measurement component are as follows:

Present value of future cash flows:

- The discount rates used to present value future cash flows under IFRS 17 are based on the characteristics of the insurance contracts. Under IFRS 4, the Canadian Asset Liability Method is used to determine actuarial liabilities based on the portfolio of assets currently supporting the insurance contract liabilities and reinvestment assumptions.
- Estimates under IFRS 17 include the current market view of the cost of financial guarantees, which requires a valuation consistent with market option prices. Under IFRS 4, the cost of financial guarantees is based on the amount required to fulfill the obligation but not directly linked to market option prices.
- Expense cash flows under IFRS 17 are limited to those directly attributable to fulfillment of the obligations under insurance contracts.
- Future income taxes are excluded from future cash flows under IFRS 17.

Risk adjustment for non-financial risk:

- Measures the compensation required for uncertainty related to non-financial risk, such as mortality, morbidity, surrender and expenses under IFRS 17.
- Provisions for uncertainty related to financial risk are implicitly included in the present value of future cash flows under IFRS 17.
- No amount is provided for asset-liability mismatch risk under IFRS 17.
- Under IFRS 4, amounts provided for the risks listed above are reflected in a provision for adverse deviations included in insurance contract liabilities.

CSM:

- This is a new component of liabilities and necessitates the "grouping" of insurance contracts, which is not required under IFRS 4.
- The CSM represents unearned profits, as discussed above.

The measurement approaches under IFRS 17 and IFRS 4 are similar for insurance contracts measured using the PAA, such as our group life and health contracts. Differences arise mainly in the measurement of the liability for incurred claims ("LIC"), where the discount rate and risk adjustment for non-financial risk changes noted above apply.

Presentation

IFRS 17 requires that portfolios of insurance contracts that are in an asset position be presented separately from portfolios of insurance contracts that are in a liability position in the Consolidated Statements of Financial Position. Also, portfolios of insurance contracts issued must be presented separately from portfolios of reinsurance contracts held. Previously, insurance contracts issued were presented only as liabilities and reinsurance contracts held were presented only as assets. Certain balances, such as policy loans and outstanding and prepaid premiums, that were previously presented separately or included in Other assets and Other liabilities are now included in the assets or liabilities for insurance contracts issued or reinsurance contracts held.

The presentation of income from insurance contracts on the Consolidated Statements of Operations has changed significantly for IFRS 17. Prior to IFRS 17, insurance related income was presented separately in the lines Gross premiums, Ceded premiums, Gross claims and benefits paid, Reinsurance expenses (recoveries), Increase (decrease) in insurance contract liabilities, and Decrease (increase) in reinsurance assets. The line Operating expenses, commissions and premium taxes included all expenses, reflecting those from both insurance and non-insurance contracts.

Under IFRS 17, insurance-related income is presented in the Insurance service result section and the Insurance finance income (expenses) line in the Investment result section. Amounts are presented separately for insurance contracts issued and reinsurance contracts held. The Insurance service expenses line includes amounts previously reported as Gross claims and benefits paid, with the exclusion of repayments of investment components, which are amounts that are returned to policyholders under all circumstances. Directly attributable expenses are also presented as Insurance service expenses. Income or expense from reinsurance contracts held is now presented as one line, which includes an allocation of reinsurance premiums paid and amounts recovered from reinsurers.

For insurance contracts measured using the GMA or VFA, premiums are no longer reported as revenue or recognized in income when received. Insurance revenue in a reporting period is comprised of the portion of premiums that cover expected claims and directly attributable expenses in the period, as well as the release of RA and the amortization of CSM for the period. Insurance revenue excludes the portion of premiums that cover repayment of investment components.

Fee income excludes income from insurance contracts as any fees earned would be recognized in Insurance contract revenue. Similarly, the Operating expenses and commissions line excludes expenses that are directly attributable to issuing or fulfilling insurance contracts as these expenses, as well as premium taxes paid, are included in the Insurance service result section.

Revised accounting policies on adoption of IFRS 17

For more information about the revised accounting policies as a result of the adoption of IFRS 17 that differ from those included in our 2022 Annual Consolidated Financial Statements, refer to the heading "Revised Accounting Policies" in Note 2.A.i of our Interim Consolidated Financial Statements for the period ended June 30, 2023.

Impacts on our financial performance

We have highlighted in the following section certain impacts on our financial performance as a result of the differences between IFRS 17 and IFRS 4 described above:

- New business gains (unearned profits) are measured differently under IFRS 17, reflecting measurement differences on insurance contracts as discussed above. In addition, new business gains under IFRS 17 are deferred and recorded in the CSM and amortized into income as insurance contract services are provided. Losses on new business are also measured differently, but continue to be recognized in income immediately. Under IFRS 4, new business gains and losses were both recognized in income immediately.
- Discount rates used in calculating the present value of insurance contract liabilities are based on the characteristics of the insurance contracts rather than the assets supporting the liabilities. Amongst other differences, this results in changes in the timing of when investment-related income emerges.
- Under IFRS 17, changes related to financial risk (e.g. changes in the discount rate) continue to be recognized in income immediately, except for insurance contracts measured using the VFA, where the changes are recorded through the CSM. Assumption changes for non-financial risk, such as mortality, are reflected in the CSM and amortized into income as insurance contract services are provided. Under IFRS 4, assumption changes for both financial and non-financial risk variables were recognized in income immediately.

Significant Differences between IFRS 9 and IAS 39

The following section describes the most significant differences between IFRS 9 and the accounting policies applied under IAS 39.

Classification of financial assets and financial liabilities

IFRS 9 introduces three principal classification categories for financial assets. Financial assets are measured at initial recognition at fair value, and are classified as and subsequently measured at fair value through profit or loss ("FVTPL"), FVOCI or amortized cost based on our business model for managing the financial asset and the contractual cash flow characteristics of the asset.

IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity ("HTM"), available-for-sale ("AFS"), and loans and receivable financial assets. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in scope of IFRS 9 are not separated. Instead, the hybrid financial instrument, as a whole, is assessed for classification.

IFRS 9 maintains the IAS 39 classification for financial liabilities. Under IFRS 9, financial liabilities are measured at either amortized cost or FVTPL.

Under IFRS 17, we elected to recognize all insurance finance income or expense in income rather than other comprehensive income. Consequently, to avoid an accounting mismatch, we are electing under IFRS 9 to classify most of our fixed income assets supporting insurance contracts as FVTPL.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model under IAS 39 with a forward-looking "expected credit loss" ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, debt securities measured at FVOCI, mortgages and loans measured at FVOCI, lease receivables, account receivables, loan commitments and financial guarantees not measured at FVTPL. Credit losses are recognized earlier under IFRS 9 as compared previously under IAS 39. IFRS 9 introduces an impairment model for financial assets not measured at FVTPL. The model requires the recognition of an allowance for 12-month expected losses at the initial recognition of a financial asset, and the recognition of an allowance for lifetime expected losses if certain criteria are met.

Hedge accounting

IFRS 9 introduced a new hedge accounting model, but permits entities to continue applying hedge accounting requirements under IAS 39 instead of those under IFRS 9. We have elected to continue applying the hedge accounting requirements under IAS 39.

Revised accounting policies on adoption of IFRS 9

For more information about the revised accounting policies as a result of the adoption of IFRS 9 that differ from those included in our 2022 Annual Consolidated Financial Statements, refer to the heading "Policies applicable beginning January 1, 2023 (IFRS 9)" in Note 2.A.ii of our Interim Consolidated Financial Statements for the period ended June 30, 2023.

2. Critical Accounting Policies and Estimates

Our significant accounting and actuarial policies are described in Notes 2 and 6 of our Interim Consolidated Financial Statements for the period ended June 30, 2023. Management must make judgments involving assumptions and estimates, some of which may relate to matters that are inherently uncertain, under these policies. The estimates described below are considered particularly significant to understanding our financial performance. As part of our financial control and reporting, judgments involving assumptions and estimates are reviewed by the independent auditor and by other independent advisors on a periodic basis. Accounting policies requiring estimates are applied consistently in the determination of our financial results.

IFRS 17 and IFRS 9 require enhanced disclosures for insurance contracts and financial instruments. These disclosures are included primarily in Notes 5, 6, 7 and 12 of our Interim Consolidated Financial Statements for the period ended June 30, 2023. Certain disclosures in Note 2.B of the Interim

Consolidated Financial Statements as well as the disclosures in this section of the interim MD&A provide additional context during the first year of adoption of IFRS 17 and IFRS 9. The majority of these disclosures would otherwise only be reported by us annually.

2.A Insurance Contracts Summary and Methods and Assumptions

Summary

We sell a variety of insurance contracts that include many forms of life, health and critical illness insurance sold to individuals and groups, annuities, and segregated fund products with guarantees. We hold reinsurance contracts that transfer mortality and other risks following internal guidelines.

Insurance contracts with direct participation features are products where investments are managed on behalf of policyholders, and investment returns less a variable fee are passed through to policyholders with the insurance benefits they receive. Insurance contracts with direct participation features are measured using the VFA, and include segregated funds, unit-linked contracts, variable universal life contracts, and most participating insurance contracts. Reinsurance contracts (both issued and held) cannot be measured using the VFA.

Insurance contracts without direct participation features are eligible to use the PAA if the coverage period is one year or less, or if the result of applying the PAA is not expected to be a materially different result than applying the GMA in each reporting period over the life of the contract. Insurance contracts eligible to use the PAA include most group life and health contracts and the associated reinsurance contracts held.

Other insurance contracts are measured using the GMA. This includes most individual life and health insurance contracts and annuities and the associated reinsurance contracts held.

The Consolidated Statements of Financial Position present insurance contracts issued and reinsurance contracts held as both assets and liabilities, depending on whether the portfolio is in an asset or liability position.

For more information about insurance contracts issued and reinsurance contracts held, and Insurance contract liabilities for account of segregated fund holders, see Note 2, Note 7 and Note 12 of our Interim Consolidated Financial Statements for the period ended June 30, 2023.

Methods and Assumptions

General

A group of insurance contracts is measured as the total of FCF, which is the present value of future cash flows plus the risk adjustment for non-financial risk, and, for groups measured using the GMA or VFA, the CSM. In measuring the present value of future cash flows, assumptions must be made about mortality and morbidity rates, lapse and other policyholder behaviour ("policyholder behaviour"), expenses and other factors over the life of our products, and the prevailing market view of the cost of financial risk in our products. Many of these assumptions relate to events that are anticipated to occur many years in the future. Assumptions require significant judgment and regular review and, where appropriate, revision.

The RA is the compensation we require for the uncertainty related to non-financial risk in the estimates of future cash flows. This compensation is measured by discounting cash flows from applying margins to the non-financial assumptions used in the estimate of future cash flows.

The CSM represents the unearned profit that will be recognized as insurance contract services are provided.

The methods and assumptions used in the measurement of insurance contracts are reviewed regularly and are subject to external actuarial peer review.

Present Value of Future Cash Flows

Assumptions for non-financial risk variables in the present value of future cash flows are intended to be current, neutral estimates of the expected outcome. The choice of assumptions takes into account current circumstances, past experience data from our own experience or from the industry, the relationship of past to expected future experience, anti-selection, the relationship among assumptions (including those for financial risk variables), and other relevant factors.

Assumptions for financial risk variables in the present value of future cash flows are based on current observable market prices, adjusted to account for differences between the financial risk embedded in our products and those in the corresponding observed market instrument. Where no relevant market instrument is available, we use the best information available.

Mortality

Mortality refers to the rates at which death occurs for defined groups of people. Mortality assumptions are generally based on the past five to ten years of experience. Our experience is combined with industry experience or experience from reinsurers where our own experience is insufficient to be statistically valid. Assumed mortality rates for life insurance and annuity contracts include assumptions about future mortality improvement based on recent trends in population mortality and our outlook for future trends.

Morbidity

Morbidity refers to the rate of being unhealthy or disabled and the rates of recovery therefrom. Most of our disability insurance is marketed on a group basis. We offer critical illness policies on an individual basis in Canada and Asia, long-term care on an individual basis in Canada, and medical stop-loss insurance is offered on a group basis in the U.S. In Canada, group morbidity assumptions are based on our five-year average experience, modified to reflect any emerging trend in recovery rates. For Canadian long-term care and critical illness insurance in Canada and Asia, assumptions are developed in collaboration with our reinsurers and are largely based on their experience. In the U.S., our experience is used for both medical stop-loss and disability assumptions, with some consideration of industry or reinsurer experience.

Policyholder Behaviour

Lapse or surrender

Policyholders may allow their policies to lapse prior to the end of the contractual coverage period by choosing not to continue to pay premiums or by surrendering their policy for the cash surrender value. Assumptions for lapse or surrender experience on life insurance are generally based on our five-year average experience. Lapse or surrender rates vary by plan, age at issue, method of premium payment, policy duration and financial risk variables.

Premium payment patterns

For universal life contracts, it is necessary to set assumptions about premium payment patterns. Studies prepared by industry or the actuarial profession are used for products where our experience is insufficient to be statistically valid. Premium payment patterns usually vary by plan, age at issue, method of premium payment, policy duration and financial risk variables.

Expense

Future expenses directly attributable to the fulfilment of our insurance contracts include the costs of premium collection, claims adjudication and processing, actuarial calculations, preparation and mailing of policy statements, and related overhead. Future expense assumptions are mainly based on our recent experience using an internal expense allocation methodology. Inflationary increases assumed in future expenses are based on long-term expectations.

Acquisition expenses directly attributable to portfolios of insurance contracts include the costs of selling, underwriting and issuing insurance contracts. For new insurance contracts measured using the GMA or VFA, actual or estimated directly attributable acquisition expenses are recognized in the initial measurement of the contract. If estimates are used, the difference between estimated and actual acquisition expenses adjusts the CSM when the group of insurance contracts is closed to new contracts.

Current Discount Rates

Current discount rates are used to discount estimates of future cash flows in determining the present value of future cash flows. Current discount rates reflect the time value of money, the characteristics of the cash flows, and the liquidity characteristics of the insurance contracts.

Current discount rates for cash flows that do not vary based on returns on underlying items

Cash flows that do not vary at all based on the returns on any underlying items are discounted at rates that reflect the timing and currency of cash flows and the liquidity characteristics of the insurance contracts.

The timing of cash flows is reflected by constructing a discount curve, so that each cash flow is discounted consistent with the timing of the cash flow. In constructing the discount curve, a portion is based on market information (the observable period) and beyond that period, the discount rates are estimated (the unobservable period). The observable period, which varies by currency, is the time period where information on risk-free interest rates is deep and liquid. In the unobservable period, risk-free rates are interpolated between the last observable point and an ultimate risk-free rate at year 70. The ultimate risk-free rate is estimated using historical averages.

The currency of cash flows is reflected by using different discount curves for different currencies.

Liquidity is reflected by adding a liquidity premium to risk-free discount rates that is consistent with the liquidity characteristics of the insurance contracts. The liquidity premium in the observable period is based on the liquidity premium on assets with similar liquidity characteristics, which is estimated from the spread inherent in current market yields less a deduction for expected and unexpected credit losses. The deduction for expected and unexpected credit losses is estimated using historical rating agency data and current market conditions, and varies by asset type, quality, and duration. The liquidity premium in the unobservable period is interpolated between the last observable liquidity premium and an ultimate liquidity premium (at year 70) specific to liquid or illiquid contracts. See Note 7.A in our Interim Consolidated Financial Statements for further details, which provides a weighted average summary of the discount curves used to present value cash flows for all major products that do not vary based on the returns on underlying items.

Current discount rates for cash flows that vary with returns on underlying items

Discount rates for cash flows that vary directly with returns on underlying items reflect that variability. For the portion of cash flows that is a pass through of returns on underlying items to policyholders, the discount rate is such that the present value of cash flows equals the portion of the underlying items that is passed through to policyholders. For cash flows that vary, but not directly, with underlying items (e.g., financial guarantees), scenario testing may be necessary. If so, discount rates used in the scenario projections are scenario-specific and based on the projected risk-free rates in the scenario plus liquidity premiums consistent with the liquidity characteristics of the contracts being measured.

Scenario Testing

Scenario testing may be required when the relationship between cash flows and financial risk variables is non-linear, or where there are complex interdependencies among cash flows. In scenario testing of financial risk variables, future cash flows are projected for each scenario path and discounted at the scenario-specific discount rates, resulting in a present value of future cash flows for each scenario. The provision for the projected cash flows is the average of the scenario-specific values. Assumptions for non-financial risk variables are the best estimate assumptions consistent with the scenario.

Scenarios are consistent with the current market environment. Our Economic Scenario Generator calibration process produces integrated stochastic scenarios of financial risk variables (e.g., risk-free interest rates, bond fund returns, equity returns) with parameters calibrated to replicate observable market prices of financial instruments available in the market. Adjustments are made when the insurance contracts being measured are illiquid but the financial instruments to which the scenarios are calibrated to are liquid.

Risk Adjustment for Non-Financial Risk

The RA for insurance contracts issued is the compensation we require for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk. This amount is measured as the present value of the difference between estimated future cash flows with a margin applied to non-financial assumptions and estimated future cash flows without this adjustment. Margins generally range from 5% to 20% depending on the uncertainty in the determination of the assumption. The level of uncertainty, and hence the margin chosen, varies by assumption and by line of business and other factors. Considerations that would generally lead to a choice of margin at the higher end of the range are as follows:

- The statistical credibility of our experience is too low to be the primary source of data for choosing the assumption;
- Future experience is difficult to estimate;
- The cohort of risks lacks homogeneity;
- Operational risks adversely impact the ability to estimate the assumption; or
- Past experience may not be representative of future experience and the experience may deteriorate.

Margins are generally stable over time and are revised only to reflect changes in the level of uncertainty in the assumptions. Our margins tend to be at mid-range.

The RA for reinsurance contracts held represents the amount of risk transferred to the reinsurer. This is measured as the difference between the RA on the underlying insurance contracts without reinsurance and what the RA on the underlying insurance contracts would be with reinsurance. The RA for reinsurance contracts held increases the asset or reduces the liability for reinsurance contracts held.

The RA for insurance contracts issued and reinsurance contracts held corresponds to a confidence level of approximately 80-85% overall.

Contractual Service Margin

The initial and subsequent measurement of CSM is described in 2.A.i. in our Interim Consolidated Financial Statements. Additional detail about certain components of the measurement of CSM is provided below.

Interest accretion

For insurance contracts measured using the GMA, locked-in discount rates are used to accrete interest on the CSM. The locked-in discount rate for a group of insurance contracts is the weighted average of the current discount rates at initial recognition of the contracts in the group. For groups of contracts that are in-force as at transition (January 1, 2022), the locked-in discount rates are the discount rates in effect at the date of transition as the fair value approach was applied for these groups at transition.

For insurance contracts measured using the VFA, there is no accretion of interest. Rather, the CSM is adjusted by the change in our share of the fair value of underlying items.

Changes in FCF relating to future service

For insurance contracts measured using the GMA, locked-in discount rates are used to measure changes in FCF relating to future service. Changes in FCF relating to future service reflect changes in non-financial assumptions but not changes in assumptions related to financial risk.

For insurance contracts measured using the VFA, current discount rates are used to measure the change in FCF relating to future service. Changes in FCF relating to future service reflect both changes in non-financial assumptions and changes in assumptions related to financial risk.

Changes in FCF relating to future service include (Liability for Remaining Coverage only):

- All changes related to investment component payments (including current period payments);
- Changes arising from changes in assumptions used to derive the present value of future cash flows - limited to non-financial assumptions for insurance contracts measured using the GMA;
- Changes in future cash flows arising from claims in the current period; and
- For insurance contracts measured using the GMA, changes related to discretionary cash flows on some universal life and adjustable products. Discretionary cash flows are cash flows outside the guaranteed payments to the policyholder, and are described as a spread on earned rates (in the case of some universal life contracts) and in the policy on criteria for changes to adjustable policies for adjustable policies.

CSM recognized for services provided

The amount of CSM recognized as insurance revenue in each period to reflect the insurance contract services provided for a group of contracts in the period is determined by:

- Identifying the total coverage units in the group (for services in current and future periods) – based on the quantity of insurance contract services;
- Allocating the CSM at the end of the period equally to each coverage unit in the current period and expected to be provided in the future (i.e., coverage units "unitize" the services provided); then
- Recognizing in insurance revenue the amount allocated to coverage units provided in the period.

Total coverage units for services expected to be provided in future periods is the present value of projected coverage units. The present value is measured using locked-in discount rates for groups measured using the GMA and current discount rates for groups measured using the VFA.

The coverage unit for a group is based on the nature of the insurance contract services provided. Insurance contract services comprise services for providing insurance coverage and, for some contracts, investment-return or investment-related services. It does not include services related to performing functions such as claims adjudication.

For insurance contracts measured using the VFA, coverage units are based on the policyholder's account value or the policyholders' share of the fair value of underlying items. For insurance contracts measured using the GMA, coverage units are based on the expected claim amount (excluding any investment component) for life and health insurance contracts, and the payment due in a period for annuity contracts.

For reinsurance contracts held, the amount of CSM recognized reflects the services received in the period.

Sensitivities to Insurance Methods and Assumptions

In addition to the insurance risks factors and risk management governance and controls described in section J - Risk Management in the 2022 Annual MD&A and the Risk Factors section of the 2022 AIF, we also note that on adoption of IFRS 17 and 9, the tables below include sensitivities of contractual service margins to insurance and other non-financial assumption risks.

The following table sets out the estimated immediate impact on, or sensitivity of, the CSM and net income to certain instantaneous changes in the insurance and other non-financial assumptions used in the calculation of our insurance contract liabilities, based on a starting point and business mix as at December 31, 2022. These estimates are illustrative and different starting points for best estimate assumptions, CSM balances and business mix will result in different estimated sensitivities. These sensitivities represent the Company's estimate of changes in best estimate assumptions that are reasonably likely based on the Company's and/or the industry's historical experience and industry standards and best practices as at December 31, 2022.

The impact on CSM is attributable to insurance contracts measured under the GMA and VFA. For insurance contracts measured under the GMA, the impact flows through the CSM at locked-in discount rates. For insurance contracts measured under the VFA, the impact flows through the CSM at current discount rates.

The impact on net income is attributable to any portion of the sensitivities for insurance contracts measured under the GMA and VFA that cannot be absorbed by CSM, the full impact for insurance contracts measured under the PAA, and the difference in impact between locked-in and current discount rates for insurance contracts measured under the GMA. If current discount rates are higher than locked-in rates, this generally results in a favourable impact to net income from contracts measured under the GMA.

Sensitivity ⁽¹⁾	As at December 31, 2022	
	Potential impact on CSM (pre-tax)	Potential impact on net income (after-tax)
Policyholder Behaviour (10% increase/decrease, where adverse)	(850)	75
Life Mortality rates (2% increase)	(75)	(25)
Annuity Mortality rates (2% decrease)	(175)	25
Morbidity rates (5% incidence increase and 5% termination decrease)	(75)	(175)
Expenses (5% increase)	(175)	—

⁽¹⁾ Sensitivities to insurance assumptions refer to insurance contracts issued net of reinsurance contracts held. Net income and CSM sensitivities have been rounded in increments of \$25 million.

M. 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.

During fiscal 2022, we continuously assessed the impact of internal controls over financial reporting and modified certain internal controls over financial reporting to reflect key changes in the Company's financial reporting and the preparation of its financial statements in the 2022 comparative reporting periods as a result of IFRS 17 and IFRS 9 implementations.

To manage our transition to IFRS 17 and IFRS 9, we established a comprehensive enterprise-wide governance structure to monitor the risks arising from changes to the financial reporting processes and controls related to finance, actuarial, asset and liability management, investments, and financial reporting-related system implementation. Throughout the transition, we have provided regular updates to senior management and the Audit Committee to ensure escalation of key issues and risks.

We believe there are no changes in the Company's internal control over financial reporting as a result of the adoption of new accounting standards during the period ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

N. Non-IFRS Financial Measures

1. Common Shareholders' View of Reported Net Income

The following table provides the reconciliation of the Drivers of Earnings ("DOE") analysis to the Statement of Operations total net income. The DOE analysis provides additional detail on the sources of earnings, primarily for protection and health businesses, and explains the actual results compared to the longer term expectations. The underlying DOE and reported DOE are both presented on a common shareholders' basis by removing the allocations to participating policyholders.

(\$ millions)		Q2'23				
Statement of Operations	Underlying DOE ⁽¹⁾	Non-underlying adjustments ⁽¹⁾	Common Shareholders' Reported DOE ⁽²⁾⁽³⁾	Adjustment for:		Reported (per IFRS)
				Par ⁽²⁾	Net ⁽³⁾	
Net insurance service result	794	(36)	758	27	(10)	775
Net investment result	430	(265)	165	36	53	254
Fee income:						
Asset Management	403	(76)	327		(327)	
Other fee income	80	4	84	(4)	1,856	1,936
Fee income						1,936
Other expenses	(516)	(10)	(526)	—	(1,572)	(2,098)
Income before taxes	1,191	(383)	808	59	—	867
Income tax (expense) benefit	(235)	116	(119)	(8)	—	(127)
Total net income	956	(267)	689	51	—	740
Allocated to Participating and NCI ⁽⁴⁾	(16)	7	(9)	(51)	—	(60)
Dividends and Distributions ⁽⁵⁾	(20)	—	(20)	—	—	(20)
Underlying net income⁽¹⁾	920					
Reported net income - Common shareholders		(260)	660	—	—	660

(\$ millions)		Q1'23				
Statement of Operations	Underlying DOE ⁽¹⁾	Non-underlying adjustments ⁽¹⁾	Common Shareholders' Reported DOE ⁽²⁾⁽³⁾	Adjustment for:		Reported (per IFRS)
				Par ⁽²⁾	Net ⁽³⁾	
Net insurance service result	676	(12)	664	31	(7)	688
Net investment result	437	(85)	352	12	57	421
Fee income:						
Asset Management	377	(45)	332		(332)	
Other fee income	93	—	93	(3)	1,811	1,901
Fee income						1,901
Other expenses	(468)	13	(455)	—	(1,460)	(1,915)
Income before taxes	1,115	(129)	986	40	69	1,095
Income tax (expense) benefit	(191)	25	(166)	(7)	(4)	(177)
Total net income	924	(104)	820	33	65	918
Allocated to Participating and NCI ⁽⁴⁾	(9)	15	6	(33)	(65)	(92)
Dividends and Distributions ⁽⁵⁾	(20)	—	(20)	—	—	(20)
Underlying net income⁽¹⁾	895					
Reported net income - Common shareholders		(89)	806	—	—	806

⁽¹⁾ For a breakdown of non-underlying adjustments made to arrive at underlying net income as well as the underlying DOE analysis, see the heading "Underlying Net Income and Underlying EPS" below.

⁽²⁾ Removes the components attributable to the participating policyholders.

⁽³⁾ Certain amounts within the Drivers of Earnings are presented on a net basis to reflect how management views the business, compared to a gross basis in the Consolidated Financial Statements. For more details, refer to "Drivers of Earnings" in section 3 - Additional Non-IFRS Financial Measures below.

⁽⁴⁾ Allocated to equity in the participating account and attributable to non-controlling interests.

⁽⁵⁾ Dividends on preferred shares and distributions on other equity instruments.

Statement of Operations	Q2'22						Reported (per IFRS)
	Underlying DOE ⁽¹⁾	Non-underlying adjustments ⁽¹⁾	Common Shareholders' Reported DOE ⁽²⁾⁽³⁾	Adjustment for:			
				Par ⁽²⁾	Net ⁽³⁾		
Net insurance service result	536	6	542	26	12	580	
Net investment result	322	362	684	16	(49)	651	
Fee income:							
Asset Management	388	1	389		(389)		
Other fee income	95	—	95	—	1,684	1,779	
Fee income						1,779	
Other expenses	(333)	(92)	(425)	—	(1,262)	(1,687)	
Income before taxes	1,008	277	1,285	42	(4)	1,323	
Income tax (expense) benefit	(174)	(159)	(333)	13	5	(315)	
Total net income	834	118	952	55	1	1,008	
Allocated to Participating and NCI ⁽⁴⁾	(12)	4	(8)	(55)	(1)	(64)	
Dividends and Distributions ⁽⁵⁾	(14)	—	(14)	—	—	(14)	
Underlying net income⁽¹⁾	808						
Reported net income - Common shareholders		122	930	—	—	930	

Refer to the footnotes on the previous page.

Statement of Operations	Year-to-date						Reported (per IFRS)
	Underlying DOE ⁽¹⁾	Non-underlying adjustments ⁽¹⁾	Common Shareholders' Reported DOE ⁽²⁾⁽³⁾	Adjustment for:			
				Par ⁽²⁾	Net ⁽³⁾		
Net insurance service result	1,470	(48)	1,422	58	(17)	1,463	
Net investment result	867	(350)	517	48	110	675	
Fee Income:							
Asset Management	780	(121)	659		(659)		
Other fee income	173	4	177	(7)	3,667	3,837	
Fee income						3,837	
Other expenses	(984)	3	(981)	—	(3,032)	(4,013)	
Income before taxes	2,306	(512)	1,794	99	69	1,962	
Income tax (expense) benefit	(426)	141	(285)	(15)	(4)	(304)	
Total net income	1,880	(371)	1,509	84	65	1,658	
Allocated to Participating and NCI ⁽⁴⁾	(25)	22	(3)	(84)	(65)	(152)	
Dividends and Distributions ⁽⁵⁾	(40)	—	(40)	—	—	(40)	
Underlying net income⁽¹⁾	1,815						
Reported net income - Common shareholders		(349)	1,466	—	—	1,466	

Refer to the footnotes on the previous page.

Statement of Operations	Year-to-date						Reported (per IFRS)
	Underlying DOE ⁽¹⁾	Non-underlying adjustments ⁽¹⁾	Common Shareholders' Reported DOE ⁽²⁾⁽³⁾	Adjustment for:			
				Par ⁽²⁾	Net ⁽³⁾		
Net insurance service result	950	(9)	941	(9)	19	951	
Net investment result	564	519	1,083	45	(49)	1,079	
Fee income:							
Asset Management	815	(13)	802		(802)		
Other fee income	202	—	202	—	3,416	3,618	
Fee income						3,618	
Other expenses	(689)	(111)	(800)	—	(2,585)	(3,385)	
Income before taxes	1,842	386	2,228	36	(1)	2,263	
Income tax (expense) benefit	(257)	(327)	(584)	48	2	(534)	
Total net income	1,585	59	1,644	84	1	1,729	
Allocated to Participating and NCI ⁽⁴⁾	(25)	8	(17)	(84)	(1)	(102)	
Dividends and Distributions ⁽⁵⁾	(32)	—	(32)	—	—	(32)	
Underlying net income⁽¹⁾	1,528						
Reported net income - Common shareholders		67	1,595	—	—	1,595	

Refer to the footnotes on the previous page.

2. Underlying Net Income and Underlying EPS

Underlying net income is a non-IFRS financial measure that assists in understanding Sun Life's business performance by making certain adjustments to IFRS income. Underlying net income, along with common shareholders' net income (Reported net income), is used as a basis for management planning, and is also a key measure in our employee incentive compensation programs. This measure reflects management's view of the underlying business performance of the company and long-term earnings potential. For example, due to the longer term nature of our individual protection businesses, market movements related to interest rates, equity markets and investment properties can have a significant impact on reported net income in the reporting period. However, these impacts are not necessarily realized, and may never be realized, if markets move in the opposite direction in subsequent periods or in the case of interest rates, the fixed income investment is held to maturity.

Effective January 1, 2023, we refined the definition of underlying net income as follows, and have updated prior period comparative figures to reflect these changes: (i) Market-related impacts was updated to reflect the adoption of IFRS 17 and IFRS 9; (ii) The adjustment for management's ownership of MFS shares were updated to better reflect Sun Life's interest in MFS' earnings; and (iii) Removal of intangible asset amortization on acquired finite-life intangibles. Additional detail on these adjustments is provided below.

Underlying net income removes the impact of the following items from reported net income:

- Market-related impacts reflecting the after-tax difference in actual versus expected market movements, including:
 - i) Net interest impact from risk-free rate, credit spread, and swap spread movements, reflecting accounting mismatches between assets and liabilities:
 - a. Differences arising from fair value changes⁽¹⁾ of fixed income assets (including derivatives) measured at fair value through profit or loss ("FVTPL") supporting insurance contracts, compared to fair value changes of the liabilities⁽²⁾;
 - b. Fair value changes of fixed income assets (including derivatives) measured at FVTPL supporting our investment contract liability and surplus portfolios⁽³⁾; and
 - c. Tax-exempt investment income above or below expected long-term tax savings relating to our Canadian multi-national insurance operations.
 - ii) Non-fixed income investments where the weighted average expected return is approximately 2% per quarter, including:
 - a. Equity investments (including derivatives) supporting insurance contracts and surplus portfolios; and
 - b. Investment properties supporting insurance contracts and surplus portfolios.
- Assumptions changes and management actions ("ACMA") – captures the impact of method and assumption changes, and management actions on insurance and reinsurance contracts.
- Other adjustments:
 - i) Management's ownership of MFS shares – this adjustment removes the change in fair value of MFS common shares owned by management.
 - ii) Acquisition, integration, and restructuring - expense and income related to acquisition or disposal of a business. Also includes expenses related to restructuring activities.
 - iii) Intangible asset amortization - removes the amortization expense associated with finite life intangible assets arising from acquisitions or business combinations excluding amortization of software and distribution agreements.
 - iv) Other – represents items that are unusual or exceptional in nature which management believes are not representative of the long-term performance of the Company.

Underlying EPS (diluted). This measure is used in comparing the profitability across multiple periods and is calculated by dividing underlying net income by weighted average common shares outstanding for diluted EPS, excluding the dilutive impact of convertible instruments. For additional information about the underlying net income, see above. For additional information about the composition of the EPS, please refer to Note 14 of our Interim Consolidated Financial Statements for the period ended June 30, 2023. For additional information about the SLEECs, please refer to Note 13 of our 2022 Annual Consolidated Financial Statements.

⁽¹⁾ For fixed income assets, Underlying Net Income includes credit experience from rating changes on assets measured at FVTPL, and the Expected credit loss (ECL) impact for assets measured at Fair value through other comprehensive income (FVOCI).

⁽²⁾ Underlying net income is based on observable discount curves and exchange rates at the beginning of the period.

⁽³⁾ Underlying net income for earnings on surplus includes realized gains (losses) on fixed income assets classified as FVOCI.

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

Reconciliations of Select Net Income Measures

(\$ millions, after-tax)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22 ⁽¹⁾	2023	2022 ⁽¹⁾
Underlying net income	920	895	808	1,815	1,528
Market-related impacts ⁽¹⁾					
Equity market impacts	(13)	13	(100)	—	(129)
Interest rate impacts ⁽²⁾	(99)	11	156	(88)	115
Impacts of changes in the fair value of investment properties (real estate experience)	(108)	(88)	62	(196)	130
Add: Market-related impacts	(220)	(64)	118	(284)	116
Add: Assumption changes and management actions	7	(5)	(22)	2	(49)
Other adjustments					
Management's ownership of MFS shares	(1)	17	42	16	51
Acquisition, integration and restructuring ⁽³⁾⁽⁴⁾⁽⁵⁾	(20)	(4)	(73)	(24)	(94)
Intangible asset amortization	(26)	(33)	(19)	(59)	(33)
Other ⁽⁶⁾	—	—	76	—	76
Add: Total of other adjustments	(47)	(20)	26	(67)	—
Reported net income - Common shareholders	660	806	930	1,466	1,595
Underlying EPS (diluted) (\$)	1.57	1.52	1.38	3.09	2.61
Add: Market-related impacts (\$)	(0.38)	(0.10)	0.19	(0.48)	0.20
Assumption changes and management actions (\$)	0.01	(0.01)	(0.04)	—	(0.09)
Management's ownership of MFS shares (\$)	—	0.03	0.07	0.03	0.08
Acquisition, integration and restructuring (\$)	(0.03)	(0.01)	(0.12)	(0.04)	(0.16)
Intangible asset amortization (\$)	(0.05)	(0.06)	(0.03)	(0.11)	(0.06)
Other (\$)	—	—	0.13	—	0.13
Impact of convertible securities on diluted EPS (\$)	—	—	—	—	0.01
Reported EPS (diluted) (\$)	1.12	1.37	1.58	2.49	2.72

⁽¹⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards. See the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in section A - How We Report Our Results in this document.

⁽²⁾ Our results are sensitive to long rates given the nature of our business and to non-parallel yield curve movements (for example flattening, inversion, steepening, etc.).

⁽³⁾ Amounts relate to acquisition costs for our SLC Management affiliates, BentallGreenOak, InfraRed Capital Partners, Crescent Capital Group LP and Advisors Asset Management, Inc, which include the unwinding of the discount for Other financial liabilities of \$21 million in Q2'23 and \$41 million for the first six months of 2023 (Q1'23 - \$20 million; Q2'22 - \$16 million; the first six months of 2022 - \$32 million).

⁽⁴⁾ Includes acquisition and integration costs associated with DentaQuest, acquired on June 1, 2022.

⁽⁵⁾ Includes a \$65 million gain on the sale of the sponsored markets business in Canada in Q1'23 and a \$19 million gain on the sale of Sun Life UK in Q2'23.

⁽⁶⁾ Related to a Q2'22 gain on the sale-leaseback of the Wellesley office in the U.S.

The following table shows the pre-tax amount of underlying net income adjustments:

(\$ millions)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22 ⁽¹⁾	2023	2022 ⁽¹⁾
Underlying net income (after-tax)	920	895	808	1,815	1,528
Underlying net income adjustments (pre-tax):					
Add: Market-related impacts ⁽¹⁾	(298)	(99)	282	(397)	454
Assumption changes and management actions ⁽²⁾	11	(5)	(30)	6	(60)
Other adjustments	(89)	(10)	29	(99)	—
Total underlying net income adjustments (pre-tax)	(376)	(114)	281	(490)	394
Add: Taxes related to underlying net income adjustments ⁽³⁾	116	25	(159)	141	(327)
Reported net income - Common shareholders (after-tax)	660	806	930	1,466	1,595

⁽¹⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards. See the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in section A - How We Report Our Results in this document.

⁽²⁾ In this document, the reported net income impact of ACMA is shown in aggregate for Net insurance service result and Net investment result, and excludes amounts attributable to participating policyholders. In contrast, Note 7.B.iv of the Consolidated Financial Statements for the period ended June 30, 2023 shows the net income impacts of method and assumption changes separately in Net insurance service result and Net investment result, and includes amounts attributable to participating policyholders.

⁽³⁾ Taxes related to underlying net income adjustments may vary from the expected effective tax rate range reflecting the mix of business based on the Company's international operations.

3. Additional Non-IFRS Financial Measures

Management also uses the following non-IFRS financial measures:

After-tax profit margin for U.S. Group Benefits. This ratio expresses U.S. Group Benefits underlying net income as a percentage of net premiums. It assists in explaining our results from period to period and measures profitability. 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.

Assets under administration (in SLC Management). AUA represents Client assets for which Sun Life provides administrative services. In Asset Management, AUA includes assets distributed by SLC Management's affiliate, Advisors Asset Management, Inc. There is no directly comparable IFRS measure.

Assets under management. AUM is a non-IFRS financial measure that indicates the size of our Company's assets across asset management, wealth, and insurance. There is no standardized financial measure under IFRS. In addition to the most directly comparable IFRS measures, which are the balance of General funds and Segregated funds on our Statements of Financial Position, AUM also includes Third-party AUM and Consolidation adjustments.

AUM not yet earning fees. This measure represents the committed uninvested capital portion of total AUM not currently earning management fees. The amount depends on the specific terms and conditions of each fund. There is no directly comparable IFRS measure.

Capital raising. This measure consists of increases in SLC Management's commitments from fund raising activities for all real estate, infrastructure and alternative credit Clients excluding leverage. Investment-grade fixed income capital raising consists of sales made to new Clients. There is no directly comparable IFRS measure.

Cash and other liquid assets. This measure is comprised of cash, cash equivalents, short-term investments, and publicly traded securities, net of loans related to acquisitions that are held at SLF Inc. (the ultimate parent company), and its wholly owned holding companies. This measure is a key consideration of available funds for capital re-deployment to support business growth.

(\$ millions)	As at June 30, 2023	As at December 31, 2022
Cash and other liquid assets (held at SLF Inc. and its wholly owned holding companies):		
Cash, cash equivalents & short-term securities	1,281	423
Debt securities ⁽¹⁾	1,370	1,408
Equity securities ⁽²⁾	100	102
Sub-total	2,751	1,933
Less: Loans related to acquisitions (held at SLF Inc. and its wholly owned holding companies)	(704)	(883)
Cash and other liquid assets (held at SLF Inc. and its wholly owned holding companies)	2,047	1,050

⁽¹⁾ Includes publicly traded bonds.

⁽²⁾ Includes ETF Investments.

Constant currency. We remove the impacts of foreign exchange translation from certain IFRS and non-IFRS measures to assist in comparing our results from period to period. The impacts of foreign exchange translation is approximated by using the foreign exchange rates in effect during the comparative period, using the average or period end foreign exchange rates, as appropriate.

CSM Movement Analysis includes certain non-IFRS financial measures, detailed below, and also presents certain measures on a net basis to reflect how management views the business, compared to a gross basis in the Consolidated Financial Statements. Examples include i) The impacts of insurance contracts issued is presented net of reinsurance; ii) Impact of new business is presented net of acquisition expense gain/loss; and iii) Certain methodology changes are presented as an impact of change in assumptions, whereas the Consolidated Financial Statement presentation is a contract modification.

- **Organic CSM Movement** is comprised of the Impact of new insurance business, Expected movements from asset returns & locked-in rates, Insurance experience gains/losses, and CSM recognized for services provided.
- **Impact of new insurance business on CSM**, also referred to as "new business CSM", represents growth from sales activity in the period, including individual protection sales (excluding joint ventures), and defined benefit solutions and segregated fund wealth sales in Canada. New business CSM is presented net of acquisition expense gain/loss.
- **Expected movements from asset returns & locked-in rates** applies to variable fee approach ("VFA") and general measurement approach ("GMA") contracts. For VFA contracts, this component of the CSM movement analysis is comprised of two factors: (i) the expected return on underlying assets and (ii) the measurement of financial guarantees. The difference between actual and expected results are reported as the impact of markets. For GMA contracts, this component of the CSM includes the accretion of the CSM balance at locked-in rates, which refer to the term structure associated with locked-in discount rates, set when the insurance contract was sold or on transition to IFRS 17. Average locked-in rates increase with the passage of time on in-force business and new business added at current rates.
- **Impact of markets & other** includes the difference between actual and expected movement for VFA contracts for: (i) the return on underlying assets and (ii) the measurement of financial guarantees. Also includes other amounts excluded from Organic CSM Movement.
- **Insurance experience gains/losses** represents the current period impacts of insurance experience, resulting in a change in future cash flows that adjust CSM.
- **Impact of change in assumptions** represents the future period impacts of changes in fulfilment cash flows that adjust CSM.
- **CSM market sensitivities.** CSM 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.

Deployment. This measure represents the amount of capital that has been invested in the period, including leverage where applicable. Deployment also includes capital committed in infrastructure deals to be invested in specific assets. There is no directly comparable IFRS measure.

Drivers of Earnings. The Drivers of Earnings ("DOE") analysis provides additional detail on the sources of earnings, primarily for protection and health businesses, and explains the actual results compared to the longer term expectations. The DOE is presented on a reported and underlying common shareholders' basis. Within the net insurance service result, the underlying DOE provides detail on expected insurance earnings, impact of new insurance business and experience gains (losses). Within the net investment result, the underlying DOE provides detail on expected investment earnings, credit experience, earnings on surplus, and joint ventures & other. For more information, refer to the headings "Underlying net income and Underlying EPS", "Earnings on surplus", "Notable items attributable to reported and underlying net income", in this document.

Certain amounts in the DOE are presented on a net basis to reflect how management views the business, compared to a gross basis in the Consolidated Financial Statements. Examples include: i) Net investment result and Other expenses of the Asset Management operating segment are combined with Fee Income to report the net contribution to earnings; ii) Income for fee-based businesses is reported net of the associated expenses; iii) Carried interest in SLC Management within Fee Income excludes the carried interest that Sun Life does not participate in economically, and nets the non-controlling interest portion of the carried interest against fee income and expenses of consolidated funds; iv) Net investment results include assets returns net of the crediting rate for investment contract liabilities and the unwinding of and changes in the discount rate for insurance contract liabilities; v) Earnings on surplus reflects net spread earned from investment strategies; vi) Earnings attributable to the participating account are excluded; and vii) Assumption changes and management actions combines the amounts included in Net insurance service result and Net investment result.

Earnings on Surplus. This component of the Drivers of Earnings represents the net income earned on a company's surplus funds. Earnings on Surplus is comprised of realized gains on fair value through other comprehensive income assets, as well as net investment returns on surplus, such as investment income, gains (losses) on seed investments and investment properties mark-to-market.

Experience-related items attributable to reported net income and underlying net income. These notable items attributable to reported net income and underlying net income are components of the Drivers of Earnings represents gains and losses that are due to differences between the actual results during the reporting period and management's estimate of the expected longer-term returns on assets and liabilities (i.e. expected insurance earnings and expected investment earnings) at the start of the reporting period.

Fee earning AUM. FE AUM consists of assets managed by SLC Management, which are beneficially owned by Clients, on which we earn management fees for providing investment management, property management or advisory-related services. There is no directly comparable IFRS measure.

Fee-related earnings and Operating income. **Fee-related earnings** represent profitability of SLC Management's fee-related portfolios, and is calculated as Fee-related revenue less Fee-related expenses. **Operating income** represents profit realized from our business operations, and is calculated as the sum of Fee-related earnings, Investment income (loss) and performance fees, and Interest and other. **Fee-related revenue** represents all fee income, with the exception of performance fees, generated from third-party investors. **Fee-related expenses** represent all expenses directly related to generating fee revenue from third-party investors. **Investment income (loss) and performance fees** represent total income or loss from our seed investments, net of the related expenses. **Interest and other** represents performance fee compensation, our net interest income or expense and income from managing the General Account assets.

Fee-related earnings and Operating income are non-IFRS financial measures within SLC Management's Supplemental Income Statement, which enhances the comparability of SLC Management's results with publicly traded alternative asset managers. For more details, see our Supplementary Financial Information package for the quarter.

The following table provides a reconciliation from Fee-related earnings and Operating income to SLC Management's Fee income and Total expenses based on IFRS.

SLC Management (\$ millions)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22	2023	2022
Fee income (per IFRS)	375	369	307	744	601
Less: Non-fee-related revenue adjustments ⁽¹⁾⁽²⁾	83	86	65	169	133
Fee-related revenue	292	283	242	575	468
Total expenses (per IFRS)	377	336	292	713	564
Less: Non-fee-related expense adjustments ⁽²⁾⁽³⁾	147	121	102	268	202
Fee-related expenses	230	215	190	445	362
Fee-related earnings	62	68	52	130	106
Add: Investment income (loss) and performance fees ⁽⁴⁾	24	5	20	29	33
Add: Interest and other ⁽⁵⁾	(19)	(32)	(8)	(51)	(14)
Operating income	67	41	64	108	125

⁽¹⁾ Includes Interest and other - fee income, Investment income (loss) and performance fees - fee income, and Other - fee income.

⁽²⁾ Excludes the income and related expenses for certain property management agreements to provide more accurate metrics on our fee-related business.

⁽³⁾ Includes Interest and other, Placement fees - other, Amortization of intangibles, Acquisition, integration and restructuring, and Other - expenses.

⁽⁴⁾ Investment income (loss) and performance fee in SLC Management's Supplemental Income Statement relates to the underlying results of our seed investments. As such, we have excluded non-underlying market-related impacts as well as the gains or losses of certain non-seed hedges that are reported under Net investment income (loss) under IFRS. The reconciliation is as follows (amounts have been adjusted for rounding):

(\$ millions)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22	2023	2022
Net investment income (loss) (per IFRS)	(7)	8	5	1	17
Less: Market-related impacts and Other - Investment income (loss)	(31)	4	(15)	(27)	(13)
Add: Investment income (loss) and performance fees - fee income	—	1	—	1	3
Investment income (loss) and performance fees	24	5	20	29	33

⁽⁵⁾ Includes Interest and other reported under Fee income under IFRS, net of Interest and other reported under Total expenses under IFRS.

Financial leverage ratio. This ratio is an indicator of the Company's balance sheet strength measured by its proportion of capital qualifying debt in accordance with OSFI guidelines. This is calculated as the ratio of total debt plus preferred shares to total capital including the contractual service margin net of taxes, where debt consists of all capital-qualifying debt securities. Capital-qualifying debt securities consist of subordinated debt and innovative capital instruments. The CSM is included net of taxes because debts are repaid and serviced from available after-tax funds.

Effective January 1, 2023, the calculation for the financial leverage ratio was updated to include the CSM balance (net of taxes) in the denominator on adoption of IFRS 17 and IFRS 9.

Impacts of foreign exchange translation. To assist in comparing our results from period-to-period, the favourable or unfavourable impacts of foreign exchange translation are approximated using the foreign exchange rates, in effect during the comparative period, for several IFRS and Non-IFRS financial measures using the average or period end foreign exchange rates, as appropriate. Items impacting a reporting period, such as Revenue, Expenses, and Reported net income (loss) in our Consolidated Statements of Operations, as well as underlying net income (loss), and sales, are translated into Canadian dollars using average exchange rates for the appropriate daily, monthly, or quarterly period. For Assets and Liabilities in our Consolidated Statements of Financial Position, as well as the AUM and certain components of the Drivers of Earnings disclosure, period-end rates are used for currency translation purposes.

LICAT market sensitivities. LICAT 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.

Pre-tax fee related earnings margin. This ratio is a measure of SLC Management's profitability in relation to funds that earn recurring fee revenues, while excluding investment income and performance fees. The ratio is calculated by dividing fee-related earnings by fee-related revenues and is based on the last twelve months. There is no directly comparable IFRS measure.

Pre-tax net operating margin. This ratio is a measure of the profitability and there is no directly comparable IFRS measure. For MFS, this ratio is calculated by excluding management's ownership of MFS shares and certain commission expenses that are offsetting. These commission expenses are excluded in order to neutralize the impact these items have on the pre-tax net operating margin and have no impact on the profitability of MFS. For SLC Management, the ratio is calculated by dividing the total operating income by fee-related revenue plus investment Income (loss) and performance fees, and is based on the last twelve months.

The following table provides a reconciliation to calculate MFS' pre-tax net operating margin:

MFS (US\$ millions)	Quarterly results			Year-to-date	
	Q2'23	Q1'23	Q2'22	2023	2022
Revenue					
Fee income (per IFRS)	804	787	838	1,591	1,747
Less: Commissions	99	99	110	198	230
Less: Other ⁽¹⁾	(14)	(13)	(16)	(27)	(27)
Adjusted revenue	719	701	744	1,420	1,544
Expenses					
Expenses (per IFRS)	577	544	542	1,121	1,148
Net investment (income)/loss (per IFRS)	(24)	(20)	5	(44)	11
Less: Management's ownership of MFS shares (net of NCI) ⁽²⁾	12	(2)	(21)	10	(18)
Compensation-related equity plan adjustments	1	—	(4)	1	8
Commissions	99	99	110	198	230
Other ⁽¹⁾	(14)	(16)	(16)	(30)	(27)
Adjusted expenses	455	443	478	898	966
Pre-tax net operating margin	37%	37%	36%	37%	37%

⁽¹⁾ Other includes accounting basis differences, such as sub-advisory expenses and product allowances.

⁽²⁾ Excluding non-controlling interest. For more information on Management's ownership of MFS shares, see the heading Underlying Net Income and Underlying EPS.

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 ROE provides an indication of the overall profitability of the Company. The quarterly ROE is annualized.

Sales and flows. Asset Management gross flows includes funds from retail and institutional Clients; SLC Management gross flows include capital raising, such as uncalled capital commitments and fund leverage. Asset Management net flows consist of gross flows less gross outflows; SLC Management's net flows do not include Client distributions from the sale of underlying assets in closed-end funds. In Canada and in Asia, net sales consist of wealth sales & asset management gross flows less redemptions. In Canada, wealth sales & asset management gross flows consist of sales in Group Retirement Services and Individual Wealth; group - health & protection sales consist of workplace benefits sold by Sun Life Health; and individual - protection sales refer to individual insurance sales. In the U.S., group - health & protection sales consist of sales by Group Benefits and Dental. In Asia, wealth sales & asset management gross flows consist of Hong Kong wealth sales & asset management gross flows, Philippines mutual fund sales, wealth sales & asset management gross flows by our India and China 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; individual - protection sales consist of the individual insurance sales, by our subsidiaries and joint ventures and associates, based on our proportionate equity interest, in the Philippines, Indonesia, India, China, Malaysia, Vietnam, International, Hong Kong and Singapore. Asia also has group - health & protection sales in the Philippines, Hong Kong and our joint ventures. To provide greater comparability across reporting periods, we exclude the impacts of foreign exchange translation from sales and gross flows. There is no directly comparable IFRS measure.

Effective January 1, 2023, wealth sales & asset management gross flows in Group Retirement Services in Canada has been updated to exclude retained sales to better align with the methodology for Life Insurance Marketing and Research Association ("LIMRA") reporting. We have updated prior period amounts to reflect this change. Also effective January 1, 2023, insurance sales were renamed to "Group - Health & Protection sales" and "Individual - Protection sales" to better align to the business types within our business groups. For more information about business types, refer to section A - How We Report Our Results in this document.

Third-party AUM. Third-party AUM is composed of retail, institutional, and other third party assets, which includes general fund and segregated fund assets managed by our joint ventures. In Asset Management, third-party AUM includes Client assets for retail and institutional Clients, as well as capital raising, such as uncalled commitments and fund leverage in SLC Management. In Canada, third-party AUM includes Client assets in retail mutual fund products of Sun Life Global Investments. In Asia, third-party AUM includes Client assets in Hong Kong managed fund products, International wealth & asset management products, Philippines mutual and managed fund products, Aditya Birla Sun Life AMC Limited equity and fixed income mutual fund products, Sun Life Everbright Asset Management products and our joint ventures' general fund and segregated fund assets based on our proportionate equity interest. There is no directly comparable IFRS financial measure.

Effective January 1, 2023, this measure was renamed to "third-party AUM", formerly "other AUM", in order to be more descriptive of the nature of these assets. Further, the presentation of "consolidation adjustments" has been updated in the current and prior periods to be shown separately from "third-party AUM", as consolidation adjustments apply to all components of total AUM.

Total weighted premium income ("TWPI"). This measure consists of 100% renewal premiums, 100% of first year premiums, and 10% of single premiums. In contrast to sales, which only includes premiums from new business, TWPI includes renewal premiums, reflecting the strength of the in-force block and providing a better understanding of both new and existing business. There is no directly comparable IFRS measure.

Underlying dividend payout ratio. This is the ratio of dividends paid per share to diluted underlying EPS for the period. The ratio is utilized during the medium-term capital budgeting process to inform our planned capital initiatives. We target an underlying dividend payout ratio of between 40% and 50% based on underlying EPS. For more information, see Section I - Capital and Liquidity Management in the 2022 Annual MD&A.

Underlying effective tax rate. This measure is calculated using the pre-tax underlying net income and the income tax expense associated with it. 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. Our effective tax rate helps in the analysis of the income tax impacts in the period.

4. Reconciliations of Select Non-IFRS Financial Measures

Underlying Net Income to Reported Net Income Reconciliation - Pre-tax by Business Group

Q2'23						
(\$ millions)	Asset Management	Canada	U.S.	Asia	Corporate	Total
Underlying net income (loss)	296	372	215	150	(113)	920
Add: Market-related impacts (pre-tax) ⁽¹⁾	(40)	(212)	(17)	(30)	1	(298)
ACMA (pre-tax)	—	(8)	29	(10)	—	11
Other adjustments (pre-tax) ⁽¹⁾	(29)	(1)	(65)	(7)	13	(89)
Tax expense (benefit) on above items	21	59	13	19	4	116
Reported net income (loss) - Common shareholders	248	210	175	122	(95)	660
Q1'23						
Underlying net income (loss)	282	316	237	141	(81)	895
Add: Market-related impacts (pre-tax) ⁽¹⁾	(7)	(92)	(21)	17	4	(99)
ACMA (pre-tax)	—	(2)	—	(6)	3	(5)
Other adjustments (pre-tax) ⁽¹⁾	(23)	94	(71)	(6)	(4)	(10)
Tax expense (benefit) on above items	2	13	23	(12)	(1)	25
Reported net income (loss) - Common shareholders	254	329	168	134	(79)	806
Q2'22 ⁽²⁾						
Underlying net income (loss)	295	299	134	118	(38)	808
Add: Market-related impacts (pre-tax) ⁽¹⁾⁽²⁾	(16)	360	2	(97)	33	282
ACMA (pre-tax)	—	(30)	—	—	—	(30)
Other adjustments (pre-tax) ⁽¹⁾	21	(4)	19	(8)	1	29
Tax expense (benefit) on above items	(2)	(149)	(6)	(6)	4	(159)
Reported net income (loss) - Common shareholders	298	476	149	7	—	930

⁽¹⁾ For a breakdown of this adjustment made to arrive at a non-IFRS financial measure, see the heading Underlying Net Income and Underlying EPS.

⁽²⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards, IFRS 17 and IFRS 9. For more details, see the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in this document.

Year-to-date						
2023						
(\$ millions)	Asset Management	Canada	U.S.	Asia	Corporate	Total
Underlying net income (loss)	578	688	452	291	(194)	1,815
Add: Market-related impacts (pre-tax) ⁽¹⁾	(47)	(304)	(38)	(13)	5	(397)
ACMA (pre-tax)	—	(10)	29	(16)	3	6
Other adjustments (pre-tax) ⁽¹⁾	(52)	93	(136)	(13)	9	(99)
Tax expense (benefit) on above items	23	72	36	7	3	141
Reported net income (loss) - Common shareholders	502	539	343	256	(174)	1,466
2022 ⁽²⁾						
Underlying net income (loss)	616	505	241	251	(85)	1,528
Add: Market-related impacts (pre-tax) ⁽¹⁾⁽²⁾	(16)	607	(49)	(100)	12	454
ACMA (pre-tax)	—	(45)	1	(16)	—	(60)
Other adjustments (pre-tax) ⁽¹⁾	11	(8)	7	(11)	1	—
Tax expense (benefit) on above items	(2)	(327)	5	(6)	3	(327)
Reported net income (loss) - Common shareholders	609	732	205	118	(69)	1,595

⁽¹⁾ For a breakdown of this adjustment made to arrive at a non-IFRS financial measure, see the heading Underlying Net Income and Underlying EPS.

⁽²⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards, IFRS 17 and IFRS 9. For more details, see the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in this document.

Underlying Net Income to Reported Net Income Reconciliation - Pre-tax by Business Unit - Asset Management

(\$ millions)	Q2'23		Q1'23		Q2'22	
	MFS	SLC	MFS	SLC	MFS	SLC
		Management		Management		Management
Underlying net income (loss)	252	44	254	28	250	45
Add: Other adjustments (pre-tax) ⁽¹⁾	4	(73)	21	(51)	46	(41)
Tax expense (benefit) on above items	(5)	26	(4)	6	(4)	2
Reported net income (loss) - Common shareholders	251	(3)	271	(17)	292	6

⁽¹⁾ For a breakdown of this adjustment made to arrive at a non-IFRS financial measure, see the heading Underlying Net Income and Underlying EPS.

(\$ millions)	Year-to-date			
	2023		2022	
	MFS	SLC Management	MFS	SLC Management
Underlying net income (loss)	506	72	531	85
Add: Other adjustments (pre-tax) ⁽¹⁾	25	(124)	59	(64)
Tax expense (benefit) on above items	(9)	32	(8)	6
Reported net income (loss) - Common shareholders	522	(20)	582	27

⁽¹⁾ For a breakdown of this adjustment made to arrive at a non-IFRS financial measure, see the heading Underlying Net Income and Underlying EPS.

Underlying Net Income to Reported Net Income Reconciliation - Pre-tax in U.S. dollars

(US\$ millions)	Q2'23		Q1'23		Q2'22 ⁽²⁾	
	U.S.	MFS	U.S.	MFS	U.S.	MFS
Underlying net income (loss)	160	187	176	188	102	197
Add: Market-related impacts (pre-tax) ⁽¹⁾⁽²⁾	(10)	—	(21)	—	(5)	—
ACMA (pre-tax)	23	—	—	—	—	—
Other adjustments (pre-tax) ⁽¹⁾	(49)	3	(51)	15	15	34
Tax expense (benefit) on above items	9	(3)	21	(3)	1	(3)
Reported net income (loss) - Common shareholders	133	187	125	200	113	228

⁽¹⁾ For a breakdown of this adjustment made to arrive at a non-IFRS financial measure, see the heading Underlying Net Income and Underlying EPS.

⁽²⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards, IFRS 17 and IFRS 9. For more details, see the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in this document.

(US\$ millions)	Year-to-date			
	2023		2022 ⁽²⁾	
	U.S.	MFS	U.S.	MFS
Reported net income (loss) - Common shareholders	336	375	185	418
Less: Market-related impacts (pre-tax) ⁽¹⁾⁽²⁾	(31)	—	(48)	—
ACMA (pre-tax)	23	—	1	—
Other adjustments (pre-tax) ⁽¹⁾	(100)	18	5	44
Tax expense (benefit) on above items	30	(6)	14	(6)
Underlying net income (loss)	258	387	157	456

⁽¹⁾ For a breakdown of this adjustment made to arrive at a non-IFRS financial measure, see the heading Underlying Net Income and Underlying EPS.

⁽²⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards, IFRS 17 and IFRS 9. For more details, see the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in this document.

Underlying Net Income to Reported Net Income Reconciliation - U.S. Group Benefits - Pre-tax in U.S. dollars

The following table sets out the amounts that were excluded from our underlying net income (loss) for U.S. Group Benefits, which is used to calculate the trailing four-quarter after-tax profit margin for U.S. Group Benefits.

(US\$ millions)	IFRS 17 and IFRS 9 ⁽¹⁾					IFRS 4 and IAS 39 ⁽¹⁾			
	Q2'23	Q1'23	Q4'22	Q3'22	Q2'22	Q2'22	Q1'22	Q4'21	Q3'21
Underlying net income (loss) for U.S. Group Benefits ⁽²⁾	116	128	119	101	87	89	58	—	49
Add: Market-related impacts (pre-tax) ⁽³⁾⁽⁴⁾	(6)	4	(1)	(24)	(10)	(4)	2	8	4
ACMA (pre-tax)	—	—	8	(7)	—	—	—	—	(1)
Other adjustments (pre-tax) ⁽³⁾	(6)	(5)	(5)	(4)	(6)	—	(1)	(1)	(2)
Tax expense (benefit) on above items	2	1	(2)	8	4	1	—	(1)	(1)
Reported net income (loss) - Common shareholders ⁽²⁾	106	128	119	74	75	86	59	6	49

⁽¹⁾ IFRS 17 and IFRS 9 were adopted on January 1, 2023, see Note 2 of the Interim Consolidated Financial Statements for the period ended June 30, 2023. The after-tax profit margin is on a trailing four-quarter basis, and thus the Q2'22 margin reflects underlying net income on an IFRS 4 and IAS 39 basis.

⁽²⁾ Effective Q2'22, we began reporting on the performance and results of our Dental business unit, which represents our existing dental and vision business within Group Benefits together with DentaQuest, acquired on June 1, 2022. We have updated prior periods to reflect this change in presentation.

⁽³⁾ For a breakdown of this adjustment made to arrive at a non-IFRS financial measure, see the heading Underlying Net Income and Underlying EPS.

⁽⁴⁾ 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards, IFRS 17 and IFRS 9. For more details, see the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in this document.

O. 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 expected changes in our LICAT ratio; (iii) relating to the use of proceeds of our sustainability bond offering; (iv) relating to our anticipated redemption of debentures; (v) relating to our potential normal course issuer bid; (vi) relating to our intention to acquire Dialogue; (vii) relating to our growth initiatives and other business objectives; (viii) relating to our expected tax range for future years; (ix) set out in this document under the heading I - Risk Management - Market Risk Sensitivities - Interest Rate Sensitivities; (x) that are predictive in nature or that depend upon or refer to future events or conditions; and (xi) 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, and remain subject to change.

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, F - Financial Strength and I - Risk Management and in SLF Inc.'s 2022 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.sedarplus.ca 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: **market risks** - related to the performance of equity markets; changes or volatility in interest rates or credit spreads or swap spreads; real estate investments; fluctuations in foreign currency exchange rates; and inflation; **insurance risks** - related to mortality experience, morbidity experience and longevity; policyholder behaviour; product design and pricing; the impact of higher-than-expected future expenses; and the availability, cost and effectiveness of reinsurance; **credit risks** - related to issuers of securities held in our investment portfolio, debtors, structured securities, reinsurers, counterparties, other financial institutions and other entities; **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; shifts in investing trends and Client preference towards products that differ from our investment products and strategies; changes in the legal or regulatory environment, including capital requirements and tax laws; the environment, environmental laws and regulations; **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; **liquidity risks** - the possibility that we will not be able to fund all cash outflow commitments as they fall due; and **other risks** - changes to accounting standards in the jurisdictions in which we operate; risks associated with 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 tax matters, including estimates and judgements used in calculating taxes.

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.