

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 as alternatives to measures of financial performance determined in accordance with IFRS. Additional information concerning these non-IFRS financial measures and reconciliations to the closest IFRS measures are included in the Supplementary Financial Information packages that are available on www.sunlife.com under Investors – Financial results & reports.

Operating net income (loss) and financial measures based on operating net income (loss), consisting of operating EPS or operating loss per share, and operating ROE, are non-IFRS financial measures. Operating net income (loss) excludes from reported net income the impact of the following amounts that when adjusted, enable our investors to better assess the underlying performance of our businesses: (i) certain hedges in SLF Canada that do not qualify for hedge accounting – this adjustment enhances the comparability of our net income from period to period, as it reduces volatility to the extent it will be offset over the duration of the hedges; (ii) fair value adjustments on MFS's share-based payment awards, that are settled with MFS's own shares and accounted for as liabilities and measured at fair value each reporting period until they are vested, exercised and repurchased – this adjustment enhances the comparability of MFS's results with publicly traded asset managers in the United States; (iii) acquisition, integration and restructuring amounts (including impacts related to acquiring and integrating acquisitions); (iv) goodwill and intangible asset impairment charges; and (v) other items that are not operational or ongoing in nature (e.g., gain or loss on disposal of businesses). Operating EPS also excludes the dilutive impact of convertible instruments.

Underlying net income (loss) and financial measures based on underlying net income (loss), consisting of underlying EPS or underlying loss per share, and underlying ROE, are non-IFRS financial measures. Underlying net income (loss) removes from operating net income (loss) the impact of the following items that create volatility in our results under IFRS, and when removed assist in explaining our results from period to period: (a) market related impacts; (b) assumption changes and management actions; and (c) other items that have not been treated as adjustments to operating net income, and when removed assist in explaining our results from period to period. Market related impacts include: (i) the impact of changes in interest rates that differ from our best estimate assumptions in the reporting period and on the value of derivative instruments used in our hedging programs, including changes in credit and swap spreads, and any changes to the assumed fixed income reinvestment rates in determining the actuarial liabilities; (ii) the impact of returns in equity markets, net of hedging, above or below our best estimate assumptions of approximately 2% per quarter in the reporting period and of basis risk inherent in our hedging program for products that provide benefit guarantees; and (iii) the impact of changes in the fair value of real estate properties in the reporting period. Additional information regarding these adjustments is available in the footnotes to the table included under the heading 2016 Consolidated Results of Operations in the Financial Performance section in this document. Assumption changes reflect the impact of revisions to the assumptions used in determining our liabilities for insurance contracts and investment contracts. The impact for insurance contracts and investment contracts of actions taken by management in the current reporting period, referred to as management actions include, for example, changes in the prices of in-force products, new or revised reinsurance on in-force business, and material changes to investment policies for assets supporting our liabilities. Underlying EPS also excludes the dilutive impact of convertible instruments.

Unless indicated otherwise, all factors discussed in this document that impact our results are applicable to reported net income (loss), operating net income (loss) and underlying net income (loss).

All EPS measures in this document refer to fully diluted EPS, unless otherwise stated. As noted above, operating EPS and underlying EPS exclude the dilutive impact of convertible instruments.

The following tables set out the amounts that were excluded from our operating net income (loss), underlying net income (loss) operating EPS and underlying EPS, and provide a reconciliation to our reported net income (loss) and reported EPS based on IFRS for 2016, 2015 and 2014. A reconciliation of our operating net income (loss) and underlying net income (loss) to our reported net income (loss) for the fourth quarters of 2016 and 2015 is provided in this MD&A under the heading Financial Performance – Fourth Quarter 2016 Performance.

Reconciliation of Select Net Income Measures

(\$ millions, unless otherwise noted)

	2016	2015	2014
Reported net income	2,485	2,185	1,762
Certain hedges in SLF Canada that do not qualify for hedge accounting	(5)	21	(7)
Fair value adjustments on MFS's share-based payment awards	30	(9)	(125)
Acquisition, integration and restructuring	(27)	(80)	(26)
Total operating net income adjustments	(2)	(68)	(158)
Operating net income	2,487	2,253	1,920
Equity market impact	51	(128)	44
Interest rate impact	34	65	(179)
Increases (decreases) from changes in the fair value of real estate	22	20	12
Market related impacts	107	(43)	(123)
Assumption changes and management actions	45	(9)	227
Total underlying net income adjustments	152	(52)	104
Underlying net income	2,335	2,305	1,816
Reported EPS (diluted) (\$)	4.03	3.55	2.86
Certain hedges in SLF Canada that do not qualify for hedge accounting (\$)	(0.01)	0.03	(0.01)
Fair value adjustments on MFS's share-based payment awards (\$)	0.05	(0.01)	(0.21)
Acquisition, integration and restructuring (\$)	(0.04)	(0.13)	(0.04)
Impact of convertible securities on diluted EPS (\$)	(0.02)	(0.02)	(0.01)
Operating EPS (diluted) (\$)	4.05	3.68	3.13
Market related impacts (\$)	0.18	(0.07)	(0.20)
Assumption changes and management actions (\$)	0.07	(0.01)	0.37
Underlying EPS (diluted) (\$)	3.80	3.76	2.96

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

	2016	2015	2014
Reported net income (after tax)	2,485	2,185	1,762
Operating and underlying net income adjustments (pre-tax):			
Operating net income adjustments	(40)	(85)	(194)
Market related impacts	67	9	(180)
Assumption changes and management actions	10	(54)	277
Total operating and underlying net income adjustments (pre-tax)	37	(130)	(97)
Tax related to operating and underlying net income adjustments	113	10	43
Underlying net income (after tax)	2,335	2,305	1,816

Tax related to operating and 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. The aggregate tax effect depends on whether the operating and underlying adjustment increases and reductions to pre-tax income occurred in high or low tax jurisdictions.

Management also uses the following non-IFRS financial measures:

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

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

	2016	2015	2014
Revenues	28,573	19,274	25,764
Constant Currency Adjustment	432	–	(1,666)
FV Adjustment	2,233	(1,961)	6,172
Reinsurance in SLF Canada's GB Operations Adjustment	(2,758)	(4,684)	(4,565)
Adjusted revenue	28,666	25,919	25,823

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

(\$ millions)	2016	2015	2014
Premiums and deposits ⁽¹⁾	158,459	136,150	122,480
Constant Currency Adjustment	4,355	–	(15,967)
Reinsurance in SLF Canada's GB Operations Adjustment	(2,758)	(4,684)	(4,565)
Adjusted premiums and deposits	156,862	140,834	143,012

(1) During 2016, we moved our sales reporting methodology for Bentall Kennedy's real estate investment management operations from an investment property activity basis to a Client cash flow basis to be consistent with the method used in our existing asset management operations. Prior periods have been restated to reflect this change.

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

Assumption changes and management actions. In this MD&A, the impact of assumption changes and management actions on shareholders' net income (after-tax) is included in reported net income and operating net income and is excluded in calculating underlying net income, as described in this MD&A under the heading Financial Performance – 2016 Consolidated Results of Operations – Net Income.

Note 10.A of our Annual Consolidated Financial Statements shows the pre-tax impact of method and assumption changes on shareholder and participating policyholder Insurance Contract Liabilities net of reinsurance assets, excluding changes in other policy liabilities and assets.

The MD&A view of assumption changes and management actions is the impact on shareholders' net income (after tax). The Annual Consolidated Financial Statement view is a component of the change in total company liabilities. The following table provides a reconciliation of the differences between the two measures:

(\$ millions)	2016	2015 ⁽⁷⁾
Impact of method and assumption changes on Insurance Contract Liabilities (pre-tax) ⁽¹⁾	(35)	(311)
Less: Participating Policyholders ⁽²⁾	181	30
Add: Management Actions ⁽³⁾	234	248
Other ⁽⁴⁾	(8)	(2)
Assumption changes and management actions (pre-tax)	10	(95)
Less: Tax ⁽⁵⁾	(35)	(45)
Assumption changes and management actions (after-tax) ⁽⁶⁾	45	(50)

(1) Note 10.A of our Annual Consolidated Financial Statements shows the pre-tax impact of method and assumption changes on shareholder and participating policyholder Insurance contract liabilities net of reinsurance assets, excluding changes in other policy liabilities and assets. The amount shown in the table above is the income impact related to the amount shown in Note 10.A of our Annual Consolidated Financial Statements.

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

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

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

(5) The tax impacts of assumption changes and management actions on insurance contract liabilities and investment contract liabilities, reflecting the effective tax rates in the jurisdictions in which we do business.

(6) Assumption changes and management actions is included in reported net income and operating net income and is excluded in calculating underlying net income, as described in this MD&A under the heading Financial Performance – 2016 Consolidated Results of Operations – Net Income.

(7) The impact to operating net income was a decrease of \$9 million, which is presented as an adjustment to arrive at underlying net income. \$41 million related to the SLF U.S. International wealth business recorded in Management Actions in the table above was included in the adjustment to operating net income.

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

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

Other. Management also uses the following non-IFRS financial measures for which there are no comparable financial measures in IFRS: (i) ASO premium and deposit equivalents, mutual fund sales, managed fund sales, life and health sales, and total premiums and deposits; (ii) AUM, mutual fund assets, managed fund assets, other AUM and assets under administration; (iii) effective income tax rates on an operating net income and underlying net income basis; (iv) the value of new business, which is used to measure the estimated lifetime profitability of new sales and is based on actuarial calculations; and (v) Sources of earnings is an alternative presentation of our Consolidated Statements of Operations that identifies and quantifies various sources of income. The Company is required to disclose its sources of earnings by its principal regulator, OSFI; (vi) dividend payout based on underlying net income.