United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 40-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

Commission File Number 001-15014

Sun Life Financial Inc.
(Exact name of Registrant as specified in its charter)

Canada
(Province or other jurisdiction of incorporation or organization)

52411
(Primary Standard Industrial Classification Code Number (if applicable))

Not Applicable
(I.R.S. Employer Identification Number (if applicable))

1 York Street, 31st Floor, Toronto, Ontario, Canada M5J 0B6 (416) 979-9966
(Address and telephone number of Registrant's principal executive offices)

Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc.
One Sun Life Executive Park
Wellesley Hills, Massachusetts 02481
(781) 237-6030
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares	**SLF**	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not Applicable
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not Applicable
(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

☒ **Annual information form** ☒ **Audited annual financial statements**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares	**585,068,130**
Class A Preferred Shares Series 1	**16,000,000**
Class A Preferred Shares Series 2	**13,000,000**
Class A Preferred Shares Series 3	**10,000,000**
Class A Preferred Shares Series 4	**12,000,000**
Class A Preferred Shares Series 5	**10,000,000**
Class A Preferred Shares Series 8R	**6,217,331**
Class A Preferred Shares Series 9QR	**4,982,669**
Class A Preferred Shares Series 10R	**6,919,928**
Class A Preferred Shares Series 11QR	**1,080,072**
Class A Preferred Shares Series 12R	**12,000,000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 12b-2 of the Exchange Act.

Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

INCORPORATION BY REFERENCE

The following information is incorporated by reference in this annual report on Form 40-F:

Disclosure Controls and Procedures

The information under the heading "Accounting and Control Matters – Disclosure Controls and Procedures" in the Company's Management's Discussion and Analysis for the year ended December 31, 2020 (the "**2020 Annual MD&A**") is incorporated by reference herein.

A copy of the Company's 2020 Annual MD&A is attached hereto as Exhibit 99.1.

Management's Annual Report on Internal Control Over Financial Reporting

The information under the heading "Accounting and Control Matters – Disclosure Controls and Procedures – Management's Report on Internal Control over Financial Reporting" in the Company's 2020 Annual MD&A and the information in the management report titled "Financial Reporting Responsibilities", attached to the Company's annual consolidated financial statements for the year ended December 31, 2020 (the "**2020 Annual Financial Statements"**) is incorporated by reference herein.

A copy of the Company's 2020 Annual MD&A is attached hereto as Exhibit 99.1. A copy of the Company's 2020 Annual Financial Statements are attached hereto as Exhibit 99.2.

Attestation Report of the Registered Public Accounting Firm

The "Report of Independent Registered Public Accounting Firm" with respect to the audit of the internal control over financial reporting of the Company, which accompanies the Company's 2020 Annual Financial Statements is incorporated by reference herein.

The Company's 2020 Annual Financial Statements are attached hereto as Exhibit 99.2.

Changes in Internal Control Over Financial Reporting

The information under the heading "Accounting and Control Matters – Disclosure Controls and Procedures – Changes in Internal Control over Financial Reporting" in the Company's 2020 Annual MD&A is incorporated by reference herein.

A copy of the Company's 2020 Annual MD&A is attached hereto as Exhibit 99.1.

Identification of Audit Committee

The information under the heading "Directors and Executive Officers – Audit Committee" in the Company's annual information form dated February 10, 2021 (the "**2020 AIF**") is incorporated by reference herein.

A copy of the Company's 2020 AIF is attached hereto as Exhibit 99.3.

Audit Committee Financial Expert

The information under the heading “Directors and Executive Officers – Audit Committee” in the Company’s 2020 AIF is incorporated by reference herein.

A copy of the Company’s 2020 AIF is attached hereto as Exhibit 99.3.

Code of Ethics

The information under the heading “Code of Conduct” in the Company’s 2020 AIF is incorporated by reference herein.

A copy of the Company’s 2020 AIF is attached hereto as Exhibit 99.3.

A copy of the current Sun Life Financial Code of Conduct is attached hereto as Exhibit 14.1 and is also available on our website at www.sunlife.com.

In 2020, the Company’s Code of Conduct was updated to reinforce its key principles and values and, in particular, the Company’s commitment to employees and clients, acting ethically and reporting ethical misconduct, and whistle-blowing protections and complying with laws and regulations. The most significant updates enhanced content on data and information security, added a section on preventing human trafficking and improved the definition of sexual harassment, enhanced content on using alcohol and other substances, elaborated the guidance on conflicts of interests and further stressed the importance of cooperating with investigations.

Principal Accountant Fees and Services

The information under the headings “Principal Accountant Fees and Services” in the Company’s 2020 AIF is incorporated by reference herein.

A copy of the Company’s 2020 AIF is attached hereto as Exhibit 99.3.

Comparison with New York Stock Exchange Governance Rules

The Company’s governance processes and practices are consistent with the New York Stock Exchange corporate governance rules for U.S. publicly-listed companies.

UNDERTAKING

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

CONSENT TO SERVICE OF PROCESS

The Company has previously filed a Form F-X in connection with the class of securities in relation to which the obligation to file this annual report on Form 40-F arises. Any change to the name or address of the Company’s agent for service of process shall be communicated promptly to the Securities and Exchange Commission by an amendment to the Form F-X referencing the file number of the relevant registration statement of the Company.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Sun Life Financial Inc.

By: /s/ Troy Krushel
Troy Krushel
Vice-President, Associate General Counsel & Corporate Secretary

Dated: February 10, 2021

EXHIBITS:

14.1	Sun Life Financial Code of Conduct
99.1	Annual Management's Discussion and Analysis for the year ended December 31, 2020
99.2	Consolidated Annual Financial Statements for the year ended December 31, 2020
99.3	Annual Information Form dated February 10, 2021 for the year ended December 31, 2020
99.4	Certifications required by Rule 13a-14(a) or Rule 15d-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.5	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of United States Code, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.6	Consent of Independent Registered Public Accounting Firm
99.7	Consent of Appointed Actuary
101	Interactive Data File
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

THE CODE OF CONDUCT

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A message from Dean A. Connor, President and CEO

At Sun Life, we are committed to the highest standards of honesty, integrity and professionalism in all that we do. For more than 150 years, we have proudly served Clients around the globe with our belief that good governance and behaviour are essential for any sustainable business.

Operating as a **Trusted and Responsible Business** is the foundation for our success and sustainability and our Code of Conduct (the Code). It's about acting responsibly, complying with laws and regulations, treating or Clients and employees with utmost respect and instilling confidence in the way we manage our business.

Real people are counting on us to help protect the most important people in their lives. Our Code reflects more than how we work – it is an expression of our culture and core values and speaks to how we think and act. It sets out clear standards for professional behaviour and empowers our employees to do the right thing.

All Sun Life Employees, People Managers, Executives and the Directors of our Board, are responsible for upholding our Code. Thank you for doing your part to protect our Clients and achieve our Purpose.



INTRODUCING THE CODE

Sun Life is in the business of helping our Clients achieve lifetime financial security and live healthier lives. We have a history of honouring our commitments – to our employees, clients, customers, partners, shareholders and communities. We continue to build that trust through our steady dedication to the principles and values that are outlined in our Code.

We are committed to high standards of business ethics and integrity. Our reputation as an ethical and trustworthy company is our most important asset. We all contribute to operating as a **Trusted and Responsible Business** and are accountable for upholding the ethical culture of our Company.

Each year, all employees complete a mandatory Code training and declaration by which we confirm our compliance to always adhere to the Code.

We review the Code on an annual basis to ensure content is relevant and aligned with industry standards, best practices, emerging laws and expectations.

DOES THE CODE APPLY TO ME?

The Code applies to the Board of Directors, executive team, employees and contract staff of for Sun Life and its subsidiaries and controlled joint ventures. Adherence with the Code is mandatory and a condition of employment and directorship. Sun Life expects third parties acting on our behalf or representing us to adhere to the values of our Code.

Violations of the Code can result in disciplinary action, including termination of employment or relationship. Any breach of the Code that violates the law may also result in administrative, civil or criminal proceedings.

HOW DO I APPLY THE CODE?

If you come across a difficult circumstance at work involving compliance with requirements or ethics, ask yourself these questions:

1. Is this legal?
2. Is this permissible under internal policies?
3. Is this fair and ethical?
4. Does this reflect our values, our culture and our commitment to our employees, clients, customers, partners, shareholders and communities?
5. Am I confident that Sun Life's reputation won't be harmed if this situation became public knowledge?
6. Would I approve of this situation if I were a client or shareholder?

Use your best judgment and common sense. If you can't answer "Yes" to each question, don't do it or seek guidance.

COMPLYING WITH THE LAW

Acting ethically requires each of us to take all reasonable steps to understand and comply with both the letter and spirit of the laws, rules and regulations that apply to our jobs and the businesses we support within Sun Life.

If there is a professional or supplementary code, law or regulation that applies to you and conflicts with the Sun Life Code, you must comply with the most restrictive requirements applicable to the situation. Be sure to report any conflicts.

OBLIGATIONS FOR PEOPLE LEADERS

People leaders are expected to act as ethical role models of Sun Life. They are responsible for fostering a culture of respect and integrity by:

- Acting ethically and honestly and encouraging employees to do the same.
- Fostering an inclusive and diverse work environment and promoting respect, fairness and safety.
- Understanding the Code and all relevant laws and champion them with team members.
- Responding to questions about the Code or directing employees to the information they need.
- Preventing, responding to, and escalating Code breaches and possible breaches.
- Supporting and protecting those who ask questions and report possible breaches of the Code.

For Code related matters, if you are unsure what the correct course of action should be or what guidance should be provided, **see the "Contact Us" section for more information...** ☎

REPORTING CODE BREACHES

Sun Life is committed to leading with integrity and takes breaches of the Code seriously. We all play an active role in ensuring the Code is applied across Sun Life and that possible misconduct is investigated and addressed appropriately. Reporting issues and concerns contributes to our ethical culture and helps us to maintain our commitment to our high standards of business ethics and integrity as a **Trusted and Responsible Business**.

Please speak up if you:

- Believe you may have violated the Code, an internal policy or the law.
- Know or suspect another employee or a third-party may have violated the Code, an internal policy or the law.
- Feel you are being pressured to violate the Code, an internal policy or the law.
- Have any other ethical or conflict of interest questions or concerns.
- Need guidance on how to do what is right.

Never attempt to deal with the situation yourself. If you see something or hear something, say something by reporting your concerns.

HOW DO I REPORT A BREACH OF THE CODE?

If you are not sure how to apply the letter and spirit of the Code in any situation, or if you would like to report a possible breach of the Code, you can talk to your Leader/Manager, your local Compliance team, Human Resources, a member of the Legal team or email the Sun Life Code Office.

If you would like to anonymously report a possible breach of the Code or if you feel your concerns have not been responded to or addressed appropriately using other reporting methods, you may access the Ethics Hotline. You can access the Ethics Hotline several ways, including by mail, through a toll-free telephone number or a secure website.

The Ethics Hotline is provided by an external service provider that specializes in offering confidential and anonymous reporting, and is available to all Sun Life employees, seven days a week, 24 hours a day, in multiple languages.

Sun Life takes all reports of concerns and allegations of breaches of the Code seriously. All reports will be reviewed and investigated lawfully, discreetly, fairly, professionally and in a timely manner. All reports are treated confidentially, so your identity in any follow-up discussions or inquiries will be kept in confidence to the extent appropriate or permitted by law. Your cooperation during the review and investigation contributes to a successful resolution. It is important to speak up by reporting, because failing to do so could be a breach of the Code.

☎ See the "Contact Us" section for more information.

OUR COMMITMENT AGAINST INTIMIDATION & RETALIATION

Sun Life strictly prohibits any form of intimidation or retaliation against employees for reporting possible breaches of the Code. If you report a possible breach, no action will be taken against you, even if we cannot confirm the breach. However, a mischievous or malicious allegation of a breach is itself a breach of our Code.

Any employee who attempts in any way to intimidate or retaliate against anyone who reports a possible breach of the Code will face disciplinary action, up to and including termination of employment, regardless of their position.

Companies and consultants acting on behalf of Sun Life are expected to comply with our Code and failure to comply may result in termination of any agreements with Sun Life and legal action.

PROMOTING SAFETY IN THE WORKPLACE

PROMOTING A SAFE AND RESPECTFUL WORK ENVIRONMENT

Sun Life is committed to maintaining a safe and respectful work environment, where our well-being is strengthened and we are empowered to bring our best selves to work.

We engage in practices that ensure our work is done safely, with respect to our physical workspace, work processes and use of equipment. As well, we do not tolerate acts or threats of violence, intimidation or verbal abuse in our workplace. Each of us is responsible to report unsafe working conditions, so that appropriate steps can be taken to protect ourselves, our co-workers, clients and others in the workplace and prevent workplace accidents or injuries.

We do not tolerate harassment, including sexual harassment and bullying, or unlawful discrimination, by or against anyone in our workplace.

Harassment is behavior that can cause offence, humiliation, intimidation, embarrassment or distress. You have the right to complain about the behavior of your co-workers (including your leaders), as well as the behavior of third parties, such as customers, clients or suppliers.

Harassment can take many forms – verbal, written, electronic, visual or physical. Examples include jokes, derogatory, degrading or insulting remarks, gestures or communications, refusal to work or cooperate with others, adverse employment actions based on an employee's legally protected status, and making a work benefit dependent upon performing sexual favors or threatening retaliatory action for refusal to perform sexual favors.

Unlawful discrimination means treating someone unfairly on the basis of their race, color, religion, sex, sexual orientation, gender identity, national origin, citizenship, creed, age, marital status, family status, disability or any other ground prohibited by law.

Sun Life promotes and encourages mutual respect between employees, at all levels, and does not tolerate unlawful discrimination against anyone including candidates, co-workers, clients or anyone else we encounter in our work.

PREVENTING HUMAN TRAFFICKING

We strictly prohibit employees, subcontractors and their employees, and agents from engaging in or taking any actions that would condone human trafficking-related activities. Human trafficking activities include engaging in sex trafficking, procuring commercial sex acts (even if this practice is legal in the jurisdiction where it transpires), using force, fraud, or coercion to subject a person to involuntary servitude, or obtaining labor from a person by threats of serious harm to that person or any other person, among others. If we become aware of any such activities by co-workers, clients, vendors or anyone else whom we encounter in our work, we must report this immediately to our manager, Human Resources, Legal or Compliance representative.

USING ALCOHOL AND OTHER SUBSTANCES

As a general rule, consuming alcohol or substances in the workplace, other than medication for which we have a valid prescription, is not permitted. We may not use alcohol or substances in any way that interferes with the performance of our duties or safety in the workplace. Under no circumstances are we to bring illegal drugs into the workplace. If any of these things occur, we may be sent home and may be subject to disciplinary action, up to and including termination of employment. Note: If our use of prescribed medication or other substances is related to a

health condition, and this limits our abilities at work, we should discuss with our manager or Human Resources representative.

PROMOTING DIVERSITY AND FAIRNESS

PROMOTING DIVERSITY AND INCLUSION

Diversity and inclusion is at the core of our values at Sun Life. We embrace our diverse workforce where wide perspectives and creative ideas benefit our clients, our partners, and the communities in which we operate. We are focused on creating a diverse and inclusive culture – one that unleashes creativity, fosters innovation, builds the best teams and drives value. We all contribute to maintaining and fostering a respectful, inclusive and healthy work environment without discrimination or harassment.

PROMOTING THE FAIR TREATMENT OF EMPLOYEES

We are committed to hiring, developing and retaining the most qualified individuals to promote and achieve our business objectives. In alignment with our core values, we hire and promote employees on the basis of ability, and reward on the basis of performance.

If you experience, encounter or observe any of these behaviors that impact diversity, fairness and safety in the workplace, speak up and report it .


TREATING CLIENTS FAIRLY

The fair treatment of clients is an integral part of our ethical culture. We are committed to keeping the client in mind when designing, marketing, selling and delivering our products and services, and when conducting all aspects of our business operations. We all have a responsibility to consider the client's interests in all stages of the product life cycle and to ensure our products and services provide fair value to them.

That is why:

- Our sales will be client-focused, fair, suitable, and the clients' unique needs and circumstances will be considered.
- Our communications will be responsible and professional.
- Our advertising and sales materials, including prospectuses and point of sale materials, will be accurate and clear and will provide full disclosure.
- Our distributors will be competent, ethical and knowledgeable about our products and services and we will monitor their activities.
- Our compensation, commission and incentive structures will be appropriate and encourage fair sales practices.
- Our services will be client-focused, delivered competently and timely.
- Client complaints and disputes will be handled fairly and professionally.

AVOIDING CONFLICTS OF INTEREST

One important way we demonstrate our integrity in doing business is by ensuring that we each act in the best interests of Sun Life, our clients and shareholders. We are committed to not putting our own personal interests ahead of Sun Life, our clients and shareholders, and avoid activities that can harm or reflect negatively on any of them.

Many situations could give rise to a potential conflict of interest where our judgment or ability to act can be compromised. Actions we take on behalf of Sun Life cannot be influenced by the possibility of gain for ourselves or for anyone personally associated with us – that would be a conflict of interest. It is also important to avoid even the appearance of a conflict of interest.

Examples of situations that could give rise to a conflict of interest include the following:

- Circumstances or relationships that could cause our own interests to improperly influence business decisions or be perceived by others to be a conflict of interest.
- Direct reporting responsibility over an immediate family member.
- Business relationship with a family member or a business in which a family member is significantly involved.
- Client relationship whereby you are asked to act as a trustee, agent, power of attorney or executor (excludes family member).

We must immediately disclose relationships, associations or activities that can create an actual or potential conflict of interest. If you know that a business relationship or activity may present a conflict of interest or if your instinct tells you something doesn't feel right, STOP – do not do it! If you are unsure, ask questions until you get an answer. ☎

ACCEPTING AND GIVING APPROPRIATE GIFTS

Gifts and entertainment are generally recognized as important parts of doing business, developing business relationships and building goodwill. It's a two-way street. You cannot accept any benefit that may in any way influence, or appear to influence, your judgement or ability to make objective business decisions. You also cannot offer gifts, favours, benefits or entertainment that may be perceived as inappropriately influencing another party's business dealings with Sun Life.

Consider the following questions when accepting from or offering to external parties any gifts, favours, hospitality, entertainment or other benefits:

- Is it an unaccepted business practice in the region?
- Is the value involved more than nominal and reasonable?
- Does this occur frequently?
- Would doing so make it difficult to make a fair and unbiased business decision?
- Would it embarrass Sun Life or the recipient if publicly disclosed?
- Does it violate our internal anti-bribery and anti-corruption policies or processes?

Depending on your jurisdiction or position at Sun Life, you can also have an obligation to report or seek pre-approval of gifts and entertainment.

GOVERNMENTAL OFFICIALS

Special laws apply to gifts and entertainment when dealing with government officials or individuals tied to state-owned or controlled enterprises. Consult with your Manager before offering or extending gifts and entertainment to government officials.

ENGAGING IN APPROPRIATE OUTSIDE ACTIVITIES OR EMPLOYMENT

An important component of employee engagement relates to our ability to participate in our communities. We encourage you to be involved with outside organizations, charitable activities, and the political process (see next section), provided your involvement does not create or appear to create a conflict of interest or interfere with your ability to carry out your responsibilities at Sun Life; this can include a second job or serving on a board. When participating in activities unrelated to your work at Sun Life, you are expected to avoid any activity that might compromise Sun Life or our brand and reputation.

You cannot serve on the board or engage in work for any organization that is publicly traded or competes or has a business relationship with Sun Life, without the prior written approval from an Executive level manager and your business group's General Counsel. Consult a member of the Legal team before joining the board of any company or organization. Otherwise, a second job or board position must be kept completely separate from your Sun Life position and cannot interfere with your responsibilities and performance as a Sun Life employee.

Depending on your position at Sun Life, you may also have a specific regulatory obligation to report outside business activities, certain political contributions and directorships.

Our funds, facilities or services cannot be used for the benefit of other businesses, or political parties and their candidates, except as specifically authorized in advance or as allowed by our Government, Regulatory Affairs & Sustainability team. We also have a separate process for dealing with charitable and philanthropic spending.

ENGAGING IN APPROPRIATE POLITICAL ACTIVITIES

As employees, Sun Life respects and is committed to our individual rights to voluntarily participate in the political process for our own personal purposes.

As an organization, we will follow all local laws regarding political activities and campaign financing and, as a practice, will not make any Corporate financial contributions or donations to any political parties, factions or candidates for public office. We cannot communicate support for political candidates, parties or issues unless authorized by Sun Life.

We cannot in any way associate Sun Life or engage in any political activities on Sun Life's behalf without prior authorization. This includes making political donations, communicating political opinions and supporting political candidates, parties or issues. In addition, we cannot use company resources, logos, trademarks, offices, public events or public initiatives for political purposes or seek reimbursement for any political contributions.

LOBBYING ACTIVITIES ON BEHALF OF SUN LIFE

Sun Life may engage in political activities, including lobbying and other communications with policymakers and legislators at all levels of government and their staff, both in Canada and internationally, in accordance with relevant laws and regulations.

Lobbying activities or government contacts on Sun Life's behalf are strictly regulated.

As employees, we cannot engage in any such lobbying activities on behalf of Sun Life, unless we obtain pre-authorization.

We expect those engaging in authorized political lobbying activities or communications on behalf of Sun Life to act in compliance with relevant statutes for lobbying.

SPEAKING FOR SUN LIFE

We are committed to communicating honestly, responsibly and in a manner that demonstrates our values. Only certain authorized individuals can speak for Sun Life.

Unless you are specifically authorized, do not speak for Sun Life, or imply you are doing so. In addition to everyday communications with outside persons and organizations, we may occasionally be asked to express our views to the media, if so, immediately contact the communications representative in your area.

In some cases, external communications, such as articles for publication, presentations and remarks made on behalf of Sun Life, require review and approval prior to release. Always be careful how you communicate to others and the effect it can have on Sun Life, our reputation and brand. Threatening, discriminatory, hateful or illegal statements – oral, written, in print or via electronic media – will not be tolerated.

SOCIAL MEDIA:

Sun Life supports the use of social media and believes it is an integral part of the way clients interact with us and how we do business. Posting our ideas and opinions – whether they are internal or external – is a great way to express ourselves, learn and build relationships. As an employee of Sun Life, it is important that you are familiar with the guidelines for participating in social media, the guiding principles for speaking about Sun Life and our commitment to maintaining strong governance and risk management practices.

When using social media for business purposes, remember to think before posting, be civil to others and respect their opinions, and obtain any necessary permissions. In your personal use, do not represent or imply that your opinions are approved or endorsed by Sun Life. Depending on your position with Sun Life, there can be additional restrictions on your use of social media. If you are unsure, seek guidance.

COMPETING FAIRLY & OPENLY

One of our obligations as a **Trusted and Responsible Business** is to support our industry and encourage fair competition. Although we compete vigorously in every market in which we participate, we are committed to conducting business in compliance with all competition and antitrust laws which prohibit Sun Life from engaging in activities intended to restrict or lessen competition.

This means we cannot make agreements with competitors to fix prices or allocate sales, clients or territories. We cannot discuss with outsiders strategic information on topics such as pricing, product development and client lists. Even if we do not intend these discussions to result in actions that restrict or lessen competition, these discussions could be interpreted that way, and could be illegal whether or not they lead to restricting or lessening of competition.

Competing fairly and ethically in all our business activities is the most effective way to avoid contravening the prohibitions found in these various laws.

DEALING WITH THE PUBLIC & OTHER THIRD PARTIES

We cooperate with lawful investigations and inquiries by regulators, law enforcement agencies, external and internal auditors and investigators acting on behalf of Sun Life.

- We must provide them with accurate and factual information, and cannot mislead or attempt to improperly influence them.
- We cannot tamper with any document to obscure the true nature of a transaction in Sun Life's records or to impede or influence an audit, regulatory review or investigation.

If you suspect information is not being provided as required, report your concerns. ☎

DEALING WITH THIRD PARTIES

In certain circumstances, third parties can represent Sun Life in the sale, service or administration of our products or services, or perform specific business functions, processes or services on our behalf.

We are committed to working and doing business with third parties who share our values and high standards for integrity and ethics.

We will follow our established business practices and procedures that apply to doing business with third parties and we will conduct those business relationships in a fair, ethical and lawful manner and in accordance with our values and procedures.

RESPECTING PRIVACY & CONFIDENTIALITY

Sun Life is committed to protecting the privacy and confidentiality of all personal information about our clients, co-workers or other individuals against theft, loss, unauthorized access, disclosure, destruction or misuse. Respecting the privacy of our clients and employees is critical to maintaining our reputation as a **Trusted and Responsible Business**.

We accumulate a great deal of information about our clients, employees, and others who develop relationships with us. That is why we have an obligation to limit the collection, access, use and disclosure of this information for legitimate business purposes, in accordance with local laws and internal policies.

Respect the principle of need-to-know. We do not access or share confidential client or employee personal information unless needed to perform our job. We must respect and maintain the confidentiality of our employees' personal information, such as salaries, performance reviews or disabilities.

Protecting personal information is everyone's responsibility.

For more information visit Sun Life's **Global Privacy Commitment** or our **Client Data Privacy Principles.**

USING SUN LIFE ASSETS APPROPRIATELY

USING TECHNOLOGY

We are committed to using Sun Life's technologies appropriately, as they are important business resources that provide broad access to information and a key aspect to how we conduct business. Our technology includes:

- Information networks, systems and services (such as databases, software, teleconferencing, email, messaging systems, wiki, and internet access); and
- Technology assets (such as computers, mobile devices and portable digital storage media).

Our technology must be used primarily for business purposes. Incidental and appropriate personal use is permitted, provided it does not violate our policies or procedures, and does not interfere with the performance of our job responsibilities. We must safeguard our technology assets and must prevent their damage, loss, theft or misuse. Likewise, we must safeguard the mechanisms and credentials we use to gain access to Sun Life information and technology.

- Keep in mind electronic records are more permanent than you might think – they can be retrieved even after they appear to have been deleted.
- Be careful when using email and other electronic communications, and always avoid making careless, exaggerated or inaccurate statements.
- Be vigilant when dealing with email and avoid clicking or opening unknown links and attachments that may be malicious and could spread malware and compromise our Sun Life technologies and information.
- If Sun Life becomes involved in litigation or an investigation, all relevant communications or records used or stored within Sun Life systems or technology assets may have to be turned over to third parties (e.g. law enforcement, regulators, private litigants).

We should have no expectation of privacy when using Sun Life technology or the files and data stored on Sun Life technology assets. Sun Life has access to and may review all files, emails and other electronic communications – business and personal – stored on or transmitted via Sun Life technologies. Sun Life monitors the use of all its information networks, systems, services and technology assets including email, chats and storage; and will act on any findings that are contrary to our policies and our Code.

If you suspect an information security incident or breach, contact your local Service Desk and advise your Manager.

USING SUN LIFE INFORMATION AND INTELLECTUAL PROPERTY

Information and intellectual property are some of our most critical and valuable assets. As employees, we are required to effectively and appropriately manage and protect Sun Life information and intellectual property under our control.

Sun Life **information** includes: all information owned, managed or controlled by Sun Life or another entity empowered to do so on our behalf, and can include information transmitted over Sun Life networks or systems. We are expected to keep confidential any information we acquire about Sun Life and its business activities and operations during our employment except as will be permitted or required by law - even after we leave Sun Life.

Other than information produced and disclosed in the ordinary course of business, all information about Sun Life and our business is confidential and cannot be disclosed for unauthorized purposes.

Sun Life **intellectual property** includes: our trademarks, logos, copyrighted materials we create on behalf of the organization, audios/videos, slogans and trade secrets etc. Sun Life is a Global Enterprise with clients, employees, advisors, partners and investors all around the world. Maintaining a consistent approach on how we identify our organization wherever we do business, is vital. Help protect Sun Life's intellectual property by performing your job duties in accordance with Sun Life's brand standards.

We are never prohibited from reporting possible violations of law to any regulator or governmental entity, or making other disclosures that are protected under whistle-blower provisions under law, nor are we restricted from discussing the terms and conditions of our employment at Sun Life.

We are never prohibited from reporting possible violations of law to any regulator or governmental entity, or making other disclosures that are protected under whistle-blower provisions under law, nor are we restricted from discussing the terms and conditions of our employment at Sun Life.

USING SUN LIFE'S PROPERTY

We must all take reasonable steps to use Sun Life's physical assets, including buildings and premises, only for legitimate business purposes and to protect those assets against loss, theft, damage and misuse.

Be careful not to:

- Remove furniture, equipment, supplies or files and other physical assets or information from Sun Life premises without authorization. If you are authorized to work at home or off-site, you must keep Sun Life assets safe and segregated from your personal property.
- Breach any copyright laws or regulations when making copies of documents or software.
- Permit others to use Sun Life's assets, without proper authorization.

If you become aware of any loss, theft, damage or misuse of any of Sun Life's assets, report it immediately.



PRESERVING BOOKS & RECORDS

Sun Life is required to maintain accurate, reliable and complete records to appropriately manage its affairs and comply with legal, regulatory, financial, accounting and operational obligations. The integrity of our records is essential to the successful operation of our business, and to maintaining the trust and confidence of our shareholders, clients and business partners.

Our financial statements, books and records must accurately reflect all business transactions and be retained in accordance with our record keeping practices. Sun Life must provide accurate, consistent, informative and timely disclosures of information to the market in accordance with applicable laws. Failing to disclose or record revenues, assets or liabilities is prohibited.

For additional guidance on our record keeping requirements and practices, consult the Information Management Risk Enterprise Operating Guideline.

COMBATTING MONEY LAUNDERING & TERRORIST FINANCING

We are committed to actively protecting our products and services from being used for money laundering, financing terrorists or other criminal activity, and protecting the integrity of both Sun Life and the financial systems in the countries in which we operate. Deterring, detecting and preventing money laundering or terrorist financing activity is everyone's accountability and requires each of us to:

- Know our clients through verifying their identity, authenticating them each time they interact with us, and monitoring our business relationship with them.
- Be aware of and be able to identify and report any suspicious, unusual premiums, deposits, payments, surrenders or other activities to your local Money Laundering Reporting Officer.

For additional information on your obligations to help combat money laundering and terrorist financing, seek guidance from your local Money Laundering Reporting Officer or the Sun Life Chief Anti-Money Laundering Officer.

DETECTING & DETERRING FRAUD

SUN LIFE DOES NOT TOLERATE FRAUD.

Fraud is a dishonest act or omission intended to deceive or mislead for personal or corporate gain. Examples of fraudulent acts include:

- Forgery or alterations of a document or cheque.
- Submission of a false or fictitious claim for charges or services that were not actually incurred.
- Submission of a fabricated invoice for goods or services not received.
- Bribes and economic extortion.
- Misuse of confidential information.

We will not participate in any type of dishonest or fraudulent behaviour that can affect our clients, co- workers, shareholders, Sun Life, or our reputation and brand. Any participation in these activities is a breach of our Code that can result in discipline, up to and including termination of employment or business relationship. Watch for and report any fraud or other suspicious activity, whether committed by a co-worker or a third party.

REJECTING BRIBERY & CORRUPTION

We are committed to complying with the letter and spirit of anti-bribery and anti-corruption laws in the countries in which we operate. These laws generally prohibit offering, giving or accepting anything of value that can improperly influence business decisions or result in obtaining improper business advantages. That's why:

- We prohibit the direct or indirect use of bribery, kickbacks, payoffs or other corrupt practices by employees, agents or other parties acting on our behalf.
- We will report suspected and known incidents of bribery and corruption.
- We must maintain accurate books and records.

If you are offered or asked for a bribe, no matter how small, refuse it, clearly state that it is our policy to never accept it, and report it immediately to your local Money Laundering Reporting Officer.

LIMITATIONS IN TRADING IN SECURITIES

We are highly visible in many major financial markets and we are committed to complying with the securities laws and regulations in the countries in which we operate and conduct business. When we invest personally or on behalf of our client accounts, we cannot base our decisions on material information that is not generally available to the public.

Material information is any information that a reasonable investor would consider important in deciding whether to buy, hold or sell the securities of a publicly traded company. There are also certain types of information that can become material over time, such as proposed business transactions. Consult the Disclosure and Securities Trading Policy or a member of the Legal team to determine if information is material.

- Do not trade in Sun Life securities, or another public company's securities, no matter how small or large the trade, if this decision is based on material information that is not generally available to the public.
- Do not "tip" or pass material information on to others, or even share it with co-workers, other than to the Legal or Compliance teams to establish the appropriate ethical walls.

If someone asks you for information about Sun Life that is not generally available to the public, please direct that inquiry to Government, Regulatory Affairs & Sustainability team, or a member of the Legal team.

Depending on your position at Sun Life, you may be subject to additional requirements. These can include pre-clearing and reporting on your personal investments, trading public company securities only during specified periods, and filing insider-trading reports.

A FINAL WORD

The Code is a compass for how we conduct our business. Sun Life enthusiastically believes that if we follow this Code, we can continue to deliver exceptional service to our clients and communities on our Purpose of helping clients achieve lifetime financial security and live healthier lives.

Sun Life has a network of Policies and Operating Guidelines to govern how we, through our employees, carry on our business so that we are a **Trusted and Responsible Business**. To learn more, all Policies and Operating Guidelines are posted on the Global Source.

Remember, we are all held to the highest standards of honesty, integrity and professionalism in all that we do. Let's support and empower one another to find our voices to speak up and promptly escalate Code breaches or possible breaches.

☎ CONTACT US

If you are not sure how to apply the letter and spirit of the Code in any situation, or if you would like to report a possible breach of the Code, you can:

Talk to:

- Your Leader / Manager
- A member of your local Compliance team
- A member of your local Human Resources department
- A member of the Legal team

Email:

- Sun Life Code Office
  - Code@sunlife.com
  - Regles@sunlife.com

Submit:

- Your concerns anonymously through the Ethics Hotline
- Your inquiry to the Ethics Hotline

People Leaders:

Encourage dialogue without fear of retaliation.
Speak up & escalate.

Management's Discussion and Analysis

Sun Life Financial Inc.

For the Year Ended December 31, 2020

February 10, 2021

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Management's Discussion and Analysis

February 10, 2021

A. How We Report Our Results

Sun Life Financial Inc. ("SLF Inc.") is a leading international financial services organization providing insurance, wealth and asset management solutions to individual and corporate Clients. Sun Life has operations in a number of markets worldwide, including Canada, the United States, the United Kingdom, Ireland, Hong Kong, the Philippines, Japan, Indonesia, India, China, Australia, Singapore, Vietnam, Malaysia and Bermuda. As of December 31, 2020, Sun Life had total assets under management ("AUM") of $1,247 billion. For more information, please visit www.sunlife.com.

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

SLF Inc. is a publicly traded company domiciled in Canada and is the holding company of Sun Life Assurance Company of Canada ("Sun Life Assurance"). In this management's discussion and analysis ("MD&A"), 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". Unless otherwise indicated, all information in this MD&A is presented as at and for the year ended December 31, 2020 and the information contained in this document is in Canadian dollars. Where information at and for the year ended December 31, 2020 is not available, information available for the latest period before December 31, 2020 is used. Except where otherwise noted, financial information is presented in accordance with International Financial Reporting Standards ("IFRS") and the accounting requirements of the Office of the Superintendent of Financial Institutions ("OSFI"). Reported net income (loss) refers to Common shareholders' net income (loss) determined in accordance with IFRS.

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 this MD&A.

1. Use of Non-IFRS Financial Measures

We report certain financial information using non-IFRS financial measures, as we believe that these measures provide information that is useful to investors in understanding our performance and facilitate a comparison of our quarterly and full year results from period to period. These non-IFRS financial measures do not have any standardized meaning and may not be comparable with similar measures used by other companies. For certain non-IFRS financial measures, there are no directly comparable amounts under IFRS. These non-IFRS financial measures should not be viewed in isolation from or as alternatives to measures of financial performance determined in accordance with IFRS. Additional information concerning these non-IFRS financial measures and reconciliations to the closest IFRS measures are available in section L - Non-IFRS Financial Measures in this document. Further 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 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 relating to the Company can be found in the Consolidated Financial Statements and SLF Inc.'s Annual Information Form ("AIF") for the year ended December 31, 2020. These documents are filed with securities regulators in Canada and are available at www.sedar.com. SLF Inc.'s Annual Consolidated Financial Statements, Annual MD&A and AIF are filed with the United States Securities and Exchange Commission ("SEC") in SLF Inc.'s annual report on Form 40-F and SLF Inc.'s Interim MD&A and Interim Consolidated Financial Statements are furnished to the SEC on Form 6-Ks and are available at www.sec.gov.

B. Overview

Sun Life is a leading international financial services organization providing a diverse range of insurance, wealth and asset management solutions to individual and corporate Clients.

Purpose and Ambition

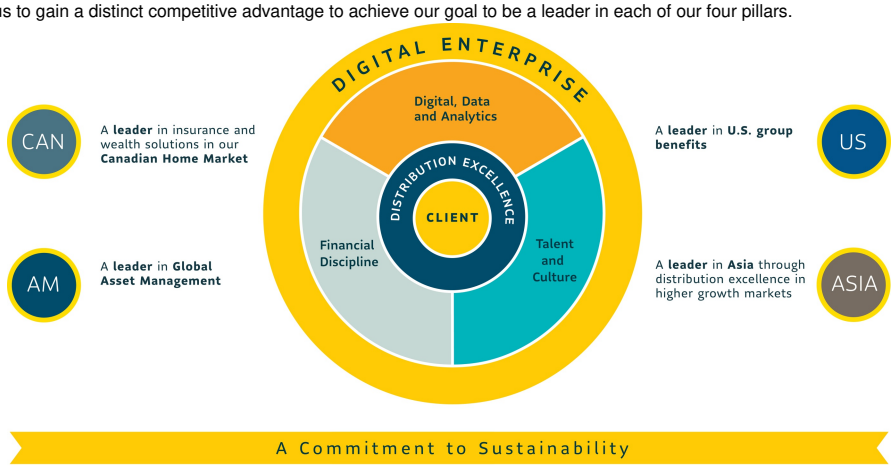
Our Purpose is to help our Clients achieve lifetime financial security and live healthier lives.

Our ambition is to be one of the best insurance and asset management companies in the world. To achieve this, across each of the four pillars of our business we aim to have:

- Top quartile total shareholder return
- Exceptional Client service
- Superior business mix and positioning
- Strong and distinct talent and culture
- Superior business execution

1. Strategy

We aim to provide outstanding value to our Clients. Our strategy places the Client at the centre of everything we do. We believe our Client for life strategy and Purpose, as described below, will allow us to gain a distinct competitive advantage to achieve our goal to be a leader in each of our four pillars.



Our Client Strategy

Our Client-centric strategy has six key areas of focus that we are pursuing across each of our four pillars. These areas of focus define how we compete in our markets, extend our competitive advantages, fulfill our Purpose and support our ambition to be one of the best insurance and asset management companies in the world.

Client: Our Clients are at the centre of everything we do and we are focused on building lasting and trusted Client relationships. We believe this allows us to maximize the value we provide our Clients, and leads to better business outcomes for Sun Life. We achieve this by:

- Making it easier to do business with us
- Providing quality products and services that meet the needs of our Clients
- Being more proactive in contacting and engaging with our Clients
- Delivering consistently superior Client service
- Achieving strong investment performance

Distribution Excellence: Our Clients work with high-quality distribution partners who put them at the centre of what they do. Our distribution partners will engage Clients where, when and how they wish, in a personalized and relevant way. We continue to invest in our distribution capabilities, through digital channels and by enabling our advisors, agents, partners and brokers to deliver great Client experiences and focus on meeting Client needs.

Digital, Data & Analytics: Our Digital, Data & Analytics capabilities are critical to both delivering value to our Clients and for efficiency and effectiveness, while respecting our Clients' privacy. As consumer preferences evolve and technological advancements enable new possibilities and services, Sun Life is investing in new capabilities across our businesses to reach our Clients more effectively, drive efficiencies and explore new business opportunities. Our focus in these areas is to:

- Digitize current processes and interactions
- Be more proactive, predictive and personalized with our Clients
- Build and deploy new digital business models

Financial Discipline: Our continued financial and risk management prudence, efficient use of capital and strong execution will support our medium-term financial and other business objectives and also support us in meeting our aim of top quartile total shareholder returns while maintaining a preferred risk and capital profile. Specific areas of focus are to:

- Deliver strong earnings growth and disciplined expense management to support the enterprise's medium-term objectives
- Create a culture of accountability, purpose and passion for long-term Client and business value embodied by all employees, including a strong focus on efficient use of resources to drive top and bottom line growth

Talent and Culture: Delivering on our strategy will require that we attract, retain and develop the best talent, while also continuing to evolve our talent and culture to manage the increasing pace of change. Specifically, our talent goals are to continue to:

- Attract a disproportionate share of top talent across our geographies, wrapped in an empowering culture
- Build on our high performance culture and support and reward our diverse, talented workforce
- Ensure that our focus on our Clients becomes deeply embedded in our unique and inclusive culture
- Remain committed to the highest standards of business ethics and good governance
- Stay committed to a diverse and inclusive workforce to foster wide perspectives and creative ideas to benefit our Clients, our colleagues and the communities where we operate

Digital Enterprise: Digital Enterprise is the next step in the evolution of our Client strategy. It brings the business and technology closer than ever before and will transform how we work. This will help us deliver faster and exceptional digital experiences and Client results. It's how we'll ensure our Clients around the world can have a distinctive digital experience, integrated across life, health and wealth and elevated through Client-centered partnerships. We put Clients at the centre, are digital at heart and work faster together. This allows us to deliver on our Purpose, when, where and how Clients need us.

Our Four Pillars

Our four pillar approach defines the businesses and markets in which we compete. In each of these pillars, we focus on creating value for our Clients and shareholders in businesses that have strong growth prospects, favourable return on equity and strong capital generation in attractive global markets.

Currently, in our four pillars we are:

A leader in insurance and wealth solutions in our Canadian Home Market

- Delivering value to over six million Clients via our Group and Individual businesses
- Market leader in providing benefits and pensions in the workplace
- Servicing individuals with a wide range of wealth, health, and insurance products via our retail channels, including our leading SLFD[1] network

A leader in U.S. group benefits

- A market leader in group benefits serving employees and their families with employer-sponsored benefits at workplaces of all sizes across the country including group life, disability, dental, vision, voluntary and supplemental health products
- The largest independent provider of medical stop-loss insurance in the U.S.
- A leader in providing turnkey solutions for insurance and health plan partners through FullscopeRMS, including disability, absence management, life, stop-loss and supplemental health coverages

A leader in Global Asset Management

- A provider of investment products through MFS Investment Management ("MFS") and SLC Management that delivers superior value to Clients through traditional active asset management as well as liability driven investing ("LDI") and alternative asset classes:
  - MFS is a premier investment management firm offering a comprehensive selection of asset management products and services to retail and institutional investors around the world
  - SLC Management is an institutional investment management business delivering customized LDI, alternative fixed income, infrastructure and global real estate solutions

A leader in Asia through distribution excellence in higher growth markets

- A provider of individual life and health insurance that delivers Client value in all markets
- A provider, in select markets, of asset management and group retirement products and services
- Operating in the Philippines, Hong Kong, Indonesia, Vietnam, Malaysia, India and China, and in the global high-net-worth market through our International business
- Among the global leaders in providing life insurance solutions to international high-net-worth Clients

A Key Element of our Strategy is our Commitment to Sustainability

Sustainability is a strategic priority and is essential to our long-term business success. We strive to embed sustainability in everything we do to drive social and economic outcomes for our Clients, Employees, Investors and Communities, and ultimately contribute to a healthier, more financially resilient, environmentally secure, and economically prosperous world. Our sustainability plan is underpinned by our Purpose of helping our Clients achieve lifetime financial security and live healthier lives, and is integrated into our business activities. We focus on three areas where we have the greatest opportunity to have a positive impact on society, while creating competitive advantage for our business.

Financial Security: We provide our Clients and employees with innovative products and services that increase their lifetime financial security. We're committed to improving financial resiliency in society by advocating for and expanding access to products and services to close insurance coverage gaps and build long-term wealth.

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(1) Sun Life Financial Distribution - our proprietary career advisory network.

Healthier Lives: We offer our Clients and employees products and tools to live healthier lives. Through investments in community health and access to health and disability insurance, we're focused on improving health and wellness in society.

Sustainable Investing: We manage capital with sustainability embedded in our investment processes. We offer our Clients and employees sustainable investing opportunities, and invest our assets to support a low-carbon and more inclusive economy.

Our sustainability plan builds from our foundation as a **Trusted and Responsible Business**. At the core of this foundation is our commitment to being a responsibly-managed business that is Client-focused, competitive, forward-thinking, financially and environmentally resilient, and sustainable for the long term. Operating ethically, treating our Clients and employees with utmost respect, investing in communities and reducing our impact on the environment are all vital components of maintaining the proven longevity and resiliency of our business. Our robust approach to managing our business creates trust and value for our Clients, employees and stakeholders.

Our sustainability commitment is guided by the United Nations Sustainable Development Goals ("SDGs"). We focus primarily on supporting the five SDGs where we believe we can have the greatest influence and impact. These are: #3 Good health & well-being, #5 Gender equality, #7 Affordable and clean energy, #8 Decent work and economic growth and #13 Climate action.

For additional information on our sustainability plan and recent progress, refer to www.sunlife.com/sustainability.

Diversity and Inclusion

To have a resilient, sustainable business, diversity and inclusion must serve as a catalyst. In 2020, Sun Life reinforced its commitment to diversity, equity and inclusion by taking a firm stance for equality, social change and justice to support under-represented communities.

In addition to setting new goals for representation of Black, Indigenous and People of Colour in executive roles, and a training and dialogue program on racial equity, we signed the Black North initiative, an organization dedicated to the removal of anti-Black systemic barriers negatively affecting Black Canadians. We also invested an additional $1 million in three key areas to drive meaningful social change: Clients and Communities, Talent and Culture, and Learning and Development.

For more information, please visit www.sunlife.com/en/sustainability/diversity-and-inclusion.

2. Financial Objectives

Our medium-term financial objectives are outlined as follows:

Measure[1]	Medium-term financial objectives	5-Year[2]	2020 results
Underlying EPS growth Growth in EPS reflects the Company's focus on generating sustainable earnings for shareholders.	8%-10%	8%	6%
Underlying ROE ROE is a significant driver of shareholder value and is a major focus for management across all businesses.	12%-14%	13.5%	14.4%
Dividend payout ratio Payout of capital serves shareholder value, based on underlying net income.	40%-50%	41%	40%

(1) Underlying earnings per share ("EPS"), underlying return on equity ("ROE") and the dividend payout ratio are non-IFRS financial measures. See section L - Non-IFRS Financial Measures in this document. The dividend payout ratio represents the ratio of common shareholders' dividends to underlying net income. See section I - Capital and Liquidity Management - 1 - Capital in this document for further information regarding dividends.

(2) Underlying EPS growth is calculated using a compound annual growth rate. Underlying ROE and dividend payout ratio are calculated using an average.

We have performed well against our medium-term financial objectives. Although considered reasonable, we may not be able to achieve our medium-term financial objectives as our assumptions may prove to be inaccurate. Accordingly, our actual results could differ materially from our medium-term financial objectives as described above. Our medium-term financial objectives do not constitute guidance. Our medium-term financial objectives are forward-looking non-IFRS financial measures and additional information is provided in this MD&A in the section O - Forward-looking Statements - Medium-Term Financial Objectives.

3. Acquisitions and Other

The following developments occurred since January 1, 2020. Additional information concerning acquisitions and dispositions is provided in our 2020 Annual Consolidated Financial Statements.

On July 1, 2020, we completed the acquisition of our majority stake in InfraRed Capital Partners ("InfraRed acquisition"), a global infrastructure and real estate investment manager. As a leader in global infrastructure investing including renewable energy, InfraRed Capital Partners ("InfraRed") will broaden SLC Management's suite of alternative investment solutions while also creating the opportunity for InfraRed to access North American investors through our distribution networks. The transaction includes the ability to acquire the remaining 20% interest of InfraRed in the future. For additional information, refer to Note 3 of our 2020 Consolidated Financial Statements.

Subsequent Events

On December 21, 2020, we announced our intention to redeem all of the outstanding $350 million principal amount of Series 2016-1 Subordinated Unsecured 3.10% Fixed/Floating Debentures on or about February 19, 2021, in accordance with the redemption terms attached to such debentures. The redemption will be funded from existing cash and other liquid assets.

On January 1, 2021, our subsidiary, Sun Life Vietnam Insurance Company Limited ("Sun Life Vietnam"), and Asia Commercial Joint Stock Bank ("ACB") launched a 15-year exclusive bancassurance partnership in Vietnam.

On January 5, 2021, we completed our acquisition of a majority stake of Crescent[1] ("Crescent acquisition"), a U.S.-based global alternative credit investment manager. Total cash consideration of $308 million (US$241 million) was paid, which includes our portion of the net liabilities in Crescent of $60 million (US$47 million). The agreement includes the ability to acquire the seller's outstanding shares in Crescent and a contingent consideration payment of up to $79 million (US$62 million), based on the achievement of certain milestones. In addition, the sellers have the option to require us to purchase their outstanding shares ("put option"). The initial recognition of the put option liability is expected to reduce Total shareholders' equity by approximately $175 million. Crescent is a part of our Asset Management business segment. The acquisition extends SLC Management's solutions in alternative credit, which will benefit existing and prospective Clients. Crescent has more than 180 partners and employees and approximately $39.1 billion in AUM (US$30.7 billion), as at December 31, 2020. For additional information, refer to Note 28 of our 2020 Consolidated Financial Statements.

In addition to the Corporate restructuring charge of approximately $20 million after-tax recorded in the fourth quarter of 2020 to simplify our organizational structure, we have also been developing a strategy for our workspace and redefining the role of the office, in a post COVID-19 world. Beginning first quarter of 2021, we will reduce and consolidate our real estate footprint across various sites in Canada and the U.S. These actions reflect a change to a more flexible and virtual work environment. In support of this strategy, we expect to take a charge between $40 - $60 million after-tax, mainly to reflect the vacating and reconfiguration of existing workspaces, in the first quarter of 2021. The actual restructuring charge and timing may differ from the Company's estimate.

4. COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic. This has resulted in the loss of lives, impacts on disability, pressure on health care systems, restrictions in travel, quarantines and restrictions on gatherings of people, closure of businesses and schools, higher unemployment, supply chain disruptions, increased volatility in financial markets, and widespread uncertainty.

We have and will continue to adjust our operations across each of our businesses as government restrictions and measures around the globe evolve and change. We have been proactively communicating with our Clients on the special measures we are taking to aid them through this difficult time. Our actions are personal and have included the extension of premium payment grace periods, extended coverage, and simplified and speedy claim payments. In certain jurisdictions, we also offered premium reductions to group benefit sponsors and we are providing more flexibility for those struggling to meet loan or mortgage payments, such as granting interest, principal and rental payment deferrals on a case-by-case basis. For our advisors, we enhanced our digital distribution and communication tools to support them through this period. In the U.S., we have also incorporated COVID-19 vaccinations to our critical illness policies and have allowed self-funded employers to make changes to their plans for vaccinations without impacting their rates.

Our business continuity processes are designed to ensure that key business functions and normal operations can continue effectively and efficiently in the event of a disruption. We have processes in place to monitor and maintain ongoing systems availability, stability, and security. Due to various restrictions, a majority of our employees have been working from home. Our working from home strategy continues to operate effectively and, depending on each location, the return to offices has been gradual and measured to ensure the health and safety of our employees and our communities.

Our communities are vital and we have been taking actions to support them. For example, we have donated 600,000 surgical masks to hospitals in Canada and donated more than $2 million to support communities impacted by the COVID-19 pandemic. Across Asia, we have donated to food banks and provided hand sanitizer to various communities, while digital life insurance coverage was donated in the Philippines and China to doctors, nurses, and other medical support staff as a way of saying "Thank you" for their efforts to stop the spread of COVID-19.

Regulatory Responses to COVID-19

Sun Life is subject to regulation and supervision by government authorities in the jurisdictions in which it does business. Various regulators have introduced new measures or adjustments to respond to the evolving situation with the COVID-19 pandemic.

[1] Crescent Capital Group LP ("Crescent")

OSFI, which supervises the activities of Sun Life, has announced various measures to support the resilience of the financial institutions that it regulates. On March 13, 2020, OSFI set an expectation for all federally regulated financial institutions that dividend increases and share buybacks should be halted for the time being. On March 27, 2020, OSFI announced that, under regulatory capital requirements for insurers, payment deferrals will not cause insured mortgages to be treated as delinquent or in arrears. On April 9, 2020, OSFI announced continued regulatory flexibility measures including: (1) determining that under LICAT[1], life insurers granting payment deferrals due to the COVID-19 pandemic will not be subject to increased capital requirements for related mortgages, loans and leases; (2) determining that life, property & casualty and mortgage insurers that approve premium payment deferrals to policyholders will not be subject to increased capital requirements related to those deferred premiums; and (3) introducing a smoothing mechanism to LICAT interest rate risk requirements to reduce increased and unwarranted volatility in required capital. On August 31, 2020, OSFI announced that the special capital treatment for loan payments and premium deferrals is no longer warranted and will be phased out as insurers and their clients have adapted to the extraordinary circumstances and unprecedented disruptions related to the pandemic.[2] In addition, the Bank of Canada recently expanded various programs, including its term repurchase facilities, to increase access to liquidity for financial institutions including insurance companies.

In the U.S., state insurance regulators issued an unprecedented volume of emergency measures to address the impact of the COVID-19 pandemic on policyholders. These regulatory changes impacted policy administration and business practices for the U.S. Branch and SLF Inc.'s U.S. life and health insurance subsidiaries, and, as content and timing varied by state, they have introduced additional operational and compliance complexity to the business. The National Association of Insurance Commissioners issued guidance to U.S. insurers on March 27, 2020 encouraging insurers to work with borrowers who may be unable to meet obligations because of the effects of the COVID-19 pandemic and on April 15, 2020 adopted interpretations of statutory accounting principles applicable to U.S. insurers related to, among other things, direct mortgage loans and Schedule BA mortgages. For purposes of statutory financial statements for the first three quarters of 2020 and any risk-based capital ("RBC") calculations prepared by insurers for those quarters, if the insurer chooses (or is government mandated) to grant forbearance in response to the COVID-19 pandemic, such mortgages are not required to be reclassified as impaired and therefore subject to a different RBC charge than was utilized during the December 31, 2019 RBC filing and which may have otherwise required a higher capital charge for such mortgage. In the third quarter of 2020, the National Association of Insurance Commissioners adopted interpretations of statutory accounting principles that extend these concepts to statutory financial statements and RBC calculations for the fourth quarter of 2020.

Impact on our Results and Operations

Notwithstanding market effects on our reported net income during the year, the impact of COVID-19 on our underlying net income and other financial metrics, including sales, claims and benefits, premiums and fee income, were limited.

Since the beginning of the pandemic, sales results have been mixed across our products and businesses. We saw some markets benefiting from digital tools, pre-existing sales pipelines, re-pricing and return to office opportunities. In other markets, we experienced significant sales declines resulting from strict quarantine protocols impacting face-to-face sales transactions. Strong wealth sales were driven by MFS, SLC Management, Group Retirement Services ("GRS") and money market funds in the Philippines.

We also experienced favourable morbidity experience in 2020, as the first half of the year saw lower benefit utilization of dental, extended health care, vision, and hospital and surgical coverages that were partially offset by Group Benefit premium credits. As restrictions eased with health care providers enhancing safety measures, benefit utilization returned to near normal levels in the latter part of 2020. We also saw lower fee income in our Canadian Group Benefits ("GB") ASO[3] business, which correlated to the number of claims processed due to lower benefits utilization during the COVID-19 lockdowns.

To support our Clients who may be facing financial hardships, we extended grace periods for premium payment for individual insurance and group benefits Clients. The impact to premium receivables has not been significant.

Our Group Benefit and Group Pension businesses cover employees in the worksite, and to the extent their employment is terminated and not replaced it means the premium and assets in force would decline over time, all things being equal.

For our borrowers and real estate tenants, we have granted interest, principal and rent payment deferrals, on a case by case basis, with the majority of the deferrals being up to 3 months. Outstanding deferrals as at December 31, 2020 were not material.

The overall impact of the COVID-19 pandemic is still uncertain and dependent on the progression of the virus, variant strains, potential treatments and therapies, the distribution of vaccines and on actions taken by governments, businesses and individuals, which could vary by country and result in differing outcomes. In addition, the landscape of the businesses we operate in is shifting and the longer term impacts from containment measures on the economy and Client behaviour, after the COVID-19 restrictions have been lifted, is difficult to predict. Examples include reductions on office space as more employees shift to remote working or higher demand for employer health coverage. Given the extent of the circumstances, it is difficult to reliably measure or predict the potential impact of this uncertainty on our future financial results. For additional information, please refer to section J - 9 - Risks relating to the COVID-19 Pandemic in this document.

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(1) Life Insurance Capital Adequacy Test ("LICAT").
(2) For additional information, please refer to Section F – Financial Strength in this document.
(3) Administrative Services Only ("ASO").

C. Financial Summary

($ millions, unless otherwise noted)	2020	2019
Profitability		
Net income (loss)		
Reported net income (loss)	**2,404**	2,618
Underlying net income (loss)[1]	**3,213**	3,057
Diluted EPS ($)		
Reported EPS (diluted)	**4.10**	4.40
Underlying EPS (diluted)[1]	**5.49**	5.16
Reported basic EPS ($)	**4.11**	4.42
Return on equity (%)		
Reported ROE[1]	**10.8 %**	12.3 %
Underlying ROE[1]	**14.4 %**	14.3 %
Growth		
Sales		
Insurance sales[1]	**3,501**	3,524
Wealth sales[1]	**220,860**	158,992
Value of new business ("VNB")[1]	**1,140**	1,206
Premiums and deposits		
Net premium revenue	**23,738**	20,288
Segregated fund deposits	**12,880**	11,958
Mutual fund sales[1]	**141,131**	99,836
Managed fund sales[1]	**62,190**	45,062
ASO premium and deposit equivalents[1]	**8,455**	6,802
Total premiums and deposits[1]	**248,394**	183,946
Assets under management[1]		
General fund assets	**197,090**	180,229
Segregated fund assets	**125,921**	116,973
Mutual fund assets, managed fund assets and other AUM[1]	**923,543**	802,145
Total AUM[1]	**1,246,554**	1,099,347
Financial Strength		
LICAT ratios[2]		
Sun Life Financial Inc.	**147 %**	143 %
Sun Life Assurance[3]	**127 %**	130 %
Financial leverage ratio[1]	**23.5 %**	21.2 %
Dividend[4]		
Dividend yield[5]	**4.1 %**	3.9 %
Dividend payout ratio[1]	**40 %**	41 %
Dividends per common share ($)	**2.200**	2.100
Capital		
Subordinated debt and innovative capital instruments[6]	**4,981**	3,738
Participating policyholders' equity and non-controlling interests	**1,393**	1,110
Total shareholders' equity	**24,469**	23,398
Total capital	**30,843**	28,246
Average common shares outstanding (millions)	**585**	592
Closing common shares outstanding (millions)	**585**	588

(1) Represents a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document.
(2) Life Insurance Capital Adequacy Test.
(3) Sun Life Assurance is SLF Inc.'s principal operating life insurance subsidiary.
(4) See section I - Capital and Liquidity Management - 1 - Capital in this document for further information regarding dividends.
(5) Dividend yield is calculated on dividends per common share paid divided by the daily annual average share price for the year.
(6) Innovative capital instruments consist of Sun Life ExchangEable Capital Securities ("SLEECS") which qualify as capital for Canadian regulatory purposes. Under IFRS, these items are reported as Senior debentures in our Consolidated Financial Statements. For additional information, see the section I - Capital and Liquidity Management - 1 - Capital in this document.

D. Profitability

2020 vs. 2019

The following table reconciles our reported net income and underlying net income. The table also sets out the impacts that other notable items had on our reported net income and underlying net income in 2020 and 2019. All factors discussed in this document that impact our underlying net income are also applicable to reported net income.

($ millions, after-tax)	**2020**	2019
Reported net income	**2,404**	2,618
Less: Market-related impacts[1]	**(461)**	(237)
Assumption changes and management actions[1]	**(143)**	(46)
Other adjustments[1]	**(205)**	(156)
Underlying net income[2]	**3,213**	3,057
Reported ROE[2]	**10.8 %**	12.3 %
Underlying ROE[2]	**14.4 %**	14.3 %
Impacts of other notable items on reported and underlying net income		
Experience-related items[3]		
Impacts of investment activity on insurance contract liabilities ("investing activity")	**258**	131
Credit	**(57)**	74
Mortality	**(39)**	22
Morbidity	**125**	(70)
Lapse and other policyholder behaviour ("policyholder behaviour")	**(60)**	(24)
Expenses	**(93)**	(18)
Other experience	**(35)**	(29)

(1) Represents an adjustment made to arrive at a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.
(2) Represents a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document.
(3) Experience-related items reflect the difference between actual experience during the reporting period and best estimate assumptions used in the determination of our insurance contract liabilities.

Reported net income decreased by $214 million or 8% in 2020 compared to 2019, reflecting unfavourable market-related and ACMA[1] impacts, higher fair value adjustments on MFS's share-based payment awards and higher acquisition, integration and restructuring costs. Market-related impacts reflected the decline in equity markets, partially offset by interest rate impacts. Underlying net income increased by $156 million or 5%, driven by business growth, higher investing activity, favourable results in GB in Canada, higher new business gains and favourable morbidity experience in the U.S. These factors were partially offset by unfavourable tax experience, unfavourable credit and mortality experience, lower net investment returns on surplus, and unfavourable expense experience. Unfavourable tax experience relates to an adjustment relating to the prior year's Canadian tax filings in 2020 and the impacts of tax matters that were favourable in 2019[2]. Refer to section L - Non-IFRS Financial Measures in this document for a reconciliation between reported net income and underlying net income.

1. Market-related impacts

Market-related impacts in 2020 compared to 2019 predominantly reflected the decline in equity markets and changes in the fair value of investment properties, partially offset by improved interest rate impacts. See Section L - Non-IFRS Financial Measures in this document for a breakdown of the components of market-related impacts.

2. Assumption changes and management actions

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

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

ACMA in 2020 resulted in a decrease of $143 million to reported net income, compared to a decrease of $46 million to reported net income in 2019.

(1) Assumption changes and management actions ("ACMA").
(2) The impact of the resolution of tax matters from prior years in 2019, including interest and investment income tax allocation updates between the participating policyholders' account and the shareholders' account ("tax matters that were favourable in 2019"). The results include income of $78 million, of which $58 million was in Corporate and $20 million in Canada.

Assumption Changes and Management Actions by Type

The following table sets out the impacts of ACMA on our reported net income in 2020.

For the year ended December 31, 2020

($ millions, after-tax)	Impacts on reported net income[1]	Comments
Mortality / morbidity	**(79)**	Updates to reflect mortality/morbidity experience in all jurisdictions. The largest items were unfavourable mortality impacts in individual life and health in Canada and In-force Management in the U.S., partially offset by favourable group disability government pension plan offsets in Canada.
Policyholder behaviour	**(162)**	Updates to policyholder behaviour in all jurisdictions. The largest item was in In-force Management in the U.S.
Expenses	**19**	Updates to reflect expense experience in all jurisdictions.
Investment returns	**(1)**	Updates to various investment-related assumptions across the Company.
Model enhancements and other	**80**	Net favourable enhancements and methodology changes across all jurisdictions, partially offset by the impact of a new reinsurance agreement in In-force Management in the U.S.
Total impacts on reported net income[2]	**(143)**	

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

[2] In this table, ACMA represents the shareholders' reported net income impacts (after-tax) including management actions. In Note 10.A of our 2020 Annual Consolidated Financial Statements, the impacts of method and assumptions changes represents the change in shareholders' and participating policyholders' insurance contract liabilities net of reinsurance assets (pre-tax) and does not include management actions. Further information can be found in section L - Non-IFRS Financial Measures in this document.

Additional information on estimates relating to our policyholder obligations, including the methodology and assumptions used in their determination, can be found in this MD&A under the section M - Accounting and Control Matters - 1 - Critical Accounting Policies and Estimates and in Note 10 of our 2020 Annual Consolidated Financial Statements.

3. Other adjustments

Other adjustments in 2020 decreased reported net income by $205 million, compared to $156 million in 2019, reflecting higher fair value adjustments on MFS's share-based payment awards, higher restructuring costs in Corporate and higher acquisition and integration costs in SLC Management. Costs in Corporate were related to various projects to simplify our organizational structure and drive efficiencies. Costs in SLC Management were related to the InfraRed acquisition and the Crescent acquisition.

4. Experience-related items

Compared to 2019, the significant changes in experience-related items are as follows:

- Higher investing activity in all insurance businesses;
- Unfavourable credit experience in all insurance businesses:

($ millions, after-tax)	**2020**	2019
Changes in ratings	**(138)**	(34)
Impairments, net of recoveries	**(28)**	8
Release of best estimate credit	**109**	100
Credit experience	**(57)**	74

- Unfavourable mortality experience in the U.S.;
- Favourable morbidity experience in GB in Canada and in employee benefits and medical stop-loss in the U.S.;
- Unfavourable policyholder behaviour experience; and
- Unfavourable expense experience in Canada and the U.S., partially offset by Asia and Corporate. A portion of the Canada impact resulted from the ASO expense experience during the year.

5. Income taxes

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

For 2020, our effective tax rates on reported net income and underlying net income[1] were 15.1% and 19.3%, respectively, compared to 8.8% and 14.1%, respectively, for 2019. Our effective tax rate on underlying net income for 2020 is within our expected range of 15% to 20%. For additional information, refer to Note 20 of our 2020 Annual Consolidated Financial Statements. For 2019, our effective tax rate on underlying net income was below our expected range, primarily due to the favourable resolution of Canadian tax matters and higher tax-exempt investment income.

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

6. Impacts of foreign exchange translation

We have operations in many 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, and generate revenues and incur expenses in local currencies in these jurisdictions, which are translated to Canadian dollars.

Items impacting our Consolidated Statements of Operations are translated into Canadian dollars using average exchange rates for the respective period. For items impacting our Consolidated Statements of Financial Position, period end rates are used for currency translation purposes.

The following table provides the foreign exchange rates for the U.S. dollar, which is usually our most significant impact of foreign exchange translation, over the past four quarters and two years.

Exchange rate	Quarterly				Full year	
	Q4'20	Q3'20	Q2'20	Q1'20	**2020**	2019
U.S. Dollar - Average	**1.304**	1.332	1.386	1.341	**1.341**	1.327
U.S. Dollar - Period end	**1.273**	1.332	1.357	1.406	**1.273**	1.299

In general, our net income benefits from a weakening Canadian dollar and is adversely affected by a strengthening Canadian dollar as net income from the Company's international operations is translated back to Canadian dollars. Conversely, in a period of losses, the weakening of the Canadian dollar has the effect of increasing losses in foreign jurisdictions. The relative impacts of foreign exchange translation in any given period are driven by the movement of foreign exchange rates as well as the proportion of earnings generated in our foreign operations. We generally express the impacts of foreign exchange translation on net income on a year-over-year basis.

During 2020, the impacts of foreign exchange translation increased reported net income and underlying net income by $35 million and $34 million, respectively.

E. Growth

1. Sales and Value of New Business

($ millions)	**2020**	2019
Insurance sales by business segment[1]		
Canada	**779**	988
U.S.	**1,459**	1,382
Asia	**1,263**	1,154
Total insurance sales	**3,501**	3,524
Wealth sales by business segment[1]		
Canada	**19,938**	16,114
Asia	**10,937**	8,373
Total wealth sales excluding Asset Management	**30,875**	24,487
Asset Management sales[1]	**189,985**	134,505
Total wealth sales	**220,860**	158,992
Value of New Business[1]	**1,140**	1,206

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

Total Company insurance sales decreased by $23 million or 1% ($36 million or 1%, excluding the impacts of foreign exchange translation) in 2020 compared to 2019.
- Canada insurance sales decreased by 21% compared to 2019, reflecting lower large case sales and lower market activity.
- U.S. insurance sales increased by 5%, excluding the favourable impacts of foreign exchange translation, driven by growth in employee benefits reflecting the demand for our digital and virtual capabilities, our Client-centric response to COVID-19, and new product releases.
- Asia insurance sales increased by 8%, excluding the favourable impacts of foreign exchange translation, driven by International Hubs, partially offset by the Philippines as a result of the impact of COVID-19.

Total Company wealth sales increased by $61.9 billion or 39% ($59.7 billion or 38%, excluding the impacts of foreign exchange translation) in 2020 compared to 2019.
- Canada wealth sales increased by 24%, primarily driven by higher large case sales in GRS and increased mutual fund and guaranteed product sales in Individual Wealth.
- Asia wealth sales increased by 30%, excluding the favourable impacts of foreign exchange translation, driven by growth in all markets.
- Asset Management sales increased by 40%, excluding the favourable impacts of foreign exchange translation, driven by higher mutual and managed fund sales in MFS and higher sales in SLC Management.

Total Company VNB was $1,140 million in 2020, a decrease of 5% compared to 2019, reflecting less favourable pricing in the U.S., and the impact of lower interest rates globally.

2. Premiums and Deposits

($ millions)	2020	2019
Premiums and Deposits		
Net premium revenue	**23,738**	20,288
Segregated fund deposits	**12,880**	11,958
Mutual fund sales[1]	**141,131**	99,836
Managed fund sales[1]	**62,190**	45,062
ASO premium and deposit equivalents[1]	**8,455**	6,802
Total premiums and deposits[1]	**248,394**	183,946

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

Premiums and deposits increased by 34% in 2020, compared to 2019, excluding the favourable impacts of foreign exchange translation, driven by increased mutual fund and managed fund sales, and higher net premium revenue.

Net premium revenue increased by 16% in 2020 compared to 2019, excluding the favourable impacts of foreign exchange translation, driven by increased premium revenue in Asia and Canada.

Segregated fund deposits increased by 7% in 2020 compared to 2019, excluding the favourable impacts of foreign exchange translation, driven by increased deposits in Canada.

Mutual fund sales increased by 40% in 2020 compared to 2019, excluding the favourable impacts of foreign exchange translation, driven by increased sales in MFS and the Philippines and India in Asia.

Managed fund sales increased by 36% in 2020 compared to 2019, excluding the favourable impacts of foreign exchange translation, driven by increased sales in MFS, SLC Management and Asia.

ASO premium and deposit equivalents increased by 28% in 2020, compared to 2019, excluding the favourable impacts of foreign exchange translation, driven by increases in Canada.

3. Assets Under Management

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

($ millions)	2020	2019
Assets under management[1]		
General fund assets	**197,090**	180,229
Segregated fund assets	**125,921**	116,973
Mutual fund assets, managed fund assets and other AUM[1]	**923,543**	802,145
Total AUM[1]	**1,246,554**	1,099,347

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

AUM increased by $147.2 billion or 13% as at December 31, 2020 compared to December 31, 2019, resulting primarily from:
(i) an increase of favourable market movements on the value of mutual funds, managed funds and segregated funds of $106.0 billion;
(ii) net inflows from mutual, managed and segregated funds of $23.1 billion;
(iii) an increase in AUM of general fund assets of $16.9 billion;
(iv) acquired AUM from the InfraRed acquisition of $16.3 billion; and
(v) an increase from other business activities of $6.7 billion; partially offset by
(vi) a decrease of $21.8 billion from the impacts of foreign exchange translation (excluding the impacts from general fund assets).

The net inflow of mutual, managed and segregated funds of $23.1 billion in 2020 was predominantly driven by net inflows of $17.7 billion in MFS, $3.5 billion in Canada and $3.1 billion in Asia, partially offset by net outflows of $0.7 billion in Corporate and $0.5 billion in SLC Management.

General fund assets increased by $16.9 billion or 9% as at December 31, 2020 compared to December 31, 2019, primarily attributable to:
(i) other business activities of $9.0 billion;
(ii) an increase of $6.9 billion from the change in value of fair value through profit or loss ("FVTPL") assets and liabilities; and
(iii) net inflows of $2.1 billion; partially offset by
(iv) a decrease of $1.1 billion from the impacts of foreign exchange translation.

Segregated fund assets increased by $8.9 billion or 8% as at December 31, 2020 compared to December 31, 2019, driven by favourable market movements of $8.4 billion, net inflows of $0.4 billion and the favourable impacts of foreign exchange translation of $0.1 billion.

Mutual funds, managed funds and other AUM increased by $121.4 billion or 15% as at December 31, 2020 compared to December 31, 2019, driven by favourable market movements of $97.6 billion, net inflows of $20.8 billion, acquired AUM from InfraRed of $16.3 billion and other business activities of $8.6 billion, partially offset by the impacts of foreign exchange translation of $21.9 billion.

F. Financial Strength

	2020	2019
LICAT ratio		
Sun Life Financial Inc.	**147 %**	143 %
Sun Life Assurance	**127 %**	130 %
Financial leverage ratio[1]	**23.5 %**	21.2 %
Dividend		
Dividend payout ratio[1]	**40 %**	41 %
Dividends per common share ($)	**2.200**	2.100
Capital ($ millions)		
Subordinated debt	**4,781**	3,538
Innovative capital instruments[2]	**200**	200
Equity		
Participating policyholders' equity and non-controlling interests	**1,393**	1,110
Preferred shareholders' equity	**2,257**	2,257
Common shareholders' equity	**22,212**	21,141
Total equity	**25,862**	24,508
Total capital	**30,843**	28,246

(1) Represents a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document.
(2) Innovative capital instruments consist of SLEECS and qualify as regulatory capital. However, under IFRS they are reported as Senior debentures in our Consolidated Financial Statements. For additional information, see section I - Capital and Liquidity Management - 1 - Capital in this document.

Life Insurance Capital Adequacy Test

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

On April 9, 2020, OSFI announced certain changes to capital requirements under the LICAT guideline in response to the COVID-19 pandemic. The changes pertain to the capital treatment of (i) payment deferrals for mortgages, leases, and other loans, (ii) payment deferrals on insurance premiums to policyholders, and (iii) interest rate risk requirements for participating lines of business. For payment deferrals granted due to the COVID-19 pandemic, OSFI allows for the loans, leases and receivables to continue to be treated as performing assets under the LICAT guideline. This means that these assets will not fall into the impaired and restructured category, and therefore, will not be subject to a higher capital charge.

On August 31, 2020, OSFI announced an update on this capital treatment. Deferrals granted before August 31, 2020 will not extend past 6 months. Deferrals granted between August 31, 2020 and September 30, 2020 will not extend past 3 months. Deferrals granted after September 30, 2020 will not be eligible for OSFI's special capital treatment. For our December 31, 2020 LICAT ratio, the impact of the change in capital treatment for payment deferrals remains small. The change with respect to the interest rate risk requirements for participating lines of businesses reduces the impact of a discontinuity in the LICAT ratio caused from a switch in the interest rate scenarios applied, by smoothing the impact of participating lines of business interest rate risk over six quarters. As per OSFI's communication, this new treatment will remain in place until at least December 31, 2023.

SLF Inc. is a non-operating insurance company and is subject to the LICAT guideline. As at December 31, 2020, SLF Inc.'s LICAT ratio was 147%, which was 4% higher than December 31, 2019. The favourable impacts of reported net income, net change in subordinated debt and capital savings from reinsurance were partially offset by the impacts of payment of dividends, the InfraRed acquisition, market movements and the smoothed impact of the switch in the interest rate scenario in North America for the participating business.

Sun Life Assurance, SLF Inc.'s principal operating life insurance subsidiary, is also subject to the LICAT guideline. As at December 31, 2020, Sun Life Assurance's LICAT ratio was 127%, compared to 130% as at December 31, 2019. The impacts of the payment of dividends, market movements and the smoothed impact of the switch in interest rate scenario in North America for the participating business were partially offset by the favourable impacts of reported net income, capital savings from reinsurance and cash transfer from SLF Inc. in advance of the January 2021 payment for the ACB bancassurance partnership in Vietnam.

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

Capital

Our total capital consists of subordinated debt and other capital instruments, participating policyholders' equity and total shareholders' equity which includes common shareholders' equity, preferred shareholders' equity, and non-controlling interests. As at December 31, 2020, our total capital was $30.8 billion, an increase of $2.6 billion compared to the prior year. The increases to total capital included reported net income of $2,404 million, the issuance of $1 billion principal amount of Series 2020-1 Subordinated Unsecured 2.58% Fixed/ Floating Debentures ("Series 2020-1 Debentures"), and the issued $750 million principal amount of Series 2020-2 Subordinated Unsecured 2.06% Fixed/Floating Debentures ("Series 2020-2 Debentures") both of which are detailed below. These were partially offset by the payment of $1,283 million of dividends on common shares of SLF Inc. ("common shares"), and the redemption of $500 million principal amount of Series 2015-1 Subordinated Unsecured 2.60% Fixed/Floating Debentures ("Series 2015-1 Debentures"), which is also detailed below.

Our capital and liquidity positions remain strong, supported by a low financial leverage ratio of 23.5%, a strong LICAT ratio of 147% at SLF Inc., and $3.1 billion in cash and other liquid assets[1] as at December 31, 2020 in the legal entity, SLF Inc. (the ultimate parent company) and its wholly-owned holding companies ($2.3 billion as at December 31, 2019).

Capital Transactions

On May 8, 2020, SLF Inc. issued $1 billion principal amount of Series 2020-1 Subordinated Unsecured 2.58% Fixed/Floating Debentures due 2032. The net proceeds will be used for general corporate purposes of SLF Inc., which may include investments in subsidiaries and repayment of indebtedness.

On June 30, 2020, 0.1 million of the 5.2 million Class A Non-cumulative Rate Reset Preferred Shares Series 8R (the "Series 8R Shares") were converted into Class A Non-cumulative Floating Rate Preferred Shares Series 9QR (the "Series 9QR Shares") on a one-for-one basis and 1.1 million of the 6.0 million Series 9QR Shares were converted into Series 8R Shares on a one-for-one basis. After the conversion, SLF Inc. has approximately 6.2 million Series 8R Shares and 5.0 million Series 9QR Shares issued and outstanding.

On September 25, 2020, SLF Inc. redeemed all of the outstanding $500 million principal amount of Series 2015-1 Subordinated Unsecured 2.60% Fixed/Floating Debentures, in accordance with the redemption terms attached to such debentures. The redemption was funded from existing cash and other liquid assets.

On October 1, 2020, SLF Inc. issued $750 million principal amount of Series 2020-2 Subordinated Unsecured 2.06% Fixed/Floating Debentures due 2035. The net proceeds will be used for general corporate purposes of SLF Inc., which may include investments in subsidiaries, repayment of indebtedness and other strategic investments.

Normal Course Issuer Bid

On August 13, 2020, SLF Inc.'s normal course issuer bid expired. In light of OSFI setting the expectation on March 13, 2020 that all federally regulated financial institutions should halt all dividend increases and share buybacks for the time being, SLF Inc. has postponed renewing its normal course issuer bid. In 2020, SLF Inc. purchased approximately 3.5 million common shares at a total cost of $200 million. All of the common shares purchased under SLF Inc.'s normal course issuer bid were subsequently cancelled. As at the program's expiry, the total aggregate shares cancelled and associated cost under SLF Inc.'s normal course issuer bid were 6.3 million and $347 million, respectively.

Subsequent Events

On December 21, 2020, we announced our intention to redeem all of the outstanding $350 million principal amount of Series 2016-1 Subordinated Unsecured 3.10% Fixed/Floating Debentures on or about February 19, 2021, in accordance with the redemption terms attached to such debentures. The redemption will be funded from existing cash and other liquid assets. On redemption, this transaction will not impact the LICAT ratio of Sun Life Assurance, however, it will decrease the SLF Inc. LICAT ratio by approximately two percentage points.

On January 1, 2021, our subsidiary, Sun Life Vietnam, and ACB launched a 15-year exclusive bancassurance partnership in Vietnam. In January 2021, as a result of the transaction, the LICAT ratio of both SLF Inc. and Sun Life Assurance will decrease by approximately two percentage points.

On January 5, 2021, we completed our acquisition of a majority stake of Crescent, a U.S.-based global alternative credit investment manager. Total cash consideration of $308 million (US$241 million) was paid, which includes our portion of the net liabilities in Crescent of $60 million (US$47 million). The agreement includes the ability to acquire the seller's outstanding shares in Crescent and a contingent consideration payment of up to $79 million (US$62 million), based on the achievement of certain milestones. In addition, the sellers have the option to require us to purchase their outstanding shares. The initial recognition of the put option liability is expected to reduce Total shareholders' equity by approximately $175 million. Crescent is a part of our Asset Management business segment. The acquisition extends SLC Management's solutions in alternative credit, which will benefit existing and prospective Clients. Crescent has more than 180 partners and employees and approximately $39.1 billion in AUM (US$30.7 billion), as at December 31, 2020. This transaction will not impact the LICAT ratio of Sun Life Assurance, however, it will decrease the SLF Inc. LICAT ratio by approximately two percentage points.

The subsequent events noted above will also have an impact to our cash and other liquid assets balance subsequent to December 31, 2020, with the exception of the ACB bancassurance partnership as the cash payment of $472 million was transferred to Sun Life Assurance in advance of the January 2021 payment.

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

In addition to the Corporate restructuring charge of approximately $20 million after-tax recorded in the fourth quarter of 2020 to simplify our organizational structure, we have also been developing a strategy for our workspace and redefining the role of the office, in a post COVID-19 world. Beginning first quarter of 2021, we will reduce and consolidate our real estate footprint across various sites in Canada and the U.S. These actions reflect a change to a more flexible and virtual work environment. In support of this strategy, we expect to take a charge between $40 - $60 million after-tax, mainly to reflect the vacating and reconfiguration of existing workspaces, in the first quarter of 2021. The actual restructuring charge and timing may differ from the Company's estimate.

Financial Strength Ratings

Independent rating agencies assign credit ratings to securities issued by companies and assign financial strength ratings to financial institutions such as Sun Life Assurance.

The financial strength ratings assigned by rating agencies are intended to provide an independent view of the creditworthiness and financial strength of a financial institution. Each rating agency has developed its own methodology for the assessment and subsequent rating of life insurance companies.

Rating agencies do not assign a financial strength rating for SLF Inc., however, credit ratings are assigned to the securities issued by SLF Inc. and its subsidiaries and are described in SLF Inc.'s AIF under the heading Security Ratings.

The following table summarizes the financial strength ratings for Sun Life Assurance as at January 31, 2021 and January 31, 2020.

	A.M. Best	DBRS	Moody's	Standard & Poor's
January 31, 2021	**A+**	**AA**	**Aa3**	**AA**
January 31, 2020	A+	AA	Aa3	AA

Most recent rating agency actions on the financial strength rating of Sun Life Assurance:
- March 11, 2020 - Standard and Poor's ("S&P") affirmed the financial strength rating with a stable outlook
- September 14, 2020 - Moody's affirmed the financial strength rating with a stable outlook
- October 15, 2020 - DBRS affirmed the financial strength rating with a stable outlook
- January 13, 2021 - A.M. Best affirmed the financial strength rating with a stable outlook

G. Performance by Business Segment

Sun Life's business is well-diversified across geographies and business types, supported by our four pillar strategy and our diversified offerings of insurance and wealth products.

($ millions, unless otherwise noted)	**2020**	2019
Reported net income (loss)		
Canada	**717**	883
U.S.	**257**	163
Asset Management	**980**	897
Asia	**594**	520
Corporate	**(144)**	155
Total reported net income (loss)	**2,404**	2,618
Underlying net income (loss)[1]		
Canada	**1,073**	1,012
U.S.	**568**	532
Asset Management	**1,128**	1,004
Asia	**579**	550
Corporate	**(135)**	(41)
Total underlying net income (loss)[1]	**3,213**	3,057

[1] Represents a non-IFRS financial measure. See section L - 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. Canada

Our Canada business segment is a leading provider of protection, health, and wealth solutions, providing products and services that deliver value to over 6.5 million Clients. We are the largest provider of benefits and pensions in the workplace, and provide a wide range of products to individuals via retail channels. Canada is a growth market for Sun Life and we are well positioned to help Canadians achieve lifetime financial security and live healthier lives.

Business Units		
• Individual Insurance & Wealth	• Group Retirement Services	• Group Benefits

2020 Highlights

Shaping the market

- Leveraged our market leadership position in GB[(1)], with over $11 billion of business-in-force, to establish a key role in proactively building mentally healthy workplaces across Canada. We executed several initiatives, including partnering with the Centre for Addiction and Mental Health ("CAMH") to host a multi-organization executive mental health summit.
- Sustained our #1 position in the group retirement market[(2)] with over $125 billion assets under administration. In our pension risk transfer business, we completed a $1.1 billion payout annuity sale, the largest single day annuity transaction by an insurer in Canada. In our defined contribution business, we launched our proprietary Environmental, Social and Governance ("ESG") evaluation framework to empower Clients and plan sponsors in making informed investment decisions, reinforcing our commitment to drive social and environmental outcomes.
- Upheld a leadership position in individual insurance[(3)] by enhancing our products and services, including being the first carrier in Canada to offer virtual health care services to retail Clients. In addition, we launched the *Sun eApp* to Third Party advisors, accelerating the life and critical illness insurance application process, and enabling a strong Client experience.
- Continued retail wealth momentum by growing Sun Life Global Investments ("SLGI") assets under management to $33 billion, and launching *Sun Life Private Investment Pools*, a tailored solution to optimize returns in the low interest rate environment.

Putting the Client at the Centre, with Digital, Data and Analytics

- We put our Clients at the centre, strengthening relationships throughout the COVID-19 pandemic. We extended premium deferrals for those experiencing financial hardship, provided credits to sponsors on dental and paramedical premiums during the initial lockdown, and adapted to changing conditions to continue to meet Client needs, holding over 164,000 virtual advisor-Client meetings.
- Our digital coach, *Ella*, proactively connected with Clients over 15 million times throughout the year, supporting our Clients during moments that matter and assisting them with an additional $700 million in wealth deposits and $1 billion in insurance coverage, an increase of 69% and 83% respectively over last year.
- Made it easier for our Clients to do business with us, especially during unprecedented times, by digitally processing 90% of retail insurance applications, 79% of retail wealth transactions and 94% of GB health and dental claims, throughout the year.
- Applied artificial intelligence and predictive modelling to accelerate and improve the individual insurance underwriting process, with 71% of policies underwritten without the need for laboratory tests, an increase of 26% over prior year.
- Expanded *Lumino Health's* capabilities through strategic partnerships with Dialogue, GoRendezvous and OnCall Health, and embedded it across our businesses, helping Clients access the resources they need, including over 150,000 paramedical health care providers with over 20 million user ratings.
- Our Canadian mobile app, *my Sun Life*, continued to be recognized as a highly rated digital platform, maintaining a 4.0+ overall user rating since its inception[(4)], and grew annual downloads by 13% in 2020.

Strategy and Outlook

As the leader in the group benefits and group retirement markets and one of the largest players in individual insurance and wealth in Canada, Sun Life is well positioned to shape the market and meet the evolving needs of Canadians. Our strategy leverages our market leadership position across our core businesses and distribution networks, to continue to deliver on our Purpose to help our Clients achieve lifetime financial security and live healthier lives. Our focus for our Canadian businesses will be to:

Put the Client at the centre of everything we do

- Deliver a best-in-class Client experience across all our Canadian businesses and continue to raise the bar, making it easier to do business with us. Our Client Experience Office ("CXO") drives change and shares the best innovations across our organization, further enhancing our Client's journey.
- Enhance Client value with an integrated One Sun Life experience, offering quality products and services across our businesses that meet Client needs throughout all stages of their life, health and wealth journeys.
- Continue to innovate to deliver a seamless, multi-channel experience, engaging Clients where, when and how they wish, while providing more proactive, personalized contact, leveraging our digital, data and analytics capabilities.
- Continue to build, engage and invest in diverse and high-performing talent, who are empowered with an inclusive workplace and enabled to execute on our ambitions, competitively differentiating us in the market.

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(1) Based on revenue for year ended December 2019 from 2020 Group Benefits Provider Report.
(2) Fraser Pension Universe Report (based on year-ended December 2019).
(3) LIMRA Market Share as of third quarter 2020 year-to-date.
(4) Achieved 4.0 or above overall annual user rating on both Apple App Store and Google Play Store, since its inception in 2011.

Shape the market enabled by leadership in core businesses

- Continue to support our SLFD and third party advisor network, with new and enhanced products and services, while leveraging our capabilities by providing additional digital support in these channels. The advisor channels are well positioned to help our Clients with customized financial plans, and life and health insurance solutions.
- Expand our presence in the health market, including taking a proactive role in mental health, by advancing our *Lumino Health* platform and pursuing strategic partnerships, enabling Canadians to live healthier lives.
- Leverage our strength in the worksite and our industry-leading technology to implement innovations to increase our Client retention rate and extend our group business market leadership. This includes solutions to help GB Clients manage their employee wellness needs and solutions, helping to bend the medical cost curve.
- Capture the growing decumulation opportunity and advance our market leadership to be the retirement income provider of choice, by further enhancing our tools, products and services available to Clients at all stages of their lives, and augmenting them with our high quality advisory force.
- Extend our leadership and continue to shape the growing Canadian group annuities market as the number one defined benefit solutions provider, assisting employers in managing the risk in their defined benefit plans.
- Extend our sustainability solutions to drive social and economic outcomes for Clients, employees, investors and communities, in alignment with our enterprise-wide sustainability strategy, by empowering Clients to take positive actions and embedding sustainability across our offerings and operations.

Leverage digital, data and analytics, and artificial intelligence to develop new business models

- Transform and digitize all aspects of the Client, advisor and sponsor journeys, with process enhancements and innovative data and analytic capabilities enabling proactive and meaningful Client engagement in moments that matter.
- Ensure every Client across the country can have a distinctive, integrated, Client-centric digital experience when using life, health, and wealth solutions platforms.
- Expand our Client reach and engagement through relevant and proactive connections with our digital coach, *Ella*, delivering proactive and personalized interactions to help our Clients in achieving their health and financial goals.
- Develop and grow our digital business platforms, including *Lumino Health* and *my Sun Life,* making it easier and more convenient for our Clients to access the resources they need.

Outlook

We continue to evolve our business based on shifting demographics in the Canadian market, recognizing the varying needs, digital interface preferences and levels of support required through different life stages. Retirement planning and decumulation needs are increasing as more Canadians approach retirement, while the need for financial security remains prevalent in all cohorts as governments and employers download financial responsibility to individuals. Healthcare needs also continue to grow, with mental health being an area of focus, as our environment shifts and pandemic-induced social isolation challenges pose risks to Canadians' well-being. With this, Canadians have two major preoccupations, their financial security, and their personal and loved ones' health. Both of these drive the need for effective life and health protection and wealth advice, presenting opportunities for Sun Life to provide additional services to Canadians. As a trusted market leader with a full suite of solutions, proven experience in providing holistic advice, and a strong presence at the worksite and in communities across Canada, we are well positioned to continue to help our Clients in the right way, at the right time.

Although pandemic challenges emerged this year, influencing predominantly sales volumes and market impacts, Sun Life has displayed its strength and resilience through adapting and taking proactive measures to continue to deliver on our Purpose, while being there for our Clients when they need us most. With uncertainties continuing into 2021, we have accelerated key areas of our business to continue to operate in a non-face-to-face environment, while evolving our capabilities and solutions to meet our Clients and stakeholders' needs. We remain committed to putting our Clients at the centre of everything, seeking opportunities to optimize, sustainably grow and expand our businesses with a long-term focus, while protecting and preserving value during moments that matter most.

The Canadian market is facing several headwinds that present both challenges and opportunities for our business. Digital disruptors continue to emerge, regulatory changes are impacting all business units, the competitive environment continues to apply additional pressure on achieving our objectives, and there is the potential for tax changes, particularly in light of deficits incurred due to the COVID-19 pandemic. To address these headwinds, we are actively investing in innovative digital solutions to provide more proactive personalized contact with our Clients to shape the industry in response to their needs. We continue to adapt our plans, driving momentum across our businesses and accelerating growth through new and adjacent opportunities. We continue to build on our leadership at the worksite, connect with Clients through our multi-channel distribution and explore new offerings in the wealth and health spaces to help our Clients achieve lifetime financial security and live healthier lives.

Business Units

Business	Description	Market position
Individual Insurance & Wealth	• Provides holistic advice to individuals to help them and their families achieve lifetime financial security, and live healthier lives, leveraging a broad suite of life and health insurance and investment products • Products distributed via multi-channel distribution model consisting of the SLFD, third-party channels, including independent brokers and broker-dealers, and direct to consumer for certain products	• 2nd place market position by premiums within the individual life and health market and 2nd place for Individual Critical Illness Insurance based on premiums[1] • 1st in fixed product sales[1] and 4th place market position by total wealth deposits and premiums[1]
Group Benefits	• Provides group insurance products in Canada, including life, dental, extended health care, disability and critical illness, to employers of all sizes • Leverages our worksite advantage to offer voluntary benefits solutions to individual plan members, including post-employment life and health plans • Products distributed by sales representatives in collaboration with independent advisors, benefits consultants and the SLFD	• 1st place group benefits provider in Canada for the 8th consecutive year[2]
Group Retirement Services	• Provides defined contribution pension plans and defined benefit solutions in Canada to employers of all sizes • Leverages our worksite advantage to offer voluntary savings plans, including post-employment plans, to those members exiting their employer-sponsored plans • Defined Benefit Solutions offers an expanding range of innovative de-risking solutions for defined benefit pension plans • Products distributed by sales representatives in collaboration with a multi-channel distribution network of pension consultants and advisors	• GRS ranked 1st in the defined contribution market based on total Capital Accumulation Plan assets for the 18th consecutive year[3] and ranked 1st in the defined benefit solutions annuity market[1]

(1) LIMRA Market Share as of third quarter 2020, on a year-to-date basis.
(2) Based on revenue for year ended December 2019 from 2020 Group Benefits Provider Report.
(3) Fraser Pension Universe Report (based on year-ended December 2019).

Financial and Business Results

($ millions)	**2020**	2019
Individual Insurance & Wealth	**36**	282
Group Benefits	**422**	253
Group Retirement Services	**259**	348
Reported net income	**717**	883
Less: Market-related impacts[1]	**(392)**	(111)
Assumption changes and management actions[1]	**32**	(17)
Other adjustments[1][2]	**4**	(1)
Underlying net income[3]	**1,073**	1,012
Reported ROE (%)[3]	**9.8 %**	12.6 %
Underlying ROE (%)[3]	**14.7 %**	14.4 %
Insurance sales[3]	**779**	988
Wealth sales[3]	**19,938**	16,114
Assets under management[3]	**220,531**	199,840

(1) Represents an adjustment made to arrive at a non-IFRS measure. See section L - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.
(2) Mainly comprised of certain hedges in Canada that do not qualify for hedge accounting and acquisition, integration and restructuring costs. For further information, see section L - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.
(3) Represents a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document.

Profitability

Canada's reported net income decreased by $166 million or 19% in 2020 compared to 2019, reflecting unfavourable market-related impacts, partially offset by favourable ACMA impacts. Market-related impacts included unfavourable equity market impacts and changes in the fair value of investment properties, partially offset by favourable interest rate impacts. Underlying net income increased by $61 million or 6%, driven by business growth, favourable results in GB, and higher investing activity. These factors were partially offset by unfavourable expense experience, lower net investment returns on surplus, unfavourable credit experience and the impact of tax matters that were favourable in 2019. Favourable GB experience was driven by lower dental and paramedical claims experience, net of Client credits and rebates, and improved disability experience, partially offset by the impacts of ASO expense experience.

Growth

Canada insurance sales in 2020 decreased compared to 2019. Individual insurance sales were $358 million in 2020, a decrease of $31 million or 8% compared to 2019, reflecting lower life insurance sales. Sales in GB were $421 million in 2020, a decrease of $178 million or 30% compared to 2019, reflecting lower large case sales and lower market activity.

Canada wealth sales increased by $3.8 billion or 24% in 2020 compared to 2019. Individual wealth sales were $7.5 billion in 2020, an increase of $1.1 billion or 17% compared to 2019, driven by increased mutual fund and guaranteed product sales. GRS sales were $12.5 billion in 2020, an increase of $2.7 billion or 28% compared to 2019, driven by higher large case sales.

One of our key initiatives is to continue growing our individual wealth manufactured products, including SLGI mutual funds and Sun GIF[1] segregated funds. AUM for our wealth businesses, including GRS, was $150.8 billion as at December 31, 2020, an increase of $14.2 billion or 10% compared to December 31, 2019, driven by improved markets and net inflows.

Profitability and Growth by Business Unit

Individual Insurance & Wealth

Individual Insurance & Wealth's reported net income decreased by $246 million or 87% in 2020 compared to 2019, reflecting unfavourable market-related impacts, partially offset by higher investing activity and business growth.

Individual life and health insurance product sales were $358 million in 2020, a decrease of $31 million or 8% compared to 2019. As noted above, the decrease reflects lower life insurance sales. Individual wealth product sales were $7.5 billion in 2020, an increase of $1.1 billion or 17% compared to 2019, driven by increased mutual fund and guaranteed product sales

Group Benefits

GB's reported net income increased by $169 million or 67% in 2020 compared to 2019, driven by favourable morbidity experience related to lower dental and paramedical claims experience, net of Client credits and rebate, and improved disability experience. The change in reported net income was also driven by favourable ACMA impacts and business growth, partially offset by the impacts of ASO expense experience.

GB sales were $421 million in 2020, a decrease of $178 million or 30% compared to 2019, reflecting lower large case sales and lower market activity.

Group Retirement Services

GRS's reported net income decreased by $89 million or 26% in 2020, compared to 2019, reflecting unfavourable credit experience and unfavourable ACMA and market-related impacts, partially offset by business growth.

GRS sales were $12.5 billion in 2020, an increase of $2.7 billion or 28% in 2020 compared to 2019, driven by higher large case sales. Assets under administration was $125.9 billion as at December 31, 2020, an increase of $13.8 billion or 12% compared to December 31, 2019 driven by improved market movement and net inflows.

2. U.S.

Our U.S. business group is one of the largest group benefits providers in the U.S. market, serving employees and their families at more than 55,000 workplaces of all sizes across the country with employer-sponsored insurance products and solutions. In addition, our U.S. business manages an in-force block of approximately 100,000 individual life insurance policies.

Business Units	
• **Group Benefits**	• **In-force Management**

2020 Highlights

Growing our business

- Our total Group Benefits sales of US$1.1 billion reached a new high, increasing 6% over 2019, driven by growth in employee benefits reflecting the demand for our digital and virtual capabilities, our Client-centric response to COVID-19, and new product releases.
- Business-in-force as of December 31, 2020 was up 6% over the previous year, driven by continued strong performance in our stop-loss business where business-in-force reached US$2.2 billion, advancing our position as the largest independent medical stop-loss provider in the U.S.
- Generated sales for each of the three new turnkey FullscopeRMS businesses that launched in 2019, signing new health plan and insurance partners for stop-loss, supplemental health and absence management offerings.
- On-boarded the first Clients to our new integrated disability claim and absence management system, which provides enhanced digital and reporting capabilities for employers, real-time data, and a single point of contact for members throughout their leaves to simplify the claims process.
- Expanded and renewed our partnership with the largest U.S. program manager of disability and life benefits for health care practices, continuing Sun Life's position as their exclusive provider of customized life and disability solutions.

Enhancing our digital assets

- Launched flexible, virtual options to enroll members for Sun Life benefits on any device and made several enhancements to our Maxwell Health digital benefits platform, including text messaging and live chat features and additional integration for employee payroll deductions. These digital tools allowed us to manage 100% of Client enrollments virtually throughout the pandemic, contributed to a 13% overall increase in employee benefits sales for the year and more than tripled the active employees on the Sun Life + Maxwell Health platform compared to year-end 2019.
- Built connectivity with a widely-used HR information system that removes manual processes and provides real-time data, a key driver of new sales in 2020, and formed additional partnerships to develop similar connections with more benefits platforms.

(1) Sun Life Guaranteed Investment Funds ("Sun GIF")

- Made it easier for Clients to interact with us virtually during the pandemic, such as adding e-signatures to online disability claims submission, and hosting 31 webinars for more than 44,000 Clients and brokers on regulatory changes related to the pandemic, Sun Life digital capabilities, and mental health support.

Supporting our Clients by filling coverage gaps
- Introduced a new hospital indemnity product, a supplemental health coverage that gives members cash payments to cover out-of-pocket health insurance costs.
- Eased financial burdens for Clients during the pandemic by providing extra time to make premium payments, providing dental premium credits, temporarily waiving Maxwell Health platform fees, adding COVID-19 coverage to our critical illness policies, and extending timelines to help temporarily laid-off or furloughed members keep their benefits coverage.
- Allowed self-funded employers to change their underlying health plans without affecting their stop-loss protection or rates during the pandemic and launched three COVID-19 stop-loss products that include coverage for outbreaks at an employer's workplace.

Strategy and Outlook

In the U.S., we continue to execute core strategies to achieve our goal of building the best benefits company in America. Our early adoption and expansion of digital and virtual assets served us well during the pandemic, as the importance of these capabilities has increased dramatically with employers and members. We are enhancing these capabilities and adding new solutions to serve our Clients as they adjust to a new way of working.

We continue to focus on closing our members' insurance coverage gaps through our life, disability, absence management, dental, vision, voluntary, and supplemental health offerings. We are also helping self-funded employers and health plans solve for rising health care costs through our leading medical stop-loss business, and we are well-positioned to expand into complementary areas in the health care space where we can deliver unique value due to our strong market position and expertise. We also continue to build diversity and equity in our talent and support high employee engagement and an effective work environment, enabling an inclusive and innovative culture that executes our priorities and better serves our Clients. Our strategy goes to the heart of our Purpose of helping our Clients achieve lifetime financial security and live healthier lives.

Boost the digital experience and make it easier to do business with us
- Drive digital expansion through new capabilities, partnerships and infrastructure to deliver predictive and personalized analytics to help members make decisions that are right for them, while providing better service, efficiencies and deeper insights.
- Expand our clinical approach to long-term disabilities by developing new practices and insights into medical conditions to help identify more members who can return to work to work with appropriate supports.
- Advance our national accounts capabilities, delivering integrated absence management and a comprehensive end-to-end high touch service model.

Help members close coverage gaps and select the right benefits
- Continue to innovate through our Maxwell Health platform, providing an intuitive, digital benefits experience using data to drive proactive outreach and to recommend coverage options for Clients.
- Expand our voluntary and supplemental health offerings with simple support tools that guide employees as their needs evolve.
- Help employers to meet the requirements of federal and state leave laws and to give more Americans access to paid leave.
- Drive more growth in FullscopeRMS by leveraging the recently expanded suite of turnkey solutions for insurance company and health plan partners.

Help employers manage rising health care costs through our medical stop-loss business
- Continue to provide industry-leading expertise and innovative risk management solutions while enhancing our offerings to better serve all market segments.
- Extend into new areas of health care that are complementary to our core business, which will allow us to integrate medical cost management with our stop-loss product to help improve health outcomes.
- Leverage our data and analytics capabilities to identify opportunities and new solutions to reduce health care expenses and control pharmacy costs for Clients.

Optimize the value of our In-force Management business
- Continue to provide excellent service to our individual insurance policy-owners.
- Evaluate opportunities to improve profitability, including expense efficiencies and alternative investment strategies.
- Effectively manage risk and capital through reinsurance and via product offerings for converting or maturing policies.

Outlook

The COVID-19 pandemic has presented both challenges and opportunities. It has accelerated the adoption of digital capabilities and virtual interactions, as well as heightened the awareness of the need for insurance protection. We were well-positioned to help our Clients address these issues in 2020, successfully deploying a virtual distribution model and advancing our digital platforms, and expanding our product features. Going forward, we will continue to invest in digital capabilities and enhance our products to better serve our Clients in the new environment. We will continue to address the challenges resulting from the pandemic, such as unfavorable group life mortality and unemployment rates, which may put pressure on revenues and possibly disability claims incidence rates. Both the pandemic and the new U.S. administration create the possibility for new regulation which could present a mix of tailwinds and headwinds. We are also monitoring possible changes to key areas impacting our business, such as the potential introduction of a federally mandated paid family and medical leave program, modifications to the Affordable Care Act, and changes to corporate tax rates.

The health insurance market continues to grow at a faster pace than the overall group benefits market due to medical inflation and increasing demand. We are leveraging our leadership position and deep expertise to help self-funded employers manage health care costs and improve outcomes, as well as helping members fill gaps in health insurance coverage with our supplemental health products.

Business Units

Business	Description	Market position
Group Benefits	• Provides group insurance products and services, including life, long-term and short-term disability, absence management, medical stop-loss, dental, vision, voluntary and supplemental health insurance such as hospital indemnity, accident and critical illness • Stop-loss insurance provides employers who self-insure their employee health plans with protection against large claims • Products distributed through more than 31,000 independent brokers and benefits consultants, supported by approximately 190 employed sales representatives • Serves more than 55,000 employers in small, medium and large workplaces across the U.S. • FullscopeRMS, provides turnkey solutions for disability, absence management, stop-loss and supplemental health coverages and capabilities including underwriting services, claims administration, product development, actuarial and policy administration	• Largest independent medical stop-loss provider[1] • Largest turnkey disability provider[2] • One of the largest preferred provider organization ("PPO") dental networks with 130,000 unique dentists[3] • Top ten group life and disability and benefits provider[4]
In-force Management	• Provides approximately 100,000 individual life insurance policies, primarily universal life and participating whole life insurance	

[1] Ranking compiled by Sun Life based on data contained in the 2019 Accident and Health Policy Experience Report from the National Association of Insurance Commissioners ("NAIC"). An independent stop-loss carrier is defined as a stop-loss carrier that does not also sell medical claim administration services.
[2] Based on annual 2019 NAIC Accident and Health Policy Experience Report and DRMS market expertise.
[3] Based on unique dentist count from Zelis Network Analytics data as of September 2020. Nationwide counts are state level totals.
[4] Based on LIMRA 2019 Annual U.S. Sales & In-Force Reports for group term life, group short-term disability and long-term disability insurance.

Financial and Business Results

(US$ millions)	**2020**	2019
Group Benefits	**331**	187
In-force Management	**(140)**	(65)
Reported net income (loss)	**191**	122
Less: Market-related impacts[1]	**6**	(40)
Assumption changes and management actions[1]	**(236)**	(221)
Acquisition, integration and restructuring[1]	**(4)**	(16)
Underlying net income (loss)[2]	**425**	399
Reported ROE (%)[2]	**6.9 %**	4.5 %
Underlying ROE (%)[2]	**15.3 %**	14.7 %
After-tax profit margin for Group Benefits (%)[2][3]	**8.0 %**	7.3 %
Insurance sales[2]	**1,102**	1,043
(C$ millions)		
Reported net income (loss)	**257**	163
Underlying net income (loss)[2]	**568**	532

[1] Represents an adjustment made to arrive at a non-IFRS measure. See section L - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.
[2] Represents a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document.
[3] Based on underlying net income, on a trailing four-quarter basis, and which is described in section L - Non-IFRS Financial Measures in this document.

Profitability

U.S.'s reported net income increased by US$69 million ($94 million) or 57% (58%) in 2020 compared to 2019, driven by favourable market-related impacts predominantly from changes in interest rates, and lower integration costs, partially offset by unfavourable ACMA impacts. Underlying net income increased by US$26 million ($36 million) or 7% (7%), driven by favourable morbidity experience in employee benefits and medical stop-loss, higher investing activity, business growth and higher available-for-sale ("AFS") gains, partially offset by unfavourable mortality, credit and expense experience. The impacts of foreign exchange translation increased reported net income and underlying net income by $4 million.

The trailing four-quarter after-tax profit margin for Group Benefits was 8.0% as of the fourth quarter of 2020, compared to 7.3% as of the fourth quarter of 2019.

Growth

U.S. insurance sales increased by US$59 million or 6% in 2020 compared to 2019, driven by growth in employee benefits reflecting the demand for our digital and virtual capabilities, our Client-centric response to COVID-19, and new product releases. Business in-force as of December 31, 2020 was up 6% over the previous year, driven by continued strong performance in our stop-loss business where business in-force reached US$2.2 billion, advancing our position as the largest independent provider of medical stop-loss in the U.S.

Profitability by Business Unit

Group Benefits

Group Benefits' reported net income increased by US$144 million or 77% in 2020 compared to 2019, driven by favourable ACMA impacts and morbidity experience in employee benefits and medical stop-loss, business growth and lower integration costs, partially offset by unfavourable mortality experience.

In-Force Management

In-force Management's reported net loss was US$140 million, an increased loss of US$75 million in 2020 compared to 2019, reflecting unfavourable ACMA impacts, credit experience and expense experience, partially offset by favourable market-related impacts and higher investing activity.

3. Asset Management

Our Asset Management business group is comprised of MFS and SLC Management. MFS is a premier global asset management firm which offers a comprehensive selection of financial products and services that deliver superior value and actively manages assets for retail and institutional investors around the world. SLC Management is an institutional investment management business that delivers liability driven investing, alternative fixed income, infrastructure and real estate solutions to Clients, with operations around the world.

Business Units

- **MFS Investment Management**
- **SLC Management**

2020 Highlights

- We ended 2020 with $882.5 billion in assets under management consisting of $776.8 billion (US$610.2 billion) from MFS and $105.6 billion from SLC Management.

MFS

- MFS experienced total net inflows of $13.1 billion in 2020 driven by strong retail flows.
- Strong long-term investment performance of MFS's U.S. retail mutual fund assets, which ranked in the top half of their Morningstar[(1)] categories based on ten-, five- and three-year performance, with 97%, 95% and 94%, respectively, as at December 31, 2020. Based on ten-, five- and three-year performance respectively, 83%, 88% and 79% of MFS's U.S. mutual funds ranked in the top half of their Lipper[(1)] categories.
- Fixed income gross sales were up 41% in 2020 over the previous year.

SLC Management

- We completed the acquisition of the majority stake in InfraRed, a global infrastructure and real estate investment manager. As a leader in global infrastructure investing including renewable energy, InfraRed will broaden SLC Management's suite of alternative investment solutions while also creating the opportunity for InfraRed to access North American investors through our distribution networks. The transaction includes the ability to acquire the remaining 20% interest of InfraRed in the future.
- On January 5, 2021, we completed our acquisition of a majority stake of Crescent, a U.S.-based global alternative credit investment manager. Total cash consideration of $308 million (US$241 million) was paid, which includes our portion of the net liabilities in Crescent of $60 million (US$47 million). The agreement includes the ability to acquire the seller's outstanding shares in Crescent and a contingent consideration payment of up to $79 million (US$62 million), based on the achievement of certain milestones. In addition, the sellers have the option to require us to purchase their outstanding shares. The initial recognition of the put option liability is expected to reduce Total shareholders' equity by approximately $175 million. Crescent is a part of our Asset Management business segment. The acquisition extends SLC Management's solutions in alternative credit, which will benefit existing and prospective Clients. Crescent has more than 180 partners and employees and approximately $39.1 billion in AUM (US$30.7 billion), as at December 31, 2020.
- We received recognition for our achievements in sustainable investing. SLC Management's fixed income business and InfraRed both received high ratings from the Principles for Responsible Investment organization for strategy and governance while BentallGreenOak ("BGO") was the recipient of The Canadian Green Building Council's national Green Building Pioneer Award for its innovative approach to delivering climate change resilience strategies for its commercial real estate portfolio. Also in 2020, SLC Management joined Climate Action 100+ to advocate for actions and disclosures on climate related risks aligned with the Financial Stability Board's Task Force on Climate-Related Financial Disclosures ("TCFD").

Strategy and Outlook

Our strategy is to design and deliver investment products through MFS and SLC Management that will deliver growth in traditional active asset management as well as LDI and alternative asset classes. MFS competes primarily in the global institutional, U.S. retail and select non-U.S. retail markets. SLC Management leverages Sun Life's long-standing expertise in LDI and private asset class investments, augmented by the specialized capabilities obtained through our recent acquisitions, to offer customized investment solutions to third-party institutional investors.

(1) Both Lipper and Morningstar are financial service firms that provide independent analytics on mutual funds. There can be slight differences in how each firm defines relative peer groups for these analytics. MFS's U.S. Mutual Funds Board has transitioned to using Morningstar as their primary benchmark for evaluation, effective 2020.

MFS: Continue to deliver superior investment performance while allocating capital responsibly for our Clients

MFS's active management strategy focuses on delivering value to our Clients over the long term. Our strong relative performance puts us in a competitive position over other asset managers:

- With increasing market volatility and a successful track record, MFS is well-positioned to attract flows from all Client sectors that are seeking risk-managed capital appreciation over the long term based on our disciplined, long-term approach. We are engaging Clients to align with MFS on longer investment horizons, to leverage our proven ability to deliver over benchmark performance through a market cycle.
- Our leadership on ESG which is embedded in our overall investment approach of allocating capital responsibly on behalf of our clients.
- Build out institutional fixed income product and sales capabilities, and broaden our non-U.S. retail initiatives.
- MFS strives to maintain margins in the top quartile of active managers' margins while maintaining our commitment to provide long-term value to Clients.

SLC Management: Help institutional investors meet their goals by offering a broad suite of alternative asset classes and fixed income strategies

We are well-positioned to take advantage of three key trends in our target markets through:

- Increased demand for investment alternatives due to low nominal interest rates.
- Outsourcing of asset management by insurance companies, and
- Consolidation of investment manager relationships by institutional investors.

Our strategy is to continue to deliver superior investment performance and to expand our distribution capabilities and product lineup with offerings that leverage our broad range of alternative asset and fixed income investment capabilities. We offer our Clients a compelling suite of solutions, including:

- Income-related and total return capabilities across key asset classes including public and private fixed income.
- Deep real estate equity and debt expertise.
- Global infrastructure and alternative credit investment opportunities.
- Differentiated portfolio strategies.

Outlook

We will continue to see industry consolidation in the asset management industry as changes are driving clients and platforms to consolidate assets into fewer investment firms. Within this context, we believe that we have the scale, proven long-term track records and broad product portfolios to take advantage of this opportunity to gain market share.

Active asset management businesses are facing headwinds as demand for passive and alternative strategies grows faster than the overall market, as well as slow downward pressure on fees, from technology, new market entrants, regulation and increased transparency. To address these headwinds, we will continue to position our active asset manager to serve the large pool of alpha-seeking assets in both the retail and institutional markets, bringing our scale, and proven track record to the service of our global Clients. We will leverage our data analytics capabilities to continue to improve our distribution capabilities. Even with some investors choosing a passive strategy, as a well-positioned and skilled active manager we will have the opportunity to grow. We expect the industry to continue to consolidate and believe this will provide sales opportunities to MFS as a top-tier asset manager.

SLC Management predominantly earns investment management fee income based upon Clients' assets under management which are impacted by market conditions and Client asset allocations. In a low yield environment, our Clients are increasingly looking for strategies that best match the liability profile of their business, support their investment goals, and that offer additional yield and return. We meet these needs through an array of fixed income strategies and alternative assets including real estate and infrastructure equity. These strategies are often consistent with our own approach for managing the general account of Sun Life Financial, resulting in an alignment of interests with our Clients, enabling opportunities for co-investing. Despite the challenging environment faced this year as a result of COVID-19, we continued to leverage opportunities to establish new Client relationships and to launch new products.

Business Units

Business	Description	Market position
MFS	• Actively manages assets for retail and institutional investors, including pension plans, sovereign wealth funds, monetary authorities, and endowments and foundations • Retail products are distributed through financial advisors, brokerages and other professionals • Institutional products are distributed by an internal sales force, which is aided by a network of independent consultants	• Over US$610 billion in AUM • The 11th largest U.S. Retail funds manager(1)
SLC Management	• SLC Management delivers LDI, alternative fixed income, real estate and infrastructure solutions to Clients through a portfolio of companies, including: • BGO, a global real estate investment manager • SLC Management (U.S.), a U.S. institutional asset manager specializing in customized fixed income portfolio and LDI for U.S. insurance companies and pension plans • SLC Management (Canada), a Canadian institutional asset manager that provides investment expertise in alternative asset classes and LDI to pension funds and other institutional investors • InfraRed Capital Partners, a global infrastructure and real estate investment manager headquartered in London, UK • Institutional products are distributed by an internal sales force, which is aided by a network of independent consultants	• Over $105 billion in AUM

(1) As reported by Strategic insight based on AUM as at December 31, 2020.

Financial and Business Results

Asset Management (C$ millions)	2020	2019
Reported net income	**980**	897
Less: Fair value adjustments on MFS's share-based payment awards[1]	**(92)**	(64)
Acquisition, integration and restructuring[1][2]	**(56)**	(43)
Underlying net income[3]	**1,128**	1,004
Assets under management (C$ billions)[3]	**882.5**	768.8
Gross sales (C$ billions)[3]	**190.0**	134.5
Net sales (C$ billions)[3]	**17.2**	(12.2)
MFS (C$ millions)		
Reported net income	**942**	909
Less: Fair value adjustments on MFS's share-based payment awards[1]	**(92)**	(64)
Underlying net income[3]	**1,034**	973
Assets under management (C$ billions)[3]	**776.8**	684.8
Gross sales (C$ billions)[3]	**178.3**	125.0
Net sales (C$ billions)[3]	**17.7**	(15.8)
MFS (US$ millions)		
Reported net income	**704**	685
Less: Fair value adjustments on MFS's share-based payment awards[1]	**(70)**	(48)
Underlying net income[3]	**774**	733
Pre-tax net operating profit margin ratio[3]	**39 %**	39 %
Average net assets (US$ billions)[3]	**525.4**	484.0
Assets under management (US$ billions)[3][4]	**610.2**	527.4
Gross sales (US$ billions)[3]	**132.8**	94.2
Net sales (US$ billions)[3]	**13.1**	(11.8)
Asset appreciation (depreciation) (US$ billions)	**69.7**	110.8
S&P 500 Index (daily average)	**3,218**	2,914
MSCI EAFE Index (daily average)	**1,853**	1,892
SLC Management (C$ millions)		
Reported net income	**38**	(12)
Less: Acquisition, integration and restructuring[1][2]	**(56)**	(43)
Underlying net income[3]	**94**	31
Assets under management (C$ billions)[3]	**105.6**	84.0
Gross sales (C$ billions)[3]	**11.7**	9.5
Net sales (C$ billions)[3]	**(0.5)**	3.6

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

(2) Amounts relate to acquisition costs for the acquisition of our majority stake in BGO ("BGO acquisition") and the InfraRed acquisition, which includes the unwinding of the discount for the Other financial liabilities of $47 million and $16 million for 2020 and 2019, respectively.

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

(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's U.S. GAAP assets and liabilities as at December 31, 2020.

Profitability

Asset Management's reported net income increased by $83 million or 9% in 2020 compared to 2019, driven by the change in underlying net income of $124 million, partially offset by higher fair value adjustments on MFS's share-based payment awards and higher acquisition and integration costs in SLC Management. Underlying net income increased driven by results from the BGO and InfraRed acquisitions, and higher average net assets ("ANA") in MFS and an increase in performance fees in SLC Management, partially offset by changes in net investment returns in MFS. The impacts of foreign exchange translation increased reported net income and underlying net income by $9 million and $10 million, respectively.

Growth

Asset Management's AUM increased by $113.7 billion or 15% as at December 31, 2020 compared to December 31, 2019, primarily driven by asset appreciation of $98.1 billion, net inflows of $17.2 billion and an increase in AUM of $16.3 billion from the InfraRed acquisition, partially offset by the impacts of foreign exchange translation of $21.5 billion.

Profitability and Growth by Business Unit

MFS

In U.S. dollars, MFS's reported net income increased by US$19 million of 3% in 2020 compared to 2019, driven by the change in underlying net income of US$41 million, partially offset by higher fair value adjustments on MFS's share-based payment awards. Underlying net income increased driven by higher ANA, partially offset by changes in net investment returns and higher sales expenses.

MFS's AUM increased by US$82.8 billion or 16% as at December 31, 2020 compared to December 31, 2019, primarily driven by asset appreciation of US$69.7 billion and net inflows of US$13.1 billion.

SLC Management

SLC Management's reported net income was $38 million in 2020 compared to reported net loss of $12 million in 2019, driven by the change in underlying net income of $63 million, partially offset by higher acquisition and integration costs related to the BGO and InfraRed acquisitions. Underlying net income increased driven by results from the BGO and InfraRed acquisitions, and the increase in performance fees, partially offset by losses on real estate designated for seed investments.

SLC Management's AUM increased by $21.6 billion or 26% as at December 31, 2020 compared to December 31, 2019, primarily driven by the InfraRed acquisition of $16.3 billion, asset appreciation of $4.0 billion and other items of $3.5 billion, partially offset by the impacts of foreign exchange translation of $1.7 billion and net outflows of $0.5 billion.

4. Asia

Our Asia segment consists of two business units: Local Markets and International Hubs. Our Local Markets operates in six Asian markets, delivering value to over 23 million Clients by providing life, health, wealth and asset management solutions through a multi-channel distribution approach. The International Hubs offers leading insurance and wealth products, including high-net-worth solutions in Hong Kong and via our International business. Our Asia presence provides us with a strong foothold to take advantage of the high growth prospects in the region.

Business Units

- **Local Markets**
- **International Hubs**

2020 Highlights

Growth in scale and distribution

- We ended 2020 with $61.5 billion in total AUM in our wealth and asset management businesses, including $19.3 billion from our Hong Kong Mandatory Provident Fund ("MPF") pension business, the second fastest growing MPF business[1], and third largest in terms of AUM.
- Expanded our agency distribution network substantially across Asia, with the total number of advisors reaching 138,000, up 12% since the end of 2019. This includes continued growth of our new proprietary agency channel in Malaysia, which reached 710 advisors, allowing us to better service local communities and meet the needs of Clients.
- In 2020, we launched our first exclusive bancassurance partnership in Vietnam with TPBank, which propelled our Vietnam business to nearly double its sales for the year versus 2019. We have now entered a second bancassurance partnership with Asia Commercial Joint Stock Bank, with sales beginning in January 2021.
- In Indonesia, we launched our first product as part of our expanded bancassurance partnership with Nobu National Bank in June. We also saw strong sales from our new sharia bancassurance partner, Bank Muamalat Indonesia, which was introduced at the end of 2019 and accounted for over 40% of our sharia sales in 2020.
- In the International Hubs business, we re-designed our product offering to better align with evolving Client demand, resulting in a revitalization of high-net-worth sales in 2020, and we established a new business in Singapore to meet the needs of high-net-worth Clients there, set to launch its first product in 2021. With this, we are extending our reach to eight Asian markets.

Strong execution on our digital transformation journey

- Client mobile applications and SunSmart, our digital end-to-end point-of-sales ("POS") tool, are now available in all Local Markets and Hong Kong, powering brighter Client experiences by being more personal, proactive and predictive across platforms.
- Rolled out virtual sales experiences in each of our markets. Clients and advisors across our businesses are now able to transact comfortably and securely, from application submission to digital signing, providing Clients with a quick and seamless experience, all without using paper or meeting face-to-face.
- Introduced Remote Online Medical Exam ("ROME") in the Philippines, where accredited health professionals perform online medical examinations for prospective Sun Life Clients applying for an insurance policy or a reinstatement, a first in the Philippines.
- Simplified premium payment options made it easier for Clients to do business with us. For example, in Vietnam Clients now have the option to pay premiums online, and in the Philippines we've introduced an expanded range of cashless payment options, which accounted for 79% of total payment transactions in 2020.

(1) Mercer MPF Market Shares Report, September 2020.

Strategy and Outlook

In order to achieve our ambitious growth objectives in earnings, value of new business and sales, we will need to grow scale in all of our markets, with world-class distribution capabilities and operational excellence powered by a Digital Enterprise, while investing in the right talent. Our areas of focus for Asia are to:

Build world-class distribution

- Extend our reach across channels and segments to serve the growing insurance markets in Asia and to help more Clients by offering a holistic, diversified product lineup, including expanding our health and wellness solutions, with targeted expansion in local markets.
- Deliver a multi-channel experience engaging Clients where, when and how they wish.
- Create a unique distribution differentiator in each market by rolling out the next phase of our Most Respected Advisor ("MRA") program to build elite distribution leaders.
- Continue to effectively collaborate with existing bancassurance partners and establish new bank relationships, in order to offer solutions to a wider range of Clients.
- Use data and analytics to drive advancement in Client retention, advisor productivity, recruitment and training and development, with a focus on distribution quality.

Transform our operations and business model

- Digitize our business and leverage common technology platforms to enhance the Client experience by making it easier to do business with us and ensure a seamless experience in all our markets in Asia.
- Better engage prospective and existing Clients by being more personal, proactive and predictive through the use of data and analytics.

Continue to build scale in each of our markets

- Achieve scale in each market and offer a holistic set of solutions to help our Clients achieve lifetime financial security and live healthier lives.
- To grow our scale, we will focus on both organic and inorganic approaches, which include opportunities that bring distribution capabilities and are accretive to Sun Life's earnings.

Outlook

We believe our diversified business, with a multi-country presence and multi-channel distribution, positions us to capture opportunities as they arise, and protects our business as a whole against adverse economic or regulatory cycles in any one market. We expect that the region's economic growth will continue, despite the uncertainties and short-term headwinds due to COVID-19, and that rapid wealth-creation, coupled with low penetration rates for insurance, will result in sustained growth across all of our distribution channels over the medium-term. In addition, we expect to continue to reach more Clients by expanding our high-quality agency force and diverse network of bancassurance partners. Furthermore, we feel confident that our market leading position in the global high-net-worth space will continue to generate value, including our new operation in Singapore, where we plan to launch our first product in 2021.

Competition and economic and geopolitical uncertainty continue to pose challenges to our businesses, and these are further intensified by the ongoing pandemic. However, our steadfast dedication to our Purpose and our Clients, strengthening market positions, key strategic relationships, investments in digital & analytics and our ability to leverage Sun Life's global expertise position us well for the future. As local governments continue to download responsibilities in both the retirement and health spaces, we are well-equipped to offer current and prospective Clients a diverse range of sound solutions.

Business Markets

Business	Description	Market Position
Local Markets		
Philippines[1]	• Individual and group life and health insurance products to individuals and businesses through a multi-channel distribution network • Mutual funds to individual and institutional Clients through agency, brokerage, bancassurance and digital partners	• #1 ranked insurance company[2] • 2nd largest mutual fund operation in the country[3]
Indonesia	• Individual life and health insurance and creditor life insurance through agency, telco arrangements and bancassurance, including a bancassurance partnership with CIMB Niaga, the 5th largest bank in the country	• Ranked in the Top 10 overall[4]
Vietnam	• Individual insurance and pensions distributed through agency, corporate sales, and digital distribution channels and partnerships including a bancassurance agreement with TPBank, a digital leader in Vietnamese banking, and a partnership with ACB	• Ranked in the Top 15 overall[5]
Malaysia[6]	• Individual and group insurance through banks and telco arrangements, including an exclusive bancassurance agreement with CIMB Bank, Malaysia's 2nd largest bank, and a growing agency force	• 4th in bancassurance sales[7]
India[8]	• Individual and group insurance, savings and retirement products through agency, brokerage and bancassurance channels • Mutual fund products to both individual and institutional investors through independent financial advisors, banks, and direct distribution channels	• 7th largest life insurance company in India[9] • 4th largest mutual fund operation in the country[10]
China[11]	• Individual and group life and health insurance and savings products distributed through agency, brokerage, bancassurance and digital channels • Institutional asset management, passive third-party asset management and debt financing business through direct distribution	• Top 10 life insurance company in China among multinationals[12]
International Hubs		
Hong Kong	• MPF and pension administration to individuals and businesses through agency and brokerage distribution • Individual and group life and health insurance to individuals and businesses through agency and brokerage distribution	• 3rd largest provider based on AUM, 2nd based on net inflows[13] • Top 10 in Agency for Life Insurance[14]
International	• Individual life insurance solutions for high-net-worth individuals and families residing outside the U.S. and Canada • Manages a block of International wealth investment products closed to new sales	• A leader in international high-net- worth life insurance business

(1) Philippines: Includes a joint venture with the Yuchengco Group - Sun Life Grepa Financial, Inc. (49%).
(2) Insurance Commission of the Philippines, based on third quarter 2020 year-to-date total premium income for Sun Life of Canada (Philippines).
(3) Philippine Investment Funds Association, based on October 2020 year-to-date ending AUM.
(4) Indonesia Life Insurance Association industry report, based on third quarter 2020 year-to-date first year premiums.
(5) October 2020 year-to-date annualized first year premiums based on data shared among industry players.
(6) Malaysia: Joint ventures with Khazanah Nasional Berhad and CIMB Group Holdings Berhad - Sun Life Malaysia Assurance Berhad (49%), Sun Life Malaysia Takaful Berhad (49%).
(7) Life Insurance Association of Malaysia and Insurance Services Malaysia Berhad, based on the third quarter 2020 year-to-date annualized first year premium for conventional and takaful business.
(8) India: Joint ventures with the Aditya Birla Group - Aditya Birla Sun Life Insurance Company Limited (49%), Aditya Birla Sun Life Asset Management Company Limited ("Aditya Birla Sun Life AMC Limited") (49%).
(9) Insurance Regulatory Authority of India, based on November 2020 year-to-date first year premiums among private players.
(10) Association of Mutual Funds in India, based on average AUM for the quarter ended December 31, 2020.
(11) China: Joint ventures with the China Everbright Group: Sun Life Everbright Life Insurance Company Limited (24.99%), Sun Life Everbright Asset Management Co., Ltd (24.74%).
(12) China Insurance Regulatory Commission, based on gross premiums for the third quarter 2020 year-to-date (excluding universal and variable universal life insurance deposits and pension companies).
(13) Mercer MPF Market Shares Report, September 2020.
(14) Insurance Authority of Hong Kong, Provisional Statistics on Hong Kong Long Term Insurance Business, based on third quarter 2020 year-to-date annualized first year premiums.

Financial and Business Results

($ millions)	**2020**	2019
Local Markets[1][2]	**265**	339
International Hubs[1][2]	**329**	181
Reported net income	**594**	520
Less: Market-related impacts[3]	**(77)**	(66)
Assumption changes and management actions[2]	**99**	37
Acquisition, integration, restructuring [3]	**(7)**	(1)
Underlying net income[4]	**579**	550
Reported ROE (%)[4]	**10.1 %**	9.5 %
Underlying ROE (%)[4]	**9.8 %**	10.0 %
Insurance Sales[4]	**1,263**	1,154
Wealth Sales[4]	**10,937**	8,373

[1] Prior to the first quarter of 2020, these business units were referred to as Insurance and Wealth, and International, respectively, in our Interim and Annual MD&A. Effective the first quarter of 2020, Insurance and Wealth was renamed to Local Markets and we combined our International business and Hong Kong business into a new management structure called "International Hubs". We have updated prior period amounts to reflect this change in presentation.
[2] Local Markets is comprised of Philippines, Indonesia, India, China, Malaysia and Vietnam. International Hubs is comprised of International and Hong Kong.
[3] Represents an adjustment made to arrive at a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.
[4] Represents a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document.

During the first quarter of 2020, we combined our International business and Hong Kong business into a new management structure called "International Hubs", to leverage the high-net-worth opportunities in Asia and offer our Clients and distribution partners best-in-class product and service offerings across all geographies.

Profitability

Asia's reported net income increased by $74 million or 14% in 2020 compared to 2019, primarily driven by favourable ACMA impacts. Underlying net income increased by $29 million or 5%, driven by higher new business gains, favourable expense experience, business growth and favourable morbidity experience, partially offset by less favourable credit experience and an AFS impairment of $20 million related to an investment in a fund managed by our joint venture in India. The impacts of foreign exchange translation increased reported net income and underlying net income by $18 million.

Growth

Excluding the favourable impacts of foreign exchange translation, Asia insurance sales increased by 8% in 2020 compared to 2019. Individual insurance sales were $1,222 million, an increase of 9%, driven by International Hubs, partially offset by the Philippines as a result of the impact of COVID-19.

Excluding the favourable impacts of foreign exchange translation, Asia wealth sales increased by 30% in 2020 compared to 2019, driven by growth in all markets.

Profitability by Business Unit and Growth by Business Market

Local Markets

Local Markets' reported net income decreased by $74 million or 22% in 2020 compared to 2019, reflecting less favourable ACMA impacts and an AFS impairment of $20 million related to an investment in a fund managed by our joint venture in India, partially offset by favourable expense experience.

We continued to build our agency and alternate distribution channels, leverage a more balanced product portfolio and increase efficiency and productivity, while maintaining Client focus.

Philippines - On a local currency basis, individual insurance sales decreased by 24% in 2020 compared to 2019. Mutual and managed fund AUM was $3.3 billion as at December 31, 2020, an increase of 58% compared to 2019, measured in local currency, reflecting strong money market sales.

Agency headcount reached approximately 19,600 at the end of 2020, 6% lower than 2019 due to the complexities with licensing agents during COVID-19.

Indonesia - On a local currency basis, individual life insurance sales decreased by 13% in 2020 compared to 2019, with lower sales in the agency and telemarketing channels, partially offset by growth in the bancassurance channel.

Agency headcount was at approximately 5,300 in 2020, a reduction of 10% from the previous year-end, as a result of the impact of COVID-19 and our focus on quality.

Vietnam - On a local currency basis, individual insurance sales increased by 85% in 2020 compared to 2019, driven by the new bancassurance channel and growth in the agency channel.

Agency headcount was almost 6,400 at the end of 2020, 50% higher than 2019.

Malaysia - On a local currency basis, individual insurance sales decreased by 8% in 2020 compared to 2019, with lower sales in the bancassurance channel.

Malaysia's agency force was at 710 agents as at the end of 2020, 8% lower than 2019.

India - On a local currency basis, individual life insurance sales decreased by 5% in 2020 compared to 2019, with lower sales in the agency and broker channels, partially offset by growth in the bancassurance channel.

India's agency headcount reached 81,000 at the end of 2020, 8% higher than 2019.

On a local currency basis, gross sales of equity and fixed income funds increased by 24%.

Total AUM as at December 31, 2020 was $47.4 billion, of which $23.2 billion is reported in our AUM, in line with 2019.

China - On a local currency basis, individual insurance sales increased by 9% in 2020 compared to 2019, driven by growth in the agency and bancassurance channels.

Agency headcount reached 22,700 at the end of 2020, 69% higher than 2019.

International Hubs

International's reported net income increased by $148 million or 82% in 2020 compared to 2019, driven by favourable ACMA impacts, higher new business gains, business growth and favourable morbidity experience, partially offset by less favourable credit experience.

Hong Kong - On a local currency basis, individual insurance sales increased by 28% in 2020 compared to 2019, driven by growth in the broker channel, partially offset by the agency channel. AUM in our pension business reached $19.3 billion as at December 31, 2020, an increase of 31% compared to 2019, measured in local currency, and pension net flows increased by 2% compared to 2019.

Agency headcount decreased by 5% from 2019 to approximately 2,200 at the end of 2020.

International - On a constant currency basis, individual life insurance sales increased by 99% in 2020 compared to 2019, due to the competitive environment and market shifts in the first half of 2019.

5. Corporate

Corporate includes the results of our UK business and Corporate Support.

Business Units

Business	Description
UK	• UK has a run-off block of business consisting of approximately 517,000 in-force life and pension policies, with approximately £11 billion of AUM. Since December 2010, UK has been closed to new business and focuses on supporting existing Clients. Most administrative functions have been outsourced to external service providers which are managed by an in-house management team.
Corporate Support	• Corporate Support operations consist of the expenses, debt charges, investment income, capital and other items not allocated to Sun Life's other business segments, as well as the Company's Run-off reinsurance business. Coverage in our Run-off reinsurance business includes long-term care, medical coverage, and guaranteed minimum income and death benefit coverage. The block also includes group long-term disability and personal accident policies which are 100% retroceded.

Financial and Business Results

($ millions)	**2020**	2019
UK	**193**	379
Corporate Support	**(337)**	(224)
Reported net income (loss)	**(144)**	155
Less: Market-related impacts[1]	**—**	(2)
Assumption changes and management actions[1]	**39**	225
Acquisition, integration and restructuring[1]	**(48)**	(27)
Underlying net income (loss)[2]	**(135)**	(41)

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

Profitability

Corporate's reported net loss was $144 million in 2020 compared to reported net income of $155 million in 2019, reflecting less favourable ACMA impacts predominantly in the UK and higher restructuring costs in Corporate Support, related to various projects to simplify our organizational structure and drive efficiencies. Underlying net loss was $135 million, an increased loss of $94 million, reflecting unfavourable tax experience and unfavourable credit experience, partially offset by higher investing activity in the UK and higher earnings from the run-off businesses in Corporate Support. Unfavourable tax experience relates to an adjustment relating to the prior year's Canadian tax filings in 2020, and the impact of tax matters that were favourable in 2019. The impacts of foreign exchange translation decreased reported net loss by $3 million and decreased underlying net loss by $2 million.

Profitability by Business Unit

UK

UK's reported net income decreased by $186 million or 49% in 2020 compared to 2019, reflecting less favourable ACMA impacts and unfavourable credit experience, partially offset by higher investing activity.

Corporate Support

Corporate Support's reported net loss increased by $113 million or 50% in 2020 compared to 2019, reflecting unfavourable tax experience and higher restructuring costs, partially offset by higher earnings from the run-off businesses. Unfavourable tax experience relates to an adjustment relating to the prior year's Canadian tax filings in 2020, and the impact of tax matters that were favourable in 2019.

H. Investments

The Company strives to ensure that all general fund investments are properly aligned with business objectives including meeting policyholder obligations and maintaining adequate liquidity at all times. Consideration is given in our investment process to a wide range of factors, including ensuring attractive risk and return profiles, appropriate diversification by asset type, credit exposure and sector, financial condition and ESG profile of issuers and borrowers, quality and value of underlying security and macro- and micro-economic developments and trends including prospects for specific industry sectors. The Risk Committee of the Board of Directors ("Risk Committee") approves policies that contain prudent standards and procedures for the investment of our general fund assets. These policies include requirements, restrictions and limitations for interest rate, credit, equity market, real estate market, liquidity, concentration, currency, and derivative risks. Compliance with these policies is monitored on a regular basis and reported annually to the Risk Committee. The Governance, Investment & Conduct Review Committee of the Board of Directors monitors the Company's Investment Plan and investment performance, oversees practices, procedures and controls related to the management of the general fund investment portfolio, and reviews corporate governance guidelines and processes.

1. Investment Profile

We had total general fund invested assets of $177.9 billion as at December 31, 2020, compared to $161.6 billion as at December 31, 2019. The increase in general fund invested assets was primarily due to operating activities and net fair value growth from declining interest rates, partially offset by the unfavourable impacts of foreign exchange translation. Our general fund invested assets are well-diversified across investment types, geographies and sectors with the majority of our portfolio invested in fixed income high-quality assets.

Additional detail on our investments is provided in Note 5 and 6 of our 2020 Annual Consolidated Financial Statements.

The following table sets out the composition of our general fund invested assets:[1]

	December 31, 2020			December 31, 2019		
($ millions)	**Carrying value**	**Fair value**	**% of Total fair value**	Carrying value	Fair value	% of Total fair value
Cash, cash equivalents and short-term securities	**13,527**	**13,527**	**7 %**	9,575	9,575	6 %
Debt securities	**89,089**	**89,089**	**48 %**	81,606	81,606	50 %
Equity securities	**6,631**	**6,631**	**4 %**	4,787	4,787	3 %
Mortgages and loans	**49,946**	**56,231**	**31 %**	48,222	52,028	31 %
Derivative assets	**2,160**	**2,160**	**1 %**	1,548	1,548	1 %
Other invested assets - financial assets	**4,167**	**4,167**	**2 %**	3,829	3,829	2 %
Policy loans	**3,265**	**3,265**	**2 %**	3,218	3,218	2 %
Total financial assets	**168,785**	**175,070**	**95 %**	152,785	156,591	95 %
Investment properties	**7,516**	**7,516**	**4 %**	7,306	7,306	4 %
Other invested assets - non-financial assets	**1,611**	**1,611**	**1 %**	1,528	1,528	1 %
Total invested assets	**177,912**	**184,197**	**100 %**	161,619	165,425	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; however our mortgages and loans are generally carried at amortized cost. For invested assets supporting insurance contracts, in the event of default, if the amounts recovered are insufficient to satisfy the related insurance contract liability cash flows that the assets are intended to support, credit exposure may be greater than the carrying value of the assets.

Highlighted Exposures Arising from the COVID-19 Pandemic and Other Related items

As a leading international financial services organization, we have a well-diversified portfolio which is duration-matched to insurance contract liabilities and includes a variety of investment types spread across a broad range of sectors and geographies. As at December 31, 2020, our direct and indirect exposure to the industries most immediately affected by the COVID-19 pandemic includes oil & gas, transportation, hotels, restaurants & leisure, as well as office, retail, and multi-family residential property types. We are closely monitoring the impacts of the COVID-19 pandemic on our investment portfolio. Although the sectors noted below have been significantly impacted by the COVID-19 pandemic, other areas within our investments portfolio may also be adversely impacted by the pandemic.

Oil & Gas

As at December 31, 2020, our direct exposure to oil & gas through our debt securities and corporate loan holdings was approximately $5.5 billion or 3% of total invested assets and 96% were rated investment grade, including 67% rated BBB (as at December 31, 2019, $4.9 billion, of which 98% were rated investment grade, including 66% rated BBB)[1]. Approximately 58% of our oil & gas industry portfolio was invested in pipeline, storage and transportation entities, 15% was invested in integrated oil & gas, and the remaining portion was invested in companies involved in exploration and production, refining, and drilling & servicing, none of which exceeds 12% of our total oil & gas industry portfolio on an individual basis. This compared to approximately 58% and 12% as at December 31, 2019, respectively.

Our mortgage and real estate portfolios include office, industrial, retail, and multi-family buildings occupied by tenants in diversified industries. As at December 31, 2020, our indirect exposure to oil & gas through our mortgage and real estate holdings was approximately $2.2 billion[2], consisting of $1.1 billion of mortgages and $1.1 billion of real estate holdings. As a proportion of our total mortgage and real estate portfolios, our indirect exposures to oil & gas represents 7% and 15%, respectively.

Transportation

As at December 31, 2020, our direct exposure to transportation through our debt securities and corporate loan holdings was approximately $4.1 billion or 2% of total invested assets and 91% were rated investment grade, including 39% rated BBB (as at December 31, 2019, $3.6 billion of which 99% were rated investment grade, including 30% rated BBB)[1]. Of our $4.1 billion direct exposure, $2.3 billion or 56% are secured by collateral ($2.0 billion or 56% as at December 31, 2019). As at December 31, 2020, we do not have any significant direct or indirect exposure to aviation through our mortgage or real estate holdings, and have limited indirect exposure to auto through well-diversified mortgage and real estate holdings.

Hotels, Restaurants & Leisure

As at December 31, 2020, our direct exposure to hotels, restaurants & leisure through our debt securities and corporate loan holdings was approximately $1.1 billion or 1% of total invested assets and 81% were rated investment grade, including 47% rated BBB (as at December 31, 2019, $1.0 billion of which 99% were rated investment grade, including 59% rated BBB)[1]. Of our $1.1 billion direct exposure, $0.7 billion or 57% are secured by collateral ($0.6 billion or 62% as at December 31, 2019). As at December 31, 2020, we do not have any significant direct or indirect exposure to hotels through our mortgage or real estate holdings, and we have limited indirect exposure to restaurants & leisure through well-diversified mortgage and real estate holdings.

Office, Retail & Multi-Family Residential Property Types

As at December 31, 2020, we had exposure to office, retail, and multi-family residential property types through our uninsured commercial mortgage and investment property portfolios of $14.0 billion. Through our debt securities and corporate loan holdings, we had exposures of $2.4 billion of which 95% were rated investment grade, including 44% rated BBB (as at December 31, 2019, $2.5 billion, of which 100% were rated investment grade, including 43% rated BBB)[1]. Our holdings in these property types totaled $6.8 billion for office, $6.1 billion for retail, and $3.5 billion for multi-family residential properties representing 4%, 3%, and 2% of total invested assets, respectively.

Our mortgage portfolio is well-secured with a weighted average loan-to-value ratio of approximately 60% and a weighted average debt service coverage of 1.65 times as at December 31, 2020 (approximately 56% and 1.76 times, respectively, as at December 31, 2019). Our investment property portfolio is diversified across geographies and our tenants represent a broad range of industries.

(1) The credit risk ratings were established in accordance with the process described in this MD&A under the heading J - Risk Management - 9 - Risk Categories - Credit Risk Management Governance and Control.
(2) The indirect exposure from mortgages and real estate includes real estate holdings and uninsured mortgages in Alberta and Texas.

2. Debt Securities

Our debt securities portfolio is actively managed through a regular program of purchases and sales aimed at optimizing yield, quality and liquidity, while ensuring that it remains well-diversified and duration-matched to insurance contract liabilities. With the exception of certain countries where we have business operations, including Canada, the United States, the United Kingdom and the Philippines, our exposure to debt securities from any single country did not exceed 1% of total invested assets in our 2020 Annual Consolidated Financial Statements.

Debt Securities by Issuer and Industry Sector

	December 31, 2020		December 31, 2019	
($ millions)	**Total**	**% of Total**	Total	% of Total
Debt securities issued or guaranteed by:				
Canadian federal government	**6,489**	**7 %**	6,446	8 %
Canadian provincial and municipal government	**18,242**	**20 %**	14,965	18 %
U.S. government and agency	**2,475**	**3 %**	3,111	4 %
Other foreign government	**6,104**	**7 %**	5,917	7 %
Total government issued or guaranteed debt securities	**33,310**	**37 %**	30,439	37 %
Corporate debt securities by industry sector:[1]				
Financials	**11,856**	**13 %**	10,926	13 %
Utilities	**8,243**	**9 %**	7,258	9 %
Industrials	**6,226**	**7 %**	5,429	7 %
Energy	**4,802**	**6 %**	4,232	5 %
Communication services	**3,966**	**5 %**	3,546	4 %
Real estate	**2,767**	**3 %**	2,963	4 %
Health care	**2,172**	**2 %**	2,122	3 %
Consumer staples	**2,051**	**2 %**	1,924	2 %
Consumer discretionary	**1,771**	**2 %**	1,487	2 %
Materials	**1,625**	**2 %**	1,543	2 %
Information technology	**1,495**	**2 %**	1,335	2 %
Total corporate debt securities	**46,974**	**53 %**	42,765	53 %
Asset-backed securities	**8,805**	**10 %**	8,402	10 %
Total debt securities	**89,089**	**100 %**	81,606	100 %

[1] Our grouping of debt securities by sector is based on the Global Industry Classification Standard and S&P Dow Jones Indices.

Debt Securities by Credit Rating

The credit risk ratings in the following table were established in accordance with the internal rating process described in this MD&A under the heading J - Risk Management - 9 - Risk Categories - Credit Risk Management Governance and Control.

Our debt securities with a credit rating of "A" or higher represented 72% of the total debt securities as at December 31, 2020, compared to 74% as at December 31, 2019. Debt securities with a credit rating of "BBB" or higher represented 98% of total debt securities as at December 31, 2020, compared to 99% as at December 31, 2019.

	2020				2019			
($ millions)	**FVTPL debt securities**	**AFS debt securities**	**Total debt securities**	**% of Total debt securities**	FVTPL debt securities	AFS debt securities	Total debt securities	% of Total debt securities
Debt securities by credit rating:								
AAA	**12,794**	**4,810**	**17,604**	**20 %**	11,097	6,630	17,727	22 %
AA	**11,870**	**1,586**	**13,456**	**15 %**	10,503	1,670	12,173	15 %
A	**30,812**	**2,600**	**33,412**	**37 %**	27,341	3,037	30,378	37 %
BBB	**21,203**	**2,091**	**23,294**	**26 %**	18,339	2,248	20,587	25 %
BB and lower	**1,155**	**168**	**1,323**	**2 %**	614	127	741	1 %
Total debt securities	**77,834**	**11,255**	**89,089**	**100 %**	67,894	13,712	81,606	100 %

Debt Securities by Geography

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

	December 31, 2020				December 31, 2019			
($ millions)	**FVTPL debt securities**	**AFS debt securities**	**Total**	**% of Total**	FVTPL debt securities	AFS debt securities	Total	% of Total
Debt securities:								
Canada	**34,005**	**4,685**	**38,690**	**44 %**	28,221	5,031	33,252	41 %
United States	**27,183**	**3,984**	**31,167**	**35 %**	24,224	5,822	30,046	37 %
Europe	**8,734**	**966**	**9,700**	**11 %**	8,827	1,178	10,005	12 %
Asia	**5,095**	**600**	**5,695**	**6 %**	4,074	573	4,647	6 %
Other	**2,817**	**1,020**	**3,837**	**4 %**	2,548	1,108	3,656	4 %
Total debt securities	**77,834**	**11,255**	**89,089**	**100 %**	67,894	13,712	81,606	100 %

Our gross unrealized losses as at December 31, 2020 for FVTPL and AFS debt securities were $94 million and $27 million, respectively, compared with $136 million and $63 million, respectively, as at December 31, 2019. The decrease in gross unrealized losses was largely due to the impact from declining interest rates.

3. Equities

Our equity portfolio is well-diversified with approximately 58% of our portfolio invested in exchange-traded funds as at December 31, 2020, compared to 45% as at December 31, 2019. Exchange-traded fund holdings are primarily in the Tracker Fund of Hong Kong Ltd and S&P/TSX 60 Index Fund. The carrying value of equities by issuer geography as at December 31, 2020 is set out in the following table.

Equities by Issuer Geography

	December 31, 2020				December 31, 2019			
($ millions)	**FVTPL equities**	**AFS equities**	**Total**	**% of Total**	FVTPL equities	AFS equities	Total	% of Total
Equity securities:								
Canada	**3,064**	**15**	**3,079**	**47 %**	2,813	22	2,835	60 %
United States	**1,046**	**148**	**1,194**	**18 %**	550	137	687	14 %
Europe	**418**	**6**	**424**	**6 %**	381	6	387	8 %
Asia	**1,832**	**93**	**1,925**	**29 %**	713	148	861	18 %
Other	**9**	**—**	**9**	**— %**	17	—	17	— %
Total equity securities	**6,369**	**262**	**6,631**	**100 %**	4,474	313	4,787	100 %

Excluding exchange-traded funds and mutual funds, there were no issuers exceeding 1% of the equity portfolio as at December 31, 2020.

4. Mortgages and Loans

Mortgages and loans in this section are presented at their carrying value in our 2020 Annual Consolidated Financial Statements. Our mortgage portfolio consisted almost entirely of first mortgages and our loan portfolio consisted of private placement loans.

Mortgages and Loans by Geography

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

	December 31, 2020				December 31, 2019			
($ millions)	**Mortgages**	**Loans**	**Total**	**% of Total**	Mortgages	Loans	Total	% of Total
Canada	**9,119**	**13,107**	**22,226**	**44 %**	9,310	13,249	22,559	47 %
United States	**6,309**	**13,773**	**20,082**	**40 %**	6,915	11,994	18,909	39 %
Europe	**—**	**5,352**	**5,352**	**11 %**	—	4,561	4,561	9 %
Asia	**—**	**366**	**366**	**1 %**	—	352	352	1 %
Other	**—**	**1,920**	**1,920**	**4 %**	—	1,841	1,841	4 %
Total	**15,428**	**34,518**	**49,946**	**100 %**	16,225	31,997	48,222	100 %

(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 December 31, 2020, we held $15.4 billion of mortgages, compared to $16.2 billion as at December 31, 2019. Our mortgage portfolio consists entirely of commercial mortgages, as presented in the following table.

	December 31, 2020			December 31, 2019		
($ millions)	**Insured**	**Uninsured**	**Total**	Insured	Uninsured	Total
Mortgages:						
Retail	**—**	**3,710**	**3,710**	—	3,902	3,902
Office	**—**	**3,481**	**3,481**	—	3,922	3,922
Multi-family residential	**3,663**	**1,968**	**5,631**	3,613	2,078	5,691
Industrial and land	**—**	**1,945**	**1,945**	—	1,898	1,898
Other	**345**	**316**	**661**	353	459	812
Total mortgages	**4,008**	**11,420**	**15,428**	3,966	12,259	16,225
% of Total mortgages	**26 %**	**74 %**	**100 %**	24 %	76 %	100 %

As at December 31, 2020, 36% 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 58% as at December 31, 2020, compared to 55% as at December 31, 2019. 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 1.66 times. Of the $4.0 billion of multi-family residential mortgages in the Canadian commercial mortgage portfolio, 93% were insured by the CMHC.

The following tables summarize our mortgages by credit quality indicator:

($ millions)	**December 31, 2020**	**As % of Total Mortgages**	December 31, 2019	As % of Total Mortgages
Mortgages by credit rating:				
Insured	**4,008**	**26 %**	3,966	24 %
AAA	**—**	**— %**	1	— %
AA	**1,435**	**9 %**	2,087	13 %
A	**4,031**	**26 %**	5,481	34 %
BBB	**4,524**	**30 %**	3,943	24 %
BB and lower	**1,404**	**9 %**	670	4 %
Impaired	**26**	**— %**	77	1 %
Total mortgages	**15,428**	**100 %**	16,225	100 %

Loan Portfolio

As at December 31, 2020, we held $34.5 billion of loans, compared to $32.0 billion as at December 31, 2019. Private placement loans provide diversification by type of loan, industry segment and borrower credit quality. The private placement loan portfolio consists of senior secured and unsecured loans to large- and mid-market sized corporate borrowers, securitized lease/loan obligations secured by a variety of assets, and project finance loans in sectors such as power and infrastructure. The growth in the portfolio is consistent with our strategy to increase our investments in private placement loans.

The credit risk ratings in the following table were established in accordance with the internal rating process described in this MD&A under the heading J - Risk Management - 9 - Risk Categories - Credit Risk Management Governance and Control. As at December 31, 2020, 93% of our total loan portfolio is investment grade, compared to 96% as at December 31, 2019.

($ millions)	**December 31, 2020**	**As % of Total Loans**	December 31, 2019	As % of Total Loans
Loans by credit rating:				
AAA	**212**	**1 %**	224	1 %
AA	**4,906**	**14 %**	5,044	16 %
A	**13,183**	**38 %**	12,516	39 %
BBB	**13,758**	**40 %**	12,920	40 %
BB and lower	**2,427**	**7 %**	1,207	4 %
Impaired	**32**	**— %**	86	— %
Total loans	**34,518**	**100 %**	31,997	100 %

The following tables summarize our loans by sector:

($ millions)	**December 31, 2020**	**As % of Total Loans**	December 31, 2019	As % of Total Loans
Loans by Sector:				
Corporate issued loans	**22,886**	**66 %**	20,767	65 %
Canadian provincial & municipal government	**7,124**	**21 %**	7,030	22 %
U.S. government & agency	**2,962**	**9 %**	2,876	9 %
Other foreign government	**1,481**	**4 %**	1,253	4 %
Canadian federal government	**65**	**— %**	71	— %
Total loans	**34,518**	**100 %**	31,997	100 %

Mortgages and Loans Past Due or Impaired

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

	December 31, 2020					
	Gross carrying value			**Allowance for losses**		
($ millions)	**Mortgages**	**Loans**	**Total**	**Mortgages**	**Loans**	**Total**
Not past due	**15,402**	**34,486**	**49,888**	**—**	**—**	**—**
Past due:						
Past due less than 90 days	**—**	**—**	**—**	**—**	**—**	**—**
Past due 90 days or more	**—**	**—**	**—**	**—**	**—**	**—**
Impaired	**92**	**81**	**173**	**66**	**49**	**115**
Total	**15,494**	**34,567**	**50,061**	**66**	**49**	**115**

	December 31, 2019					
	Gross carrying value			Allowance for losses		
($ millions)	Mortgages	Loans	Total	Mortgages	Loans	Total
Not past due	16,148	31,911	48,059	—	—	—
Past due:						
Past due less than 90 days	—	—	—	—	—	—
Past due 90 days or more	—	—	—	—	—	—
Impaired	147	133	280	70	47	117
Total	16,295	32,044	48,339	70	47	117

Our impaired mortgages and loans, net of allowances for losses, were $58 million as at December 31, 2020, compared to $163 million as at December 31, 2019.

5. Derivatives

The fair value of derivative assets held by the Company was $2,160 million, while the fair value of derivative liabilities was $1,744 million as at December 31, 2020, compared to a fair value of derivative assets of $1,548 million and a fair value of derivative liabilities of $2,040 million as at December 31, 2019.

We use derivative instruments to manage risks related to interest rate, equity market and currency fluctuations and in replication strategies to reproduce permissible investments. Our use of derivatives in these risk mitigation strategies does not mitigate all risk exposure; rather, they are used to keep us within our risk tolerance limits.

In addition to the general policies and monitoring, we use a variety of tools in counterparty risk management. Over-the-counter ("OTC") derivative transactions are executed under International Swaps and Derivatives Association ("ISDA") Master Agreements. A Credit Support Annex accompanies most of the ISDAs, which establish requirements for collateral.

Derivative Financial Instruments

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

($ millions)	**2020**	2019
As at December 31,		
Net fair value	**416**	(492)
Total notional amount	**62,792**	62,131

The net fair value of derivatives was an asset of $416 million as at December 31, 2020, compared to a liability of $492 million as at December 31, 2019. The change in net fair value was primarily due to the impact from changes in foreign exchange rates and swap curves.

The total notional amount of our derivatives increased to $62.8 billion as at December 31, 2020 from $62.1 billion as at December 31, 2019. The change in notional amount is mainly attributable to an increase of $4.4 billion in foreign exchange contracts used for hedging foreign currency assets, partially offset by a decrease of $2.3 billion in interest rate contracts primarily for duration matching purposes.

Certain of our derivatives are designated in qualifying hedging relationships for accounting purposes, and represented $1.1 billion, or 1.8% of the total notional amount. Derivatives are designated in hedging relationships for accounting purposes to minimize accounting mismatches. These hedging relationships are documented at inception and hedge effectiveness is assessed on a quarterly basis.

Our derivatives designated in qualifying hedging relationships for accounting purposes include interest rate swaps, foreign exchange agreements, equity forwards and, previously, currency swaps. We designate certain interest rate swaps in fair value hedging relationships to hedge interest rate exposure on AFS assets. We also designate certain foreign exchange agreements in fair value and cash flow hedging relationships to manage foreign currency fluctuations associated with AFS assets. Additionally, we designate certain equity forwards in cash flow hedging relationships for anticipated payments of awards under certain stock-based compensation plans.

Credit Equivalent Amount

As the regulator of the Canadian insurance industry, OSFI provides guidelines to quantify the use of derivatives. The credit equivalent amount, a measure used to approximate the potential credit exposure, is determined as the replacement cost of the derivative contracts with a positive fair value plus an amount representing the potential future credit exposure.

The risk-weighted credit equivalent amount is a measure used to determine the amount of capital necessary to support derivative transactions for certain Canadian regulatory purposes. It is determined by weighting the credit equivalent amount according to the nature of the derivative and the creditworthiness of the counterparties.

	2020		2019	
($ millions)	**Credit equivalent amount ("CEA")[1]**	**Risk weighted CEA[1]**	Credit equivalent amount ("CEA")[1]	Risk weighted CEA[1]
Foreign exchange contracts	**787**	**18**	666	14
Interest rate contracts	**86**	**2**	79	2
Equity and other contracts	**31**	**1**	51	1
Total	**904**	**21**	796	17

[1] Amounts presented are net of collateral received.

Credit Default Swaps By Underlying Financial Instrument Credit Rating

Credit default swaps ("CDS") are derivative contracts that transfer credit risk related to an underlying referenced financial instrument from one counterparty to another. The purchaser receives protection against the decline in the value of the referenced financial instrument as a result of specified credit events such as default or bankruptcy. The Company sells credit protection through CDS to replicate credit exposure of an underlying reference security and enhance investment returns. The credit risk ratings of the underlying reference securities for single name contracts were established in accordance with the internal rating process described in section J - Risk Management - 9 - Risk Categories - Credit Risk Management Governance and Control.

The following table provides a summary of the credit default swap protection sold by credit rating of the underlying reference security.

	2020		2019	
($ millions)	**Notional amount**	**Fair value**	Notional amount	Fair value
Single name credit default swap contracts				
AA	**38**	**1**	45	1
A	**325**	**4**	574	9
BBB	**530**	**12**	608	19
BB	**19**	**—**	—	—
Total single name credit default swap contracts	**912**	**17**	1,227	29
Credit default swap index contracts	**—**	**—**	—	—
Total credit default swap contracts sold	**912**	**17**	1,227	29

Additional detail on our derivative portfolio by derivative type is provided in Note 6.A.iv of our 2020 Annual Consolidated Financial Statements.

6. Investment Properties

Office, retail and industrial properties are the major components of our investment properties portfolio, representing approximately 77% as at December 31, 2020. The increase in our investment property portfolio is predominantly driven by net purchases, partially offset by market appraisal losses and the impacts of foreign exchange translation in the year.

Investment Properties by Type and Geography

	December 31, 2020						
($ millions)	**Office**	**Industrial**	**Retail**	**Multi-family residential**	**Other**	**Total**	**% of Total by Geography**
Canada	**1,792**	**1,726**	**912**	**1,004**	**646**	**6,080**	**81 %**
United States	**768**	**269**	**237**	**67**	**30**	**1,371**	**18 %**
Europe	**22**	**13**	**28**	**—**	**2**	**65**	**1 %**
Total	**2,582**	**2,008**	**1,177**	**1,071**	**678**	**7,516**	**100 %**
% of Total by Type	**34 %**	**27 %**	**16 %**	**14 %**	**9 %**	**100 %**	

	December 31, 2019						
($ millions)	Office	Industrial	Retail	Multi-family residential	Other	Total	% of Total by Geography
Canada	1,958	1,405	967	1,064	460	5,854	80 %
United States	772	269	273	—	72	1,386	19 %
Europe	22	13	30	—	1	66	1 %
Total	2,752	1,687	1,270	1,064	533	7,306	100 %
% of Total by Type	38 %	23 %	17 %	15 %	7 %	100 %	

7. Impaired Assets

Financial assets that are classified as FVTPL, which represented 49% of our invested assets as at December 31, 2020, do not have allowances for losses since changes in the fair value of these assets are recorded to income and the assets are recorded at fair value in our 2020 Annual Consolidated Financial Statements. 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 asset.

In the absence of objective evidence of impairment, impairment losses are not recognized on AFS debt securities, equity securities and other invested assets. If the cost of these assets is greater than their fair values, unrealized losses are recognized in other comprehensive income (loss). Unrealized losses may be due to interest rate fluctuations or depressed fair values in sectors which have experienced strong negative market performance.

Additional detail on our impairment policy is provided in Note 1.iii of our 2020 Annual Consolidated Financial Statements.

8. Asset Default Provision

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

Our asset default provision reflects the provision relating to future credit events for fixed income assets currently held by the Company that support our insurance contract liabilities. Our asset default provision as at December 31, 2020 was $3,127 million for losses related to possible future credit events for fixed income assets currently held by the Company that support our insurance contract liabilities. This represents 2.5% of the fixed income assets supporting insurance contract liabilities reported on our Consolidated Statements of Financial Position as at December 31, 2020.

Our asset default provision as at December 31, 2020 was $490 million higher than the provision as at December 31, 2019, primarily due to increases in the provisions for assets purchased net of dispositions and changes in credit ratings, partially offset by the release of provisions on fixed income assets supporting our insurance contract liabilities and the impacts of foreign exchange translation.

A one-notch downgrade of 25% of our fixed income investment portfolio[1] would result in an increase in insurance contract liabilities from the changes in ratings of $125 million post-tax and a decrease to our common shareholders' net income. This excludes the impact from the release of best estimate credit provision and fixed income investments not impacting shareholders net income, for example assets supporting participating policyholders. Of this total amount, approximately 60% relates to our BBB portfolio.

(1) Excluding federal and provincial securities, asset-backed securities, mortgage-backed securities, and CMHC mortgages.

The following table sets out the changes in our asset default provision for existing fixed income investments.

($ millions)	**2020**	2019
Opening balance	**2,637**	2,389
Purchases, dispositions and net asset movement[1]	**690**	612
Changes in assumptions and methodologies	**—**	(53)
Changes in ratings	**170**	57
Release of provisions[2]	**(323)**	(293)
Currency	**(47)**	(75)
Closing balance	**3,127**	2,637

(1) Net movement reflects the fluctuation in the value of FVTPL assets arising from movements in interest rates, credit spreads and other factors that impact the market value of fixed income investments.
(2) This amount represents the orderly release of provisions for future credit events held in insurance contract liabilities.

I. Capital and Liquidity Management

Capital and liquidity management is core to our business as an insurance company. We ensure adequate capital for the protection of our policyholders, Clients and creditors, while managing capital adequacy and allocation across our businesses for the benefit of our shareholders. In addition, we maintain strong financial flexibility by ensuring that sufficient liquid assets are available to cover our anticipated payment obligations and funding requirements. We invest in various types of assets with a view to matching them with liabilities of various durations.

The regulatory environments in which we operate are expected to evolve as governments and regulators work to develop the appropriate level of financial regulation required to ensure that capital, liquidity and risk management practices are sufficient to withstand severe economic downturns.

1. Capital

We have a capital risk policy designed to maintain a strong capital position and to provide the flexibility necessary to take advantage of growth opportunities, to support the risk associated with our businesses and to optimize shareholder return. Our capital risk policy is also intended to provide an appropriate level of risk management over capital adequacy risk, which is defined as the risk that capital is not or will not be sufficient to withstand adverse economic conditions, to maintain financial strength, or to allow the Company and its subsidiaries to take advantage of opportunities for expansion. Our capital base is structured to exceed minimum regulatory and internal capital targets and to maintain strong credit and financial strength ratings, while maintaining a capital-efficient structure. Capital is managed both on a consolidated basis under principles that consider all the risks associated with the business as well as at the business group level under the principles appropriate to the jurisdictions in which we operate. The capital of our foreign subsidiaries is managed on a local statutory basis in a manner commensurate with their individual risk profiles.

Sun Life, including all of its business groups, engages in a capital planning process annually in which capital deployment options, capital raising and dividend recommendations are presented to the Board of Directors ("Board"). Capital reviews are regularly conducted which consider the potential impacts under various business, interest rate and equity market scenarios. Relevant components of these capital reviews, including dividend recommendations, are presented to the Risk Committee on a quarterly basis. The Board is responsible for the approval of our annual capital plan and quarterly shareholder dividends.

The Company's capital risk policy establishes policies, operating guidelines and procedures that govern the management of capital. The capital risk policy is reviewed annually by the Risk Committee and any changes are approved by the Board. Our Corporate Capital & Treasury and Risk Management functions are responsible for the development and implementation of the capital risk policy.

The Company's capital base consists mainly of common shareholders' equity. Other sources of capital include preferred shareholders' equity, non-controlling interests, participating policyholders' equity and subordinated debt issued by SLF Inc. and Sun Life Assurance. For Canadian regulatory purposes, our capital also includes innovative capital instruments issued by Sun Life Capital Trust.

The following table summarizes the sources of our capital and our capital position over the past two years. Note 13, 14, 15 and 21 of our 2020 Annual Consolidated Financial Statements include additional details on our capital.

($ millions)	**2020**	2019
Subordinated debt	**4,781**	3,538
Innovative capital instruments[1]	**200**	200
Equity		
Preferred shareholders' equity	**2,257**	2,257
Common shareholders' equity	**22,212**	21,141
Participating policyholders' equity	**1,368**	1,091
Non-controlling interests' equity	**25**	19
Total equity	**25,862**	24,508
Total capital	**30,843**	28,246
Financial leverage ratio[2]	**23.5 %**	21.2 %

(1) Innovative capital instruments are presented net of associated transaction costs and consist of SLEECS, which were issued by Sun Life Capital Trust. SLEECS qualify as capital for Canadian regulatory purposes. However, under IFRS they are reported as Senior debentures in our Annual and Interim Consolidated Financial Statements.

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

Our total capital consists of subordinated debt and other capital instruments, participating policyholders' equity, non-controlling interests and total shareholders' equity, which includes common shareholders' equity and preferred shareholders' equity.

Common shareholders' equity was $22.2 billion as at December 31, 2020, compared with $21.1 billion as at December 31, 2019. The increase of $1.1 billion was due to common shareholders' net income and other comprehensive income, partially offset by common share dividend payments and shares repurchased and cancelled.

The table below provides the earliest par call and maturity dates for our subordinated debt, innovative capital instruments and preferred shares outstanding as at December 31, 2020.

Description	Interest Rate	Earliest Par Call Date/Redemption Date[1]	Maturity	Principal/ Face Amount ($ millions)
Subordinated Debt Issued by Sun Life Assurance				
6.30% Debentures, Series 2	6.30%	n/a	2028	150
Subordinated Debt Issued by SLF Inc.				
Series 2007-1	5.40%	May 29, 2037	2042	400
Series 2016-1	3.10%	February 19, 2021	2026	350
Series 2016-2	3.05%	September 19, 2023	2028	1,000
Series 2017-1	2.75%	November 23, 2022	2027	400
Series 2019-1	2.38%	August 13, 2024	2029	750
Series 2020-1	2.58%	May 10, 2027	2032	1,000
Series 2020-2	2.06%	October 1, 2030	2035	750
Trust Units Issued by Sun Life Capital Trust				
SLEECS - Series B	7.09%	June 30, 2032	Perpetual	200
Class A Preferred Shares Issued by SLF Inc.				
Series 1	4.75%	Any time	Perpetual	400
Series 2	4.80%	Any time	Perpetual	325
Series 3	4.45%	Any time	Perpetual	250
Series 4	4.45%	Any time	Perpetual	300
Series 5	4.50%	Any time	Perpetual	250
Series 8R[2]	1.825%	June 30, 2025	Perpetual	155
Series 9QR[3]	Floating	June 30, 2025[5]	Perpetual	125
Series 10R[2]	2.842%	September 30, 2021	Perpetual	173
Series 11QR[4]	Floating	September 30, 2021[5]	Perpetual	27
Series 12R[2]	3.806%	December 31, 2021	Perpetual	300

(1) The earliest date on which the Company has the option, but not the obligation, to call securities for redemption at their par value. Redemption of these securities is subject to regulatory approval.

(2) On the earliest redemption date and every five years thereafter, the dividend rate will reset to an annual rate equal to the 5-year Government of Canada bond yield plus a spread specified for each series. The specified spread for Class A shares is: Series 8R - 1.41%, Series 10R - 2.17% and Series 12R - 2.73%. On the earliest redemption date and every five years thereafter, holders will have the right, at their option, to convert their shares into the series that is one number higher than their existing series.

(3) Holders of Series 9QR Shares will be entitled to receive quarterly floating rate non-cumulative dividends at an annual rate equal to the then 3-month Government of Canada treasury bill yield plus 1.41%. Holders of the Series 9QR Shares will have the right, at their option, to convert their Series 9QR Shares into Series 8R Shares on June 30, 2025, and on June 30 every five years thereafter.

(4) Holders of Series 11QR Shares will be entitled to receive quarterly floating rate non-cumulative dividends at an annual rate equal to the then 3-month Government of Canada treasury bill yield plus 2.17%. Holders of the Series 11QR Shares will have the right, at their option, to convert their Series 11QR Shares into Series 10R Shares on September 30, 2021, and on September 30 every five years thereafter.

(5) Redeemable on the redemption date and every five years thereafter, in whole or in part, at par, and on any other date at $25.50 per share.

The following table shows the number of common shares and stock options outstanding of SLF Inc. for the last two years.

Number of Common Shares Outstanding		
(in millions)	**2020**	2019
Balance, beginning of year	**587.8**	598.5
Stock options exercised	**0.8**	0.8
Common shares repurchased and cancelled	**(3.5)**	(11.5)
Shares issued as consideration for business acquisition	**—**	—
Balance, end of year	**585.1**	587.8
Number of Stock Options Outstanding		
(in millions)	**2020**	2019
Balance, beginning of year	**3.1**	3.1
Options issued	**0.7**	0.8
Options exercised, forfeited or expired	**(0.6)**	(0.8)
Balance, end of year	**3.2**	3.1

Under our Canadian Dividend Reinvestment and Share Purchase Plan ("DRIP"), Canadian-resident common and preferred shareholders may choose to have their dividends automatically reinvested in common shares of SLF Inc. and may also purchase common shares through our DRIP with cash.

For dividend reinvestments, we may, at our option, issue common shares of SLF Inc. from treasury at a discount of up to 5% to the volume-weighted average trading price or direct that common shares be purchased on behalf of participants on the open market through the TSX and alternative Canadian trading platforms (collectively, the "Exchanges") at the market price. Common shares of SLF Inc. acquired by participants through optional cash purchases may also be issued from treasury or purchased through the Exchanges at SLF Inc.'s option, in either case at no discount. Commencing with the dividends payable on March 31, 2016 and until further notice, common shares purchased under the Plan were purchased on the open market. There are no applicable discounts because the common shares are being purchased on the open market and are not being issued from treasury.

SLF Inc. grants stock options to certain employees. These options are granted at the closing price of SLF Inc.'s common shares on the TSX on the grant date.

As at January 29, 2021, SLF Inc. had 585,129,800 common shares, 3,115,538 options to acquire SLF Inc. common shares and 92,200,000 Class A Shares outstanding.

2. Capital Adequacy

OSFI has indicated that it will review the effectiveness of the LICAT guideline and update it to keep abreast of development in the life insurance industry and evolving risk measurement and management practices.

SLF Inc.

SLF Inc. is a non-operating insurance company and was subject to OSFI's LICAT guideline as at December 31, 2020. In accordance with this guideline, SLF Inc. manages its capital in a manner commensurate with its risk profile and control environment, and SLF Inc.'s regulated subsidiaries comply with the capital adequacy requirements imposed in the jurisdictions in which they operate. SLF Inc.'s consolidated capital position is above its internal target. As at December 31, 2020, SLF Inc.'s LICAT ratio was 147%. For additional information, refer to section F - Financial Strength in this document.

Sun Life Assurance

Sun Life Assurance, SLF Inc.'s principal operating life insurance subsidiary in Canada, was subject to OSFI's LICAT guideline as at December 31, 2020. With a LICAT ratio of 127% as at December 31, 2020, Sun Life Assurance's capital ratio is well above OSFI's supervisory ratio of 100% and regulatory minimum ratio of 90%. The LICAT guideline uses a risk-based approach for measuring specific life insurer risks and for aggregating the results to calculate the amount of a life insurer's regulatory required capital to support these risks. Certain of these risk components, along with available capital, are sensitive to changes in equity markets and interest rates as outlined in the section J - Risk Management of this document. For additional information, refer to section F - Financial Strength in this document.

The following table shows the components of Sun Life Assurance's LICAT ratio for 2020 and 2019.

Sun Life Assurance LICAT Ratio

($ millions)	**2020**	2019
Capital resources		
Retained earnings and contributed surplus	**14,630**	13,731
Adjusted accumulated other comprehensive income	**1,397**	1,226
Common and preferred shares	**5,945**	5,945
Innovative capital instruments and subordinated debt	**350**	350
Other	**229**	45
Less:		
Goodwill	**2,393**	2,433
Non-life investments and other	**2,350**	2,348
Available capital	**17,808**	16,516
Surplus allowance and eligible deposits	**10,575**	9,359
Total Capital resources	**28,383**	25,875
Capital requirements		
Credit, market and insurance risks	**22,353**	20,223
Less: Diversification and other credits	**4,106**	4,010
Segregated fund guarantee risk	**904**	906
Operational risk	**2,054**	1,785
Total before scalar	**21,205**	18,904
Base solvency buffer (Total before scalar x 1.05)	**22,265**	19,849
LICAT ratio	**127%**	130%

Foreign Life Insurance Companies

Foreign subsidiaries and foreign operations of SLF Inc. must comply with local capital or solvency requirements in the jurisdictions in which they operate. Our operations maintained capital levels above the minimum local regulatory requirements during 2020 and 2019. Additional information

on capital and regulatory requirements for our foreign subsidiaries and foreign operations is provided in SLF Inc.'s AIF under the heading Regulatory Matters.

In the U.S., as at December 31, 2020, we have two internal reinsurance arrangements with affiliated reinsurance companies, in Delaware and Michigan, relating to our closed block of individual universal life insurance products with no-lapse guarantee benefits issued in the U.S. The Delaware reinsurance structure was established in 2013 and finances excess U.S. statutory reserves for certain universal life policies issued between January 2000 and February 2006. The financing of U.S. statutory reserve requirements in excess of those required under IFRS for the Delaware reinsurance company is supported by a guarantee from SLF Inc. The Michigan reinsurance structure was established in 2007 for certain policies issued between March 2006 and December 2008. The entity was redomesticated from Vermont to Michigan in 2020. Under the Michigan reinsurance structure, the related excess U.S. statutory reserve requirements are similarly supported by a guarantee from SLF Inc.

3. Shareholder Dividends

The declaration, amount and payment of dividends by SLF Inc. is subject to the approval of our Board and is dependent on our results of operations, our reported net income, financial condition, cash requirements and contractual restrictions. Capital management activities, as well as regulatory considerations and macro-economic factors including the economic outlook for the jurisdictions in which we do business, are also considered along with other factors. The Board reviews the level of dividends on a quarterly basis.

A regular and appropriate level of dividend payout and growth provides a stable source of return to common shareholders.

We target a dividend payout ratio of between 40% and 50% based on underlying net income, except where circumstances and the factors noted above would suggest a different ratio.

During 2020, our dividend payout ratio to common shareholders based on our reported net income was 54% and on an underlying net income basis was 40%.

Total common shareholder dividends declared in 2020 were $2.200 per share, compared to $2.100 in 2019.

On March 13, 2020, OSFI set the expectation for all federally regulated financial institutions that dividend increases and share buybacks should be halted for the time being.

Dividends declared

Amount per share	**2020**	2019	2018
Common shares	**2.200**	2.100	1.905
Class A preferred shares			
Series 1	**1.187500**	1.187500	1.187500
Series 2	**1.200000**	1.200000	1.200000
Series 3	**1.112500**	1.112500	1.112500
Series 4	**1.112500**	1.112500	1.112500
Series 5	**1.125000**	1.125000	1.125000
Series 8R[1][2]	**0.512500**	0.568800	0.568800
Series 9QR[3]	**0.583985**	0.772500	0.656200
Series 10R[1][4]	**0.710500**	0.710500	0.710500
Series 11QR[5]	**0.774505**	0.962500	0.846200
Series 12R[1][6]	**0.951500**	0.951500	0.951500

(1) On the earliest redemption date and every five years thereafter, the dividend rate will reset to an annual rate equal to the 5-year Government of Canada bond yield plus a yield specified for each series. The specified yield for Class A shares is: Series 8R - 1.41%, Series 10R - 2.17% and Series 12R - 2.73%. On the earliest redemption date and every five years thereafter, holders will have the right, at their option, to convert their shares into the series that is one number higher than their existing series.
(2) The dividend rate was reset on June 30, 2020 to a fixed annual dividend rate of 1.825% until the earliest redemption date June 30, 2025.
(3) Holders of the Series 9QR Shares are entitled to receive quarterly floating rate non-cumulative dividends at an annual rate equal to the then 3-month Government of Canada treasury bill yield plus 1.41%. Holders of the Series 9QR Shares will have the right, at their option, to convert their Series 9QR Shares into Series 8R Shares on June 30, 2025 and on June 30 every five years thereafter.
(4) The dividend rate was reset on September 30, 2016 to a fixed annual dividend rate of 2.842% until the earliest redemption date September 30, 2021.
(5) Holders of the Series 11QR Shares are entitled to receive quarterly floating rate non-cumulative dividends at an annual rate equal to the then 3-month Government of Canada treasury bill yield plus 2.17%. Holders of the Series 11QR Shares will have the right, at their option, to convert their Series 11QR Shares into Series 10R Shares on September 30, 2021 and on September 30 every five years thereafter.
(6) The dividend rate was reset on December 31, 2016 to a fixed annual dividend rate of 3.806% until the earliest redemption date December 31, 2021.

4. Principal Sources and Uses of Funds

Our primary source of funds is cash provided by operating activities, including premiums, investment management fees and net investment income. These funds are used primarily to pay policy benefits, dividends to policyholders, claims, commissions, operating expenses, interest expenses and shareholder dividends. Excess cash flows generated from operating activities are generally invested to support future payment requirements. We also raise funds from time to time, through borrowing and issuing of securities, to finance growth, acquisitions or other needs.

As at December 31, 2020, we maintained net cash, cash equivalents and short-term securities totaling $13.5 billion. In addition to providing for near-term funding commitments, cash, cash equivalents and short-term securities include amounts that support short-term payment obligations.
Net cash, cash equivalents and short-term securities increased by $4.0 billion in 2020 compared to 2019. The table below outlines our principal sources and uses of cash.

($ millions)	**2020**	2019
Net cash provided by operating activities	**7,253**	2,474
Net cash provided by (used in) investing activities	**(886)**	(430)
Net cash provided by (used in) financing activities	**(2,312)**	(2,363)
Changes due to fluctuations in exchange rates	**(92)**	(190)
Increase (decrease) in cash and cash equivalents	**3,963**	(509)
Net cash and cash equivalents, beginning of year	**6,685**	7,194
Net cash and cash equivalents, end of year	**10,648**	6,685
Short-term securities, end of year	**2,873**	2,860
Net cash, cash equivalents and short-term securities, end of year	**13,521**	9,545

5. Liquidity

We generally maintain an overall asset liquidity profile that exceeds requirements to fund insurance contract liabilities under prescribed adverse liability demand scenarios. To strengthen our liquidity further, we actively manage and monitor our:

- Capital levels
- Asset levels
- Matching position
- Diversification and credit quality of investments
- Cash forecasts and actual amounts against established targets

We are subject to various regulations in the jurisdictions in which we operate. The ability of SLF Inc.'s subsidiaries to pay dividends and transfer funds is regulated in certain jurisdictions and may require local regulatory approvals and the satisfaction of specific conditions in certain circumstances. Through effective cash management and capital planning, SLF Inc. ensures that its subsidiaries, as a whole and on a stand-alone basis, are properly funded and maintain adequate liquidity to meet obligations, both individually and in aggregate.

SLF Inc. and its wholly-owned holding companies had $3.1 billion in cash and other liquid assets as at December 31, 2020. See section F - Financial Strength in this document for more information.

We maintain various credit facilities for general corporate purposes, as set out in the table below. Unless otherwise noted, all amounts are in Canadian dollars.

($ millions)	**December 31, 2020**			December 31, 2019		
Credit Facility	**Amount**	**Utilized**	**Expiry**	Amount	Utilized	Expiry
Committed	**US$ 400**	**US$ 12**	**2022**	US$ 400	US$ 2	2021
Committed	**US$ 1,000**	**US$ 266**	**2021**	US$ 600	US$ 56	2021
Uncommitted	**US$ 100**	**US$ —**	**n/a**	US$ 100	US$ 74	n/a
Uncommitted	**$ 228**	**$ 97**	**n/a**	$ 227	$ 105	n/a
Uncommitted	**US$ 25**	**US$ 7**	**n/a**	US$ 25	US$ 7	n/a

The agreements relating to our committed credit facilities contain typical covenants for investment grade companies regarding solvency, credit ratings and financial strength, all of which were met as at December 31, 2020. These covenants include, but are not limited to, the maintenance of total equity by SLF Inc. of at least $12 billion, tested as of the last day of each fiscal quarter. SLF Inc.'s total equity was $25.9 billion as at December 31, 2020.

Our failure to comply with the covenants under the committed credit facility would, subject to grace periods in the case of certain covenants, result in an event of default. This could require us to repay any outstanding borrowings or to cash collateralize letters of credit under the facility. A failure by SLF Inc. (or any of its subsidiaries) to pay an obligation due for an amount exceeding $250 million would also result in an event of default under the committed credit facility described above.

Based on our historical cash flows and liquidity management processes, we believe that the cash flows from our operating activities will continue to provide sufficient liquidity for us to satisfy debt service obligations and to pay other expenses as they fall due.

J. Risk Management

1. Risk Management Framework

The Company has an established Risk Management Framework ("Risk Framework") approved by the Board that prescribes a comprehensive set of protocols and programs that need to be followed in conducting business activities. The risks that arise when providing products and services to Clients, which are in line with our Purpose to help our Clients achieve lifetime financial security and live healthier lives, are managed within these protocols and programs. Effective risk management is critical to the overall profitability, competitive market positioning and long-term financial viability of the Company. While all risks cannot necessarily be eliminated or known with certainty, the Risk Framework seeks to ensure that risks to a business undertaking are appropriately managed to achieve the Company's business objectives over time and are not expected to exceed pre-established boundaries for risk taking. The Risk Framework, corporate strategy and business objectives are all aligned and risk management protocols and programs are embedded within every business segment.



2. Risk Governance and Accountabilities

Our Risk Framework sets out lines of responsibility and authority for risk-taking, governance and control. These governance requirements are summarized below.

Risk Management Governance Structure

The Board and Management Committees as well as the risks that they oversee are highlighted below.



Board of Directors

The Board is responsible for ensuring the governance of all risks across the enterprise and has primary responsibility for taking action to ensure risk management policies, programs and practices are in place. By approving our Risk Framework and the Risk Appetite Policy and providing ongoing oversight of the risk management programs, the Board monitors that significant risks are appropriately identified and managed. The Board oversees business and strategic risk through review and approval of the business and strategic plans, and regularly discusses key themes, issues and risks emerging in connection with the design or implementation of these plans. The Board also monitors risk management activities of our subsidiaries and risks posed to the Company through its joint venture arrangements.

The Risk Committee is a standing committee of the Board whose primary functions are to assist the Board with oversight of the management of current and emerging risks enterprise-wide, and of the risk management function to ensure that management has in place policies, processes and controls designed to identify and effectively manage the significant risks to which the Company is exposed and has sufficient capital to underpin those risks. The Risk Committee regularly monitors the Company's risk profile to ensure it is within the agreed risk appetite and that the Company's capital position is in compliance with regulatory capital requirements, and monitors and recommends to the Board for approval, the specific risk limits allocated to the businesses and the annual Capital Plan. The Risk Committee meets with senior business and functional leaders who have first-hand knowledge of risks and the risk management programs, oversees the effectiveness of the risk management function, and obtains reports from Internal Audit on the effectiveness of risk controls within the business and risk function. It reviews and approves all risk management policies and reviews compliance with those policies. In addition, where the Board has allocated oversight of specific risk management programs to other committees of the Board ("Board Committees"), the Risk Committee is tasked with providing the Board with an integrated view of oversight of all risk management programs across all Board committees.

The Governance, Investment & Conduct Review Committee of the Board is responsible for assisting the Board in: reviewing and monitoring the Company's Investment Plan and investment performance; overseeing investment practices, procedures and controls related to the management of the general fund investment portfolio; and reviewing and approving transactions, either separately or jointly with the Risk Committee, where the acquisition of individual investments for the General Account would, on their own, exceed certain limits or ranges in the Investment and Credit Risk Management Policy. The Governance, Investment & Conduct Review Committee is also responsible for developing effective corporate governance guidelines and processes including policies and processes to sustain ethical behaviour, and developing processes to assess the effectiveness of the Board and its Committees. In addition, the Governance, Investment & Conduct Review Committee oversees compliance with legal and regulatory requirements and the identification and management of compliance risk.

The Audit Committee of the Board is responsible for assisting the Board in overseeing the integrity of financial statements and related information provided to shareholders and others, compliance with financial regulatory requirements, adequacy and effectiveness of the internal controls implemented and maintained by management, and assessing the qualifications, independence and performance of the external auditor.

The Management Resources Committee of the Board is responsible for assisting the Board in ensuring the Company has the leadership resources for succession of senior executive positions and programs to effectively attract, retain, develop and reward executives for achieving our strategic objectives. The Management Resources Committee reviews the design, approval and governance of material incentive programs to ensure that these incentive programs do not encourage excessive risk taking, and reviews the implications of key enterprise risks, including human resources risks, on compensation design and human resources practices. In addition, the Management Resources Committee reviews and makes recommendations to the Board with respect to compensation matters, including the remuneration of executives who have a material impact on the risk exposure of the Company.

Senior Management Committees

The Executive Risk Committee ("ERC") provides executive management oversight of the Company's enterprise risk management activities. This includes the review and articulation of the risk appetite, review that the risk profile is within the agreed risk appetite and policies, processes and controls are in place to identify and effectively manage the significant risks in accordance with the risk appetite and the overall objective of promoting a balanced business and product model to achieve agreed upon risk-adjusted returns and allocate capital accordingly.

The Investment & Credit Risk Committee is responsible for reviewing matters related to the management of the Company's general fund assets which includes providing oversight and direction on the current and potential credit and investment risk exposures facing the Company and mitigating strategies to ensure that effective credit risk management practices and controls are in place.

The Corporate Asset Liability Management Committee is responsible for providing executive oversight and direction for the effective measurement, control and management of the market and liquidity risks in the design and operation of general fund investment strategies for efficiently discharging the Company's general fund liabilities.

The Operational Risk & Compliance Committee is responsible for providing oversight of the Company's operational and compliance risk management practices, current and emerging operational risk exposures, and the processes to ensure ongoing identification of significant operational and compliance risks facing the Company.

The Insurance Risk Committee is responsible for providing oversight and direction on insurance risk exposures facing the Company and to ensure that effective insurance risk management practices and controls are in place. This includes reviewing the current and projected insurance risk profile against limits; engaging in review of topical insurance, reinsurance and underwriting risk issues; and reviewing and recommending changes to the insurance risk measurement methodology to the ERC.

Accountabilities

Primary accountability for risk management is delegated by the Board to our Chief Executive Officer ("CEO"), and the CEO further delegates responsibilities throughout the Company through management authorities and responsibilities. The CEO delegates accountability for the various classes of risk management to our executive officers, who are accountable for ensuring that the management of risks in the scope of their business accountability is in accordance with the Board-approved Risk Framework, Risk Appetite Policy and risk management policies.

3. Risk Universe

As a large financial services organization operating in a complex industry, the Company encounters a variety of risks and uncertainties. We face risks in formulating our business strategy and business objectives, in carrying on our business activities in the pursuit of our strategy and objectives, and from external factors such as changes in the economic, political, competitive, regulatory and environmental landscapes. We are subject to financial and insurance risks that are connected to our liabilities and with the management and performance of our assets, including how we match returns from assets with the payment of liabilities to our Clients. Each of these risks is also considered from the perspective of different types of uncertainties under which either the outcomes and/or their probabilities of occurrence are unknown. The Risk Framework covers all risks and these have been grouped into six major categories: credit, market, insurance, business and strategic, operational and liquidity risks. The Risk Framework sets out the key risk management processes in the areas of risk: appetite, identification, measurement, management, monitoring and reporting. The Risk Framework sets out both qualitative and quantitative measures and processes to control the risk the Company will bear in respect of each of these categories of risk and in aggregate.

4. Risk Appetite

Our Risk Appetite Policy defines the amount and type of risk we are willing to accept in pursuit of our business objectives, and is approved by the Board. It is forward-looking and our strategic plan, capital plan, business plan and business objectives are established within its boundaries.

The Company's risk appetite seeks to balance the various needs, expectations, risk and reward perspectives and investment horizons of key stakeholders. In particular, our risk appetite supports the pursuit of shareholder value while ensuring that the Company's ability to pay claims and fulfill policyholder commitments is not compromised. The Company's risk appetite is the primary mechanism to communicate its risk philosophy and the boundaries of permissible risk-taking across the enterprise. It ensures that business activities are assessed against performance criteria that are appropriately risk-adjusted. Our risk appetite supports the objective of maintaining adequate capital, managing return on equity, managing earnings volatility, managing long-term profitability and managing liquidity. To accomplish this, our risk appetite includes a wide array of qualitative and quantitative standards that reflect the Company's overall risk management principles and values.

We generally accept diversifiable risks and utilize risk pooling to create portfolios with relatively low liability volatility. We take risk where we have internal expertise such as actuarial, underwriting, claims management, investment or distribution or where reinsurance partners are able to

supplement our internal expertise. We prefer risks where it is possible to diversify across various segments including products, geographies, distribution channels or asset classes in order to maximize diversification opportunities.

Our Risk Appetite Policy sets out specific constraints which define the aggregate level of risk that the Company is willing to accept. We translate our risk appetite constraints into specific risk limits by risk class and business segment. Our risk profile is measured, managed and monitored regularly to ensure that we operate within our risk appetite. Our risk appetite limits are reviewed periodically to reflect the risks and opportunities inherent in our evolving business strategies and operating environment.

5. Risk Management Policies

In order to support the effective communication, implementation and governance of our Risk Framework, we have codified our processes and operational requirements in a comprehensive series of risk management policies and operating guidelines. These policies and guidelines promote the application of a consistent approach to managing risk exposures across our global business platform. The Board and Board Committees regularly review and approve significant changes to the risk management policies and regularly review management's reporting and attestation on compliance to these policies.

6. Risk Management Process

The risk management process as set out in our Risk Framework is described below:

Risk Identification and Measurement

All business segments employ a common approach to identify and measure risks. Business segments have accountability for identifying and managing risks facing their business. We have a process to identify and monitor emerging risks that may have a material impact on our finances, operations or reputation. We evaluate potential correlations and inter-connections between various risk events and categories, and monitor emerging risks, regulatory and rating agency requirements, and industry developments.

Risk measurement involves determining and evaluating potential risk exposures, and includes a number of techniques such as monitoring key risk indicators, assessing probability and severity of risks, and conducting stress testing.

A robust stress testing program is an essential component of the Company's Risk Framework used to measure, monitor and mitigate the Company's risk exposures and to ensure ongoing capital adequacy under plausible stress events. Stress testing is performed on key metrics such as earnings, regulatory capital ratios and liquidity to identify and monitor potential vulnerabilities to key risk drivers and ensure that the Company is operating within its risk appetite.

We develop and test a range of scenarios based on our internal assessment and regulatory guidance. Sensitivity testing is conducted on a regular basis and measures the earnings and regulatory capital impact from changes in underlying risk factors. Sensitivity testing is performed for individual risks and for consolidated risk exposures at different levels of stress and at various levels of aggregation. Scenario testing involves changes to a number of risk factors to assess the impact of and interaction between these risk factors. These scenarios include integrated scenario testing, reverse scenario testing and key assumption sensitivity testing. We also use the Financial Condition Testing ("FCT") process, as prescribed by the Canadian Institute of Actuaries, to satisfy requirements under the Canadian insurance Company Act, and OSFI regulations, to annually stress test capital.

Risk Management, Monitoring and Reporting

Risk management decisions are formed by evaluating how well the outcomes of the risk measurements and risk assessments for a business activity conform to our risk appetite, including an assessment of risk-adjusted return.

Monitoring processes include oversight by the Board, which is exercised through Board Committees and senior management committees described in the Risk Governance and Accountabilities section in this document.

Senior management committees, Board Committees and the Board regularly review reports that summarize our risk profile, including the exposures across our principal risks, any changes in risk trends, forward-looking view of risks and emerging risks. These committees also review the effectiveness of the mitigation strategies presented in the reports. On a regular basis, the Board and the Board Committees review and approve any significant changes to key policies for the management of risk and review compliance with these policies.

7. Three Lines of Defence

The Company has adopted the Three Lines of Defence ("LOD") model to provide a consistent, transparent and clearly documented allocation of accountability and segregation of functional responsibilities. This segregation of responsibility helps to establish a robust control framework that promotes transparent and independent challenge of all risk taking activities, and that encourages all functions to engage in self-critical examination to foster continuous improvement of the management of risk in our business.

The **first line of defence** is represented by the business segment management who own the risks that are intrinsic to the business and have the primary responsibility to identify, measure, manage, monitor and report these risks. Some of the first LOD risk related responsibilities include:

- Identification of key and emerging risks;
- Manage, measure, monitor and report on risk within their business operations;
- Accountability for business results and the risks taken to achieve those results; and
- Operating within risk appetite and according to risk management policies.

The **second line of defence** includes the Chief Risk Officer ("CRO") and various functional heads who are responsible for providing independent oversight of our Company-wide risk management programs. The CRO is responsible for developing our Risk Framework and Risk Appetite Policy, and

for overseeing the development and implementation of risk management strategies aimed at optimizing the risk-return profile of the Company. The CRO is supported by a network of business segment risk officers. The functional heads support the CRO in the implementation and communication of our Risk Framework and Risk Appetite Policy. Some of the key second LOD risk related responsibilities include:

- Establishment of the risk management framework and policies;
- Providing oversight and effective independent challenge of first line current and emerging risks; and
- Independent reporting to senior management committees and the Board on the level of risk appetite.

The **third line of defence** responsibilities are distinct from first and second LOD responsibilities. The Internal Audit function is the third LOD and is responsible for providing independent assurance to management, the Audit Committee, the Risk Committee and OSFI on the design and operational effectiveness of the risk management practices and internal controls carried out by first LOD and second LOD. Internal Audit provides a quarterly opinion on the effectiveness of internal controls, risk management and governance processes to the Risk Committee. In addition, the Risk Committee may engage third-party independent reviews to supplement the third LOD review of the effectiveness of the Company's risk management programs.

8. Risk Culture and Philosophy

We have built a strong corporate culture on a foundation of ethical behaviour, high business standards, integrity and respect. The Board establishes the "tone from the top" and is accountable to ensure that the CEO and senior management create and sustain a culture of integrity throughout the organization. We work together through our focus on diversity, inclusion and sustainability to fulfill our Purpose of helping our Clients to achieve lifetime financial security and to live healthier lives.

Risk culture relates to how we behave and respond, in addition to the requirements we set. It enables and rewards taking the right risks in an informed manner. It enables effective challenge and transparency regarding risks and outcomes without fear of reprisal. It drives us to understand Client needs and preferences so that we can act in their best interests. In order to support employees in fulfilling their role, we have taken action to ensure our risk protocols and procedures are well defined and embedded in our day-to-day business activities, assess that appropriate resources and training are provided, establish and communicate a common risk philosophy and a high bar for integrity and conduct, and encourage every employee to openly identify risk exposures and communicate escalating risk concerns. The following six elements support our Risk Culture:

- Establishing tone from the top;
- Encouraging transparency in risk-taking;
- Performing effective challenge in conducting business decisions;
- Aligning incentives and risk management practices;
- Effectively communicating the risk culture expectations; and
- Establishing clear accountabilities.

A key premise of our culture is that all employees have an important role to play in managing the Company's risks. Risk Management is embedded in the Company's culture, which encourages ownership and responsibility for risk management at all levels. Our compensation programs are aligned to the organization's risk management practices through our governance structure for the design and approval of incentive compensation plans and processes used to support the alignment of compensation and risk management. We continuously reinforce and embed the culture through communication and training on risk culture elements at various forums and across various levels through training on the Code of Conduct annually, reinforcing accountability through performance reviews and compensation, and through defining roles, responsibilities and expectations in the risk management policies.

The Company's risk philosophy includes the following core principles:

Strategic Alignment

Our corporate strategy and business objectives are required to be established within the boundaries set out in the Risk Framework and the Risk Appetite Policy. This requires us to consider whether a business activity will result in a risk profile that we are willing to accept and which we are prepared to manage. We have established a range of explicit risk appetite limits and control points for credit, market, insurance, operational and liquidity risks. Business and strategic risk is managed through our strategic and business planning process and through controls over the implementation of these strategic and business plans. Risks associated with activities outside our risk appetite or outside the acceptable defined risks are avoided.

Stakeholder Interests

Our Risk Appetite Policy considers the interests of a large number of key stakeholders, including Clients, policyholders, shareholders, debt-holders, employees, regulators, distributors, rating agencies and other capital markets participants. The policy describes how to balance the needs, expectations, risk and reward perspectives, and investment horizons of these different stakeholders.

Effective risk management requires that objectives and incentives be aligned to ensure management's decisions are consistent with the Company's risk philosophy and risk appetite. To ensure this, the business plans and strategies are independently tested to ensure that they operate within the boundaries and requirements set out in the Risk Framework and the Risk Appetite Policy, and the results of this testing are reported to the Board. Compensation programs for employees are approved by the Board and the Board Committees and are aligned with the Company's risk philosophy, values, business and risk management strategies, and the long-term interests of stakeholders. In establishing annual performance objectives, we consider risk management goals to ensure that business decisions are consistent with the desired risk and return profile of the Company.

Capability Alignment

We seek out profitable risk-taking opportunities in those areas where we have established risk management skills and capabilities. Conversely, we endeavour to avoid or transfer risks that are beyond our risk-taking capability. Our ability to measure and evaluate risks, the quality of our risk governance and control environment, the depth and quality of our risk responses and the robustness of our pricing strategies are particularly important capabilities that we assess.

Portfolio Perspective

In evaluating a particular risk, consideration is given to a portfolio perspective of risk and return including the explicit recognition of the impacts of diversification and concentration and how different risks interact with each other. This perspective is extended to the development of risk mitigation and pricing strategies, recognizing that often the most cost-effective way of managing risk involves utilizing available relationships already inherent in our business.

Risk-Adjusted Returns

The financial return metrics which are used to assess business activities are required to be risk-adjusted. Financial return metrics are developed in consideration of the constraints set out in the Risk Appetite Policy, and reflect the expected costs of mitigation and the cost of risk capital required to support the risk taking activity.

Culture

Culture is the sum of the shared assumptions, values and beliefs that create the unique character of an organization. Our company culture encourages behaviour aligned with goals for long-term value creation. It defines the appropriate behaviour for any given situation, governs the interaction with Clients and affects how employees identify with the organization. Our company culture has significant potential to impact our risk profile. An organization's culture impacts its ability to create value and to protect value. Maintaining the right balance of risk-taking and risk control activities is a key organizational capability and fundamental to our long-term sustainable success.

9. Risk Categories

The shaded text and tables in the following section of this MD&A represent our disclosure on credit, market and liquidity risks in accordance with IFRS 7 *Financial Instruments - Disclosures* and includes a discussion on how we measure risk and our objectives, policies and methodologies for managing these risks. The shaded text and tables represent an integral part of our audited annual Consolidated Financial Statements for the year ended December 31, 2020. The shading in this section does not imply that these disclosures are of any greater importance than non-shaded tables and text, and the Risk Management disclosure should be read in its entirely. This information should be considered carefully together with other information in this MD&A and in the 2020 AIF, our Consolidated Financial Statements and other reports and materials that we file with securities regulators.

In this section, segregated funds include segregated fund guarantees, variable annuities and investment products, and includes Run-off reinsurance in Corporate.

Our Risk Framework has grouped all risks into six major risk categories: market, insurance, credit, business and strategic, operational and liquidity risks.

i. Market Risk

Risk Description

We are exposed to financial and capital market risk, which is defined as the risk that the fair value or future cash flows of an insurance contract or financial instrument will fluctuate because of changes or volatility in market prices. Market risk includes equity, interest rate and spread, real estate and foreign currency risks.

Market Risk Management Governance and Control

We employ a wide range of market risk management practices and controls as outlined below:

- Market risk governance practices are in place, including independent monitoring and review and reporting to senior management and the Risk Committee.
- Risk appetite limits have been established for equity, interest rate, real estate and foreign currency risks.
- Income and regulatory capital sensitivities are monitored, managed and reported against pre-established risk limits.
- Comprehensive asset-liability management and hedging policies, programs and practices are in place.
- Regulatory solvency requirements include risk-based capital requirements and are monitored regularly.
- Product Design and Pricing Policy requires a detailed risk assessment and pricing provisions for material risks.
- Stress-testing techniques, such as FCT, are used to measure the effects of large and sustained adverse market movements.
- Insurance contract liabilities are established in accordance with Canadian actuarial standards of practice.
- Internal capital targets are established at an enterprise level to cover all risks and are above minimum regulatory and supervisory levels. Actual capital levels are monitored to ensure they exceed internal targets.

Specific market risks and our risk management strategies are discussed below in further detail.

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. 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 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 our revenue and net income. 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 our net income and financial position.

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 is the potential for financial loss arising from changes or volatility in interest rates or spreads 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 spread environments. The impact of changes or volatility in interest rates or spreads is reflected in the valuation of our financial assets and liabilities for insurance contracts.

Our primary exposure to interest rate and spread risk arises from certain general account products and segregated fund contracts which contain investment guarantees in the form of minimum crediting rates, guaranteed premium rates, settlement options and benefit guarantees. 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. These products are included in our asset-liability management program and the residual interest rate exposure is managed within our risk appetite limits.

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 may 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 deposits and low or negative returns on our fixed income assets impacting our profitability. In contrast, increases in interest rates or a widening of spreads may have a material impact on the value of fixed income assets, resulting in depressed market values, and may lead to lower LICAT ratios 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 spreads may increase the risk that policyholders will surrender their contracts, potentially forcing us to liquidate assets at a loss and accelerate recognition of certain acquisition expenses. 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 the underlying losses.

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 earnings, regulatory capital requirements 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 pressure our operating expense levels;
- Shifts in the expected pattern of redemptions (surrenders) on existing policies;
- Higher new business strain reflecting lower new business profitability;
- Reduced return on new fixed income asset purchases, and higher hedging costs;
- The impact of changes in actuarial assumptions;
- Impairment of goodwill; and
- Additional valuation allowances against our deferred tax assets.

Market Risk Sensitivities

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

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

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

[1] Net income in section J - Risk Management in this document refers to common shareholders' net income.

In 2020, we realized $169 million (pre-tax), in net gains on the sale of AFS assets, which excludes net gains of $282 million relating to the impact from the repayment of our senior financing obligation in the third quarter of 2020[1]. Including the net gains from the impact of the repayment of our senior financing obligation, we realized $451 million (pre-tax) in net gains on the sale of AFS assets in 2020 ($167 million pre-tax in 2019). The net unrealized (losses) gains or OCI position on AFS fixed income and equity assets were $556 million and $76 million, net of tax, respectively, as at December 31, 2020 ($251 million and $62 million, net of tax, respectively, as at December 31, 2019).

During the fourth quarter of 2020, we realized $20 million (pre-tax), in net gains on the sale of AFS assets ($64 million pre-tax in the fourth quarter of 2019).

Equity Market Sensitivities

The following table sets out the estimated immediate impact on, or sensitivity of, our net income and OCI and Sun Life Assurance's LICAT ratio to certain instantaneous changes in equity market prices as at December 31, 2020 and December 31, 2019.

It is important to note that these estimates are illustrative and performance of our segregated fund dynamic hedging program may differ as actual equity-related exposures vary from broad market indices (the impact of active management, basis risk, and other factors) and higher or lower volatility level than assumed.

As at December 31, 2020 ($ millions, unless otherwise noted)				
Change in Equity Markets[1]	**25% decrease**	**10% decrease**	**10% increase**	**25% increase**
Potential impact on net income[2][3]	**$ (400)**	**$ (150)**	**$ 150**	**$ 300**
Potential impact on OCI[3]	**$ (50)**	**$ —**	**$ —**	**$ 50**
Potential impact on LICAT[2][4]	**0.0% point change**	**0.0% point change**	**0.0% point change**	**0.5% point decrease**

As at December 31, 2019 ($ millions, unless otherwise noted)				
Change in Equity Markets[1]	25% decrease	10% decrease	10% increase	25% increase
Potential impact on net income[2][3]	$ (350)	$ (150)	$ 100	$ 250
Potential impact on OCI[3]	$ (50)	$ (50)	$ 50	$ 50
Potential impact on LICAT[2][4]	0.5% point decrease	0.0% point change	0.0% point change	0.0% point change

[1] Represents the respective change across all equity markets as at December 31, 2020 and December 31, 2019. Assumes that actual equity exposures consistently and precisely track the broader equity markets. Since in actual practice equity-related exposures generally differ from broad market indices (due to the impact of active management, basis risk, and other factors), realized sensitivities may differ significantly from those illustrated above. Sensitivities include the impact of re-balancing equity hedges for dynamic hedging programs at 2% intervals (for 10% changes in equity markets) and at 5% intervals (for 25% changes in equity markets).

[2] The market risk sensitivities include the estimated mitigation impact of our hedging programs in effect as at December 31, 2020 and December 31, 2019, and include new business added and product changes implemented prior to such dates.

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

[4] The LICAT sensitivities illustrate the impact on Sun Life Assurance as at December 31, 2020 and December 31, 2019. LICAT ratios are rounded to the nearest 0.5%.

[1] Our senior financing obligation related to U.S. statutory regulatory capital requirements for In-force Management. See section K - Additional Financial Disclosure in this document.

Interest Rate Sensitivities

The following table sets out the estimated immediate impact on, or sensitivity of, our net income and OCI and Sun Life Assurance's LICAT ratio to certain instantaneous changes in interest rates as at December 31, 2020 and December 31, 2019.

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.

($ millions, unless otherwise noted)	As at December 31, 2020		As at December 31, 2019	
Change in Interest Rates[1]	**50 basis point decrease**	**50 basis point increase**	50 basis point decrease	50 basis point increase
Potential impact on net income[2][3][4]	**$ (100)**	**$ 100**	$ (150)	$ 50
Potential impact on OCI[3]	**$ 250**	**$ (250)**	$ 250	$ (250)
Potential impact on LICAT[2][5]	**3.5% point increase**	**1.5% point decrease**	2.0% point increase	3.0% point decrease

[1] Interest rate sensitivities assume a parallel shift in assumed interest rates across the entire yield curve as at December 31, 2020 and December 31, 2019 with no change to the Actuarial Standards Board ("ASB") promulgated Ultimate Reinvestment Rate ("URR"). Variations in realized yields based on factors such as different terms to maturity and geographies may result in realized sensitivities being significantly different from those illustrated above. Sensitivities include the impact of re-balancing interest rate hedges for dynamic hedging programs at 10 basis point intervals (for 50 basis point changes in interest rates).

[2] The market risk sensitivities include the estimated mitigation impact of our hedging programs in effect as at December 31, 2020 and December 31, 2019, and include new business added and product changes implemented prior to such dates.

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

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

[5] The LICAT sensitivities illustrate the impact on Sun Life Assurance as at December 31, 2020 and December 31, 2019. LICAT ratios are rounded to the nearest 0.5%. The sensitivities assume that a scenario switch does not occur in the quarter. The December 31, 2020 sensitivities are calculated using a different North America scenario than that used in December 31, 2019.

The above sensitivities were determined using a 50 basis point change in interest rates and a 10% change in our equity markets because we believe that these market shocks were reasonably possible as at December 31, 2020. We have also disclosed the impact of a 25% change in equity markets to illustrate that significant changes in equity market levels may result in other than proportionate impacts on our sensitivities.

Interest rate sensitivities do not include any impact from changes to the ASB promulgated URR. In 2014, ASB made changes to the Canadian actuarial standards of practice with respect to economic reinvestment assumptions used in the valuation of insurance contract liabilities. The changes relate to assumed future interest rates, credit spreads and the use of non-fixed income assets supporting fixed obligations. Based on current assumptions, as at December 31, 2020, our estimated sensitivity to a 15 basis point decrease in the URR would have been a decrease in reported net income of approximately $125 million. The ASB is also considering a change to ultimate credit spreads, the impact of which is expected to be favourable. The actual impact could differ from the Company's estimate. The statements concerning expected URR and ultimate credit spreads changes are forward-looking.

Credit Spread and Swap Spread Sensitivities

The credit spread sensitivities reflect the impact of changes in credit spreads on our asset and liability valuations (including non-sovereign fixed income assets, provincial governments, corporate bonds, and other fixed income assets). The swap spread sensitivities reflect the impact of changes in swap spreads on swap-based derivative positions and liability valuations.

The following table sets out the estimated immediate impact on, or sensitivity of, our net income and Sun Life Assurance's LICAT ratio attributable to certain instantaneous changes in credit and swap spreads as at December 31, 2020 and December 31, 2019.

($ millions, unless otherwise noted)	As at December 31, 2020		As at December 31, 2019	
Change in Credit Spreads[1]	**50 basis point decrease**	**50 basis point increase**	50 basis point decrease	50 basis point increase
Potential impact on net income[2]	**$ (125)**	**$ 75**	**$ (75)**	**$ 50**
Potential impact on LICAT[3]	**0.5% point decrease**	**0.5% point increase**	0.0% point change	0.5% point decrease

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

[2] Sensitivities have been rounded to the nearest $25 million.

[3] The LICAT sensitivities illustrate the impact on Sun Life Assurance as at December 31, 2020 and December 31, 2019. The sensitivities assume that a scenario switch does not occur in the quarter. The December 31, 2020 sensitivities are calculated using a different North America scenario than that used at December 31, 2019. LICAT ratios are rounded to the nearest 0.5%.

($ millions, unless otherwise noted)	As at December 31, 2020		As at December 31, 2019	
Change in Swap Spreads	**20 basis point decrease**	**20 basis point increase**	20 basis point decrease	20 basis point increase
Potential impact on net income[1]	**$ 50**	**$ (50)**	$ 50	$ (50)

[1] Sensitivities have been rounded to the nearest $25 million.

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

LICAT Interest Rate Scenario Switch

The LICAT interest rate risk is assessed under four different interest rate scenarios, and the scenario leading to the highest capital requirement is chosen as the worst scenario. Changes and interaction between the level and term movements in interest rates and credit spreads can shift the interest rate scenario applied in the LICAT calculation causing a discontinuity where capital requirements change materially. However, in April 2020, OSFI updated the LICAT guideline for interest rate risk requirements for participating business to be smoothed over six quarters. As a result, the actual impact to the LICAT ratio from participating business in any quarter will reflect the scenarios from current quarter as well as the prior five quarters and switching from either an adverse or beneficial scenario would have the effect of offsetting the previous impacts over time. It should be noted that the changing of the scenario can also change the direction of the credit spread sensitivities.

In the second quarter of 2020, both SLF Inc. and Sun Life Assurance experienced a switch in the interest rate scenario in North America. In the past, we have communicated that the fully phased-in impact of the discontinuity caused by the scenario switch can be up to four LICAT ratio percentage points. As a result of OSFI's new methodology for interest rates risk for participating lines of business, the discontinuity has reduced to less than one LICAT percentage point in the current quarter, with the remaining impact coming through over the next three quarters if we remain on the current scenario.

Market Risk Management Strategies

Market risk is managed at all stages during the product life cycle including product design and development, ongoing review and positioning of our suite of products, and ongoing asset-liability management and hedge re-balancing.

We have implemented asset-liability management and hedging programs involving regular monitoring and adjustment of market risk exposures using assets, derivative instruments and repurchase agreements to maintain market risk exposures within our risk appetite. The general availability and cost of these hedging instruments may be adversely impacted by a number of factors including changes in interest rates, increased volatility in capital markets, and changes in the general market and regulatory environment within which these hedging programs operate. In particular, regulations for OTC derivatives could impose additional costs and could affect our hedging strategy. In addition, these programs may themselves expose us to other risks.

Our market risk management strategies are developed based on policies and operating guidelines at the enterprise level, business segment level and product level. Liabilities having a similar risk profile are grouped together and a customized investment and hedging strategy is developed and implemented to optimize return within our risk appetite limits.

In general, market risk exposure is mitigated by the assets supporting our products. This includes holdings of fixed income assets such as bonds and mortgages. Derivative instruments may supplement these assets to reduce the risk from cash flow mismatches and mitigate the market risk associated with liability features and optionality. The following table sets out the use of derivatives across a number of our products as at December 31, 2020.

Asset-Liability Management Applications for Derivative Usage

The primary uses of derivatives are set out in the table below.

Products/Application	Uses of Derivative	Derivatives Used
General asset-liability management - interest rate risk exposure for most insurance and annuity products	To manage the sensitivity of the duration gap between assets and liabilities to interest rate changes	Interest rate swaps, swaptions, floors and bond futures
Guarantees on insurance and annuity contracts - minimum interest rate guarantees, guaranteed surrender values and guaranteed annuitization options	To limit potential financial losses from significant reductions in asset earned rates relative to contract guarantees	Interest rate swaps, swaptions, floors and bond futures
Segregated fund guarantees	To manage the exposure of product guarantees sensitive to movement in equity market and interest rate levels and currency fluctuations	Put options, call options, futures and swaps on equity indices, interest rate swaps and bond futures, and foreign exchange forwards
Currency exposure in relation to asset-liability management	To reduce the sensitivity to currency fluctuations by matching the value and cash flows of specific assets denominated in one currency with the value and cash flows of the corresponding liabilities denominated in another currency	Currency swaps and forwards
Credit exposure	To replicate credit exposures and enhance investment returns	Credit default swaps

General Account Insurance and Annuity Products

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

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

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

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

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

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

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

Segregated Fund Guarantees

Approximately one-quarter of our equity market sensitivity and a small amount of interest rate risk sensitivity as at December 31, 2020 are derived from segregated fund products. These products provide benefit guarantees, which are linked to underlying fund performance and may be triggered upon death, maturity, withdrawal or annuitization. The cost of providing these guarantees is uncertain and depends upon a number of factors including general capital market conditions, our hedging strategies, policyholder behaviour and mortality experience, each of which may result in negative impacts on net income and capital.

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

Segregated Fund Risk Exposures

December 31, 2020

($ millions)	**Fund value**	**Amount at Risk[1]**	**Value of guarantees[2]**	**Insurance contract liabilities[3]**
Canada	**12,533**	**410**	**10,954**	**787**
Asia	**2,003**	**180**	**1,975**	**97**
Corporate[4]	**2,548**	**167**	**964**	**221**
Total	**17,084**	**757**	**13,893**	**1,105**

December 31, 2019

($ millions)	Fund value	Amount at Risk[1]	Value of guarantees[2]	Insurance contract liabilities[3]
Canada	12,131	362	10,678	505
Asia	2,337	212	2,380	99
Corporate[4]	2,302	207	1,063	228
Total	16,770	781	14,121	832

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

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

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

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

The movement of the items in the table above from December 31, 2019 to December 31, 2020 primarily resulted from the following factors:

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

Segregated Fund Hedging

Our hedging programs use derivative instruments to mitigate the interest and equity related exposure of our segregated fund contracts. As at December 31, 2020, over 90% of our segregated fund contracts, as measured by associated fund values, were included in a hedging program. While a large percentage of contracts are included in the hedging program, not all of our market risk exposure related to these contracts is hedged. For those segregated fund contracts included in the hedging program, we generally hedge the value of expected future net claims costs and associated margins.

The following table illustrates the impact of our hedging program related to our sensitivity to a 50 basis point decrease in interest rates and a 10% and 25% decrease in equity markets for segregated fund contracts as at December 31, 2020 and December 31, 2019.

Impact of Segregated Fund Hedging

December 31, 2020

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

December 31, 2019

($ millions)	Changes in interest rates[3]	Changes in equity markets[4]	
Net income sensitivity[1][2]	50 basis point decrease	10% decrease	25% decrease
Before hedging	(150)	(150)	(400)
Hedging impact	150	100	300
Net of hedging	—	(50)	(100)

[1] Net income sensitivities have been rounded to the nearest $50 million.
[2] Since the fair value of benefits being hedged will generally differ from the financial statement value (due to different valuation methods and the inclusion of valuation margins in respect of financial statement values), this will result in residual volatility to interest rate and equity market shocks in net income and capital. The general availability and cost of these hedging instruments may be adversely impacted by a number of factors, including volatile and declining equity and interest rate market conditions.
[3] Represents a parallel shift in assumed interest rates across the entire yield curve as at December 31, 2020 and December 31, 2019, with no change to the ASB promulgated URR. Variations in realized yields based on factors such as different terms to maturity and geographies may result in realized sensitivities being significantly different from those illustrated above. Sensitivities include the impact of re-balancing interest rate hedges for dynamic hedging programs at 10 basis point intervals (for 50 basis point changes in interest rates).
[4] Represents the change across all equity markets as at December 31, 2020 and December 31, 2019. Assumes that actual equity exposures consistently and precisely track the broader equity markets. Since in actual practice equity-related exposures generally differ from broad market indices (due to the impact of active management, basis risk, and other factors), realized sensitivities may differ significantly from those illustrated above. Sensitivities include the impact of re-balancing equity hedges for dynamic hedging programs at 2% intervals (for 10% changes in equity markets) and at 5% intervals (for 25% changes in equity markets).

Our hedging strategy is applied both at the line of business or product level and at the Company level using a combination of longer-dated put options and dynamic hedging techniques (i.e., frequent re-balancing of short-dated interest rate and equity derivative contracts). We actively monitor our overall market exposure and may implement tactical hedge overlay strategies in order to align expected earnings sensitivities with risk management objectives.

Real Estate Risk

Real estate risk is the potential for financial loss arising from fluctuations in the value of, or future cash flows from, our investments in real estate. We are exposed to real estate risk and may experience financial losses resulting from the direct ownership of real estate investments or indirectly through fixed income investments secured by real estate property, leasehold interests, ground rents, and purchase and leaseback transactions. Real estate price risk may arise from external market conditions, inadequate property analysis, inadequate insurance coverage, inappropriate real estate appraisals, or from environmental risk exposures. We hold direct real estate investments that support general account liabilities and surplus, and fluctuations in value will impact our profitability and financial position. A material and sustained increase in interest rates may lead to deterioration in real estate values. An instantaneous 10% decrease in the value of our direct real estate investments as at December 31, 2020 would decrease net income[1] by approximately $275 million ($275 million decrease as at December 31, 2019). Conversely, an instantaneous 10% increase in the value of our direct real estate investments as at December 31, 2020 would increase net income by approximately $250 million ($275 million increase as at December 31, 2019).

[1] Net income sensitivities have been rounded to the nearest $25 million.

Foreign Currency Risk

Foreign currency risk is the result of mismatches in the currency of our assets and liabilities (inclusive of capital), and cash flows. This risk may arise from a variety of sources such as foreign currency transactions and services, foreign currency hedging, investments denominated in foreign currencies, investments in foreign subsidiaries and net income from foreign operations. Changes or volatility in foreign exchange rates, including a change to currencies that are fixed in value to another currency, could adversely affect our financial condition and results of operations.

As an international provider of financial services, we operate in a number of countries, with revenues and expenses denominated in several local currencies. In each country in which we operate, we generally maintain the currency profile of assets to match the currency of aggregate liabilities and required surplus. This approach provides an operational hedge against disruptions in local operations caused by currency fluctuations. Foreign currency derivative contracts such as currency swaps and forwards are used as a risk management tool to manage the currency exposure in accordance with our Asset Liability Management Policy. As at December 31, 2020 and December 31, 2019, the Company did not have a material foreign currency risk exposure on a functional currency basis.

Changes in exchange rates can affect our net income and surplus when financial results in functional currencies are translated into Canadian dollars. Net income earned outside of Canada is generally not currency hedged and a weakening in the local currency of our foreign operations relative to the Canadian dollar can have a negative impact on our net income reported in Canadian currency. A strengthening in the local currency of our foreign operations relative to the Canadian dollar would have the opposite effect. Regulatory capital ratios could also be impacted by changes in exchange rates.

Additional Cautionary Language and Key Assumptions Related to Sensitivities

Our market risk sensitivities are measures of our estimated change in net income and OCI for changes in interest rates and equity market price levels described above, based on interest rates, equity market prices and business mix in place as at the respective calculation dates. These sensitivities are calculated independently for each risk factor, generally assuming that all other risk variables stay constant. The sensitivities do not take into account indirect effects such as potential impacts on goodwill impairment or valuation allowances on deferred tax assets. The sensitivities are provided for the consolidated entity and may not be proportional across all reporting segments. Actual results can differ materially from these estimates for a variety of reasons, including differences in the pattern or distribution of the market shocks, the interaction between these risk factors, model error, or changes in other assumptions such as business mix, effective tax rates, policyholder behaviour, currency exchange rates and other market variables relative to those underlying the calculation of these sensitivities. The extent to which actual results may differ from the indicative ranges will generally increase with larger capital market movements. Our sensitivities as at December 31, 2019 have been included for comparative purposes only.

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

As these market risk sensitivities reflect an instantaneous impact on net income, OCI and Sun Life Assurance'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 December 31, 2020 and December 31, 2019, respectively. Changes in these positions due to new sales or maturities, asset purchases/sales, or other management actions could result in material changes to these reported sensitivities. In particular, these sensitivities reflect the expected impact of hedging activities based on the hedge programs in place as at the December 31 calculation dates. The actual impact of hedging activity can differ materially from that assumed in the determination of these indicative sensitivities due to ongoing hedge re-balancing activities, changes in the scale or scope of hedging activities, changes in the cost or general availability of hedging instruments, basis risk (i.e., the risk that hedges do not exactly replicate the underlying portfolio experience), model risk, and other operational risks in the ongoing management of the hedge programs or the potential failure of hedge counterparties to perform in accordance with expectations.

The sensitivities are based on methods and assumptions in effect as at December 31, 2020 and December 31, 2019, as applicable. Changes in the regulatory environment, accounting or actuarial valuation methods, models, or assumptions (including changes to the ASB promulgated URR) after those dates could result in material changes to these reported sensitivities. Changes in interest rates and equity market prices in excess of the ranges illustrated may result in other than proportionate impacts.

Our hedging programs may themselves expose us to other risks, including basis risk (i.e., the risk that hedges do not exactly replicate the underlying portfolio experience), volatility risk, 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 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.

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

Information related to market risk sensitivities and guarantees related to segregated fund products should be read in conjunction with the information contained in the sections in this MD&A under the section M - Accounting and Control Matters - 1 - Critical Accounting Policies and Estimates. Additional information on market risk can be found in Note 6 of our 2020 Annual Consolidated Financial Statements and the Risk Factors section in the AIF.

ii. Insurance Risk

Risk Description

Insurance risk is the uncertainty of product performance due to actual experience emerging differently than expected in the areas of policyholder behaviour, mortality, morbidity and longevity. In addition, product design and pricing, expense and reinsurance risks impact multiple risk categories, including insurance risk.

Insurance Risk Management Governance and Control

We employ a wide range of insurance risk management practices and controls, as outlined below:

- Insurance risk governance practices are in place, including independent monitoring and review and reporting to senior management and the Risk Committee.
- Income and regulatory capital sensitivities are monitored, managed and reported against pre-established risk appetite limits for policyholder behaviour, mortality, morbidity and longevity risks.
- Comprehensive Insurance Risk Policy, guidelines and practices are in place.
- The global underwriting manual aligns underwriting practices with our corporate risk management standards and ensures a consistent approach in insurance underwriting.
- Board-approved maximum retention limits are in place. Amounts issued in excess of these limits are reinsured.
- Detailed procedures, including criteria for approval of risks and for claims adjudication are established and monitored for each business segment.
- Underwriting and risk selection standards and procedures are established and overseen by the corporate underwriting and claims risk management function.
- Diversification and risk pooling is managed by aggregation of exposures across product lines, geography and distribution channels.
- We use reinsurance to limit losses, minimize exposure to significant risks and to provide additional capacity for growth.
- The Insurance Risk Policy and Investment & Credit Risk Policy establish acceptance criteria and protocols to monitor the level of reinsurance ceded to any single reinsurer or group of reinsurers.
- Reinsurance counterparty risk is monitored, including annual reporting of reinsurance exposure to the Risk Committee.
- Concentration risk exposure is monitored on group policies in a single location to avoid a catastrophic event occurrence resulting in a significant impact.
- Various limits, restrictions and fee structures are introduced into plan designs in order to establish a more homogeneous policy risk profile and limit potential for anti-selection.
- Regulatory solvency requirements include risk-based capital requirements and are monitored regularly.
- The Product Design and Pricing Policy requires detailed risk assessment and pricing provision for material risks.
- Company specific and industry level experience studies and sources of earnings analysis are monitored and factored into valuation, renewal and new business pricing processes.
- Stress-testing techniques, such as FCT, are used to measure the effects of large and sustained adverse movements in insurance risk factors.
- Insurance contract liabilities are established in accordance with Canadian actuarial standards of practice.
- Internal capital targets are established at an enterprise level to cover all risks and are above minimum regulatory and supervisory levels. Actual capital levels are monitored to ensure they exceed internal targets.

Our Insurance Risk Policy sets maximum global retention limits and related management standards and practices that are applied to reduce our exposure to large claims. Amounts in excess of the Board-approved maximum retention limits are reinsured. On a single life or joint-first-to-die basis retention limit is $40 million in Canada and US$40 million outside of Canada. For survivorship life insurance, our maximum global retention limit is $50 million in Canada and US$50 million outside of Canada. In certain markets and jurisdictions, retention levels below the maximum are applied. Reinsurance is utilized for numerous products in most business segments, and placement is done on an automatic basis for defined insurance portfolios and on a facultative basis for individual risks with certain characteristics.

Our reinsurance coverage is well diversified and controls are in place to manage exposure to reinsurance counterparties. Reinsurance exposures are monitored to ensure that no single reinsurer represents an undue level of credit risk. This includes performing periodic due diligence on our reinsurance counterparties as well as internal credit assessments on counterparties with which we have material exposure. While reinsurance arrangements provide for the recovery of claims arising from the liabilities ceded, we retain primary responsibility to the policyholders.

Specific insurance risks and our risk management strategies are discussed below in further detail.

Policyholder Behaviour Risk

We can incur losses due to adverse policyholder behaviour relative to the assumptions used in the pricing and valuation of products with regard to lapse of policies or exercise of other embedded policy options.

Uncertainty in policyholder behaviour can arise from several sources including unexpected events in the policyholder's life circumstances, the general level of economic activity (whether higher or lower than expected), changes in the financial and capital markets, changes in pricing and availability of current products, the introduction of new products, changes in underwriting technology and standards, as well as changes in our financial strength or reputation. Uncertainty in future cash flows affected by policyholder behaviour can be further exacerbated by irrational behaviour during times of economic turbulence or at key option exercise points in the life of an insurance contract.

Various types of provisions are built into many of our products to reduce the impact of uncertain policyholder behaviour. These provisions include:
- Surrender charges that adjust the payout to the policyholder by taking into account prevailing market conditions.
- Limits on the amount that policyholders can surrender or borrow.
- Restrictions on the timing of policyholders' ability to exercise certain options.
- Restrictions on both the types of funds Clients can select and the frequency with which they can change funds.
- Policyholder behaviour risk is also mitigated through reinsurance on some insurance contracts.

Internal experience studies are used to monitor, review and update policyholder behaviour assumptions as needed which could result in updates to policy liabilities.

Mortality and Morbidity Risk

Mortality and morbidity risk is the risk that future experience could be worse than the assumptions used in the pricing and valuation of products. Mortality and morbidity risk can arise in the normal course of business through random fluctuation in realized experience, through catastrophes, as a result of a pandemic, or in association with other risk factors such as product development and pricing or model risk. Adverse mortality and morbidity experience could also occur through systemic anti-selection, which could arise due to poor plan design, or underwriting process failure or the development of investor-owned and secondary markets for life insurance policies.

External factors could adversely affect our life insurance, health insurance, critical illness, disability, long-term care insurance and annuity businesses. Morbidity experience could be unfavourably impacted by external events, such as pandemics, increases in disability claims during economic slowdowns and increases in high medical treatment costs and growth in utilization of specialty drugs. This introduces the potential for adverse financial volatility in our financial results.

Detailed uniform underwriting procedures have been established to determine the insurability of applicants and to manage exposure to large claims. These underwriting requirements are regularly scrutinized against industry guidelines and oversight is provided through a corporate underwriting and claim management function.

Mortality and morbidity concentration risk is the risk of a catastrophic event, such as natural environmental disasters (for example, earthquakes), human-made disasters (for example, acts of terrorism, military actions, and inadvertent introduction of toxic elements into the environment) as well as epidemics that could occur in geographic locations where there is significant insurance coverage. We do not have a high degree of concentration risk to single individuals or groups due to our well-diversified geographic and business mix. The largest portion of mortality risk within the Company is in North America. Individual and group insurance policies are underwritten prior to initial issue and renewals, based on risk selection, plan design, and rating techniques.

The Insurance Risk Policy approved by the Risk Committee includes limits on the maximum amount of insurance that may be issued under one policy and the maximum amount that may be retained. These limits vary by geographic region and amounts in excess of limits are reinsured to ensure there is no exposure to unreasonable concentration of risk.

Longevity Risk

Longevity risk is the potential for economic loss, accounting loss or volatility in earnings arising from adverse changes in rates of mortality improvement relative to the assumptions used in the pricing and valuation of products. This risk can manifest itself slowly over time as socioeconomic conditions improve and medical advances continue. It could also manifest itself more quickly, for example, due to medical breakthroughs that significantly extend life expectancy. Longevity risk affects contracts where benefits or costs are based upon the likelihood of survival and higher than expected improvements in policyholder life expectancy could therefore increase the ultimate cost of these benefits (for example, annuities, pensions, pure endowments, reinsurance, segregated funds, and specific types of health contracts). Additionally, our longevity risk exposure is increased for certain annuity products such as guaranteed annuity options by an increase in equity market levels.

To improve management of longevity risk, we monitor research in the fields that could result in a change in expected mortality improvement. Stress-testing techniques are used to measure and monitor the impact of extreme mortality improvement on the aggregate portfolio of insurance and annuity products as well as our own pension plans.

Product Design and Pricing Risk

Product design and pricing risk is the risk a product does not perform as expected, causing adverse financial consequences. This risk may arise from deviations in realized experience versus assumptions used in the pricing of products. Risk factors include uncertainty concerning future investment yields, policyholder behaviour, mortality and morbidity experience, sales levels, mix of business, expenses and taxes. Although some of our products permit us to increase premiums or adjust other charges and credits during the life of the policy or contract, the terms of these policies or contracts may not allow for sufficient adjustments to maintain expected profitability. This could have an adverse effect on our profitability and capital position.

Our Product Design and Pricing Policy, approved by the Risk Committee, establishes the framework governing our product design and pricing practices and is designed to align our product offerings with our strategic objectives and risk-taking philosophy. Consistent with this policy, product development, design and pricing processes have been implemented throughout the Company. New products follow a stage-gate process with defined management approvals based on the significance of the initiative. Each initiative is subject to a risk assessment process to identify key risks and risk mitigation requirements, and is reviewed by multiple stakeholders. Additional governance and control procedures are listed below:
- Pricing models, methods, and assumptions are subject to periodic internal peer reviews.
- Experience studies, sources of earnings analysis, and product dashboards are used to monitor actual experience against those assumed in pricing and valuation.

- On experience rated, participating, and adjustable products, emerging experience is reflected through changes in policyholder dividend scales as well as other policy adjustment mechanisms such as premium and benefit levels.
- Limits and restrictions may be introduced into the design of products to mitigate adverse policyholder behaviour or apply upper thresholds on certain benefits.

Expense Risk

Expense risk is the risk that future expenses are higher than the assumptions used in the pricing and valuation of products. This risk can arise from general economic conditions, unexpected increases in inflation, slower than anticipated growth, or reduction in productivity leading to increases in unit expenses. Expense risk occurs in products where we cannot or will not pass increased costs onto the Client and will manifest itself in the form of a liability increase or a reduction in expected future profits.

We closely monitor expenses through an annual budgeting process and ongoing monitoring of any expense gaps between unit expenses assumed in pricing and actual expenses.

Reinsurance Risk

We purchase reinsurance for certain risks underwritten by our various insurance businesses. Reinsurance risk is the risk of financial loss due to adverse developments in reinsurance markets (for example, discontinuance or diminution of reinsurance capacity, or an increase in the cost of reinsurance), insolvency of a reinsurer or inadequate reinsurance coverage.

Changes in reinsurance market conditions, including actions taken by reinsurers to increase rates on existing and new coverage and our ability to obtain appropriate reinsurance, may adversely impact the availability or cost of maintaining existing or securing new reinsurance capacity, with adverse impacts on our business strategies, profitability and financial position. There is an increased possibility of rate increases or renegotiation of legacy reinsurance contracts by our reinsurers, as the global reinsurance industry continues to review and optimize their business models. In addition, changes to the regulatory treatment of reinsurance arrangements could have an adverse impact on our capital position.

We have an Insurance Risk Policy and an Investment & Credit Risk Policy approved by the Risk Committee, which set acceptance criteria and processes to monitor the level of reinsurance ceded to any single reinsurer. These policies also set minimum criteria for determining which reinsurance companies qualify as suitable reinsurance counterparties having the capability, expertise, governance practices and financial capacity to assume the risks being considered. Additionally, these policies require that all agreements include provisions to allow action to be taken, such as recapture of ceded risk (at a potential cost to the Company), in the event that the reinsurer loses its legal ability to carry on business through insolvency or regulatory action. Periodic due diligence is performed on the reinsurance counterparties with which we do business and internal credit assessments are performed on reinsurance counterparties with which we have material exposure. Reinsurance counterparty credit exposures are monitored closely and reported annually to the Risk Committee.

New sales of our products can be discontinued or changed to reflect developments in the reinsurance markets. Rates for our in-force reinsurance treaties can be either guaranteed or adjustable for the life of the ceded policy. In order to diversify reinsurance risk, there is generally more than one reinsurer supporting a reinsurance pool.

Additional information on insurance risk can be found in Note 7 of our 2020 Annual Consolidated Financial Statements and in the Risk Factors section in the AIF.

iii. Credit Risk

Risk Description

Credit risk is the possibility of loss from amounts owed by our borrowers or financial counterparties. We are subject to credit risk in connection with issuers of securities held in our investment portfolio, debtors, structured securities, reinsurers, counterparties (including derivative, repurchase agreement and securities lending counterparties), other financial institutions and other entities. Losses may occur when a counterparty fails to make timely payments pursuant to the terms of the underlying contractual arrangement or when the counterparty's credit rating or risk profile otherwise deteriorates. Credit risk can also arise in connection with deterioration in the value of, or ability to realize, any underlying security that may be used as collateral for the debt obligation. Credit risk can occur as a result of broad economic conditions, challenges within specific sectors of the economy, or from issues affecting individual companies. Events that result in defaults, impairments or downgrades of the securities in our investment portfolio would cause the Company to record realized or unrealized losses and may cause an increase in our provisions for asset default, adversely impacting earnings.

Credit Risk Management Governance and Control

We employ a wide range of credit risk management practices and controls, as outlined below:
- Credit risk governance practices are in place, including independent monitoring and review and reporting to senior management and the Risk Committee.
- Risk appetite limits have been established for credit risk.
- Income and regulatory capital sensitivities are monitored, managed and reported against pre-established risk limits.
- Comprehensive Investment and Credit Risk Management Policy, guidelines and practices are in place.
- Specific investment diversification requirements are in place, such as defined investment limits for asset class, geography, and industry.
- Risk-based credit portfolio, counterparty, and sector exposure limits have been established.
- Mandatory use of credit quality ratings for portfolio investments has been established and is reviewed regularly. These internal rating decisions for new fixed income investments and ongoing review of existing rating decisions are independently adjudicated by Corporate Risk Management.
- Comprehensive due diligence processes and ongoing credit analyses are conducted.
- Regulatory solvency requirements include risk-based capital requirements and are monitored regularly.

- Comprehensive compliance monitoring practices and procedures including reporting against pre-established investment limits are in place.
- Reinsurance exposures are monitored to ensure that no single reinsurer represents an undue level of credit risk.
- Stress-testing techniques, such as FCT, are used to measure the effects of large and sustained adverse credit developments.
- Insurance contract liabilities are established in accordance with Canadian actuarial standards of practice.
- Internal capital targets are established at an enterprise level to cover all risks and are above minimum regulatory and supervisory levels. Actual capital levels are monitored to ensure they exceed internal targets.

Our core principles of credit risk management include asset diversification, fundamental research and analysis of cash flows, proactive and continuous risk monitoring, active management and relative value assessment, all with the objective of optimizing risk-adjusted returns, with due consideration for the impacts of capital and taxation.

We rate fixed income investments primarily through the use of internally developed scorecards which combine an estimated probability of default and loss given default to determine an expected loss and credit risk rating. This rating is expressed using a 22-point scale that is generally consistent with those used by external rating agencies, and is based on detailed examination of the borrower's, or issuer's, credit quality and the characteristics of the specific instrument. The probability of default assessment is based on borrower-level or issuer-level analysis, which encompasses an assessment of industry risk, business strategy, competitiveness, strength of management and other financial information. The loss given default assessment is based on instrument-level analysis, which considers the impact of guarantees, covenants, liquidity and other structural features. These scorecards provide input to stochastic value-at-risk models and are used to stress test the portfolio, which provide insight into the distribution and characteristics of credit risk within our portfolios. In accordance with our policies and under normal circumstances, our ratings cannot be higher than the highest rating provided by certain Nationally Recognized Statistical Rating Organizations ("NRSROs"). Certain assets, including those in our sovereign debt and asset-backed securities portfolios, are assigned a rating based on ratings provided by NRSROs using a priority sequence order of Standard & Poor's, Moody's, Fitch and DBRS Limited.

Additional information on credit risk can be found in Note 6 of our 2020 Annual Consolidated Financial Statements and in the Risk Factors section in the AIF.

iv. Business and Strategic Risk

Risk Description

Business and strategic risk includes risks related to changes in the economic or political environment, distribution channels or Client behaviour, environmental and social risks, competitive, legal or regulatory environment and risks relating to the design or implementation of our business strategy.

Business and Strategic Risk Management Governance and Control

We employ a wide range of business and strategic risk management practices and controls, as outlined below:
- Business and strategic risk governance practices are in place, including independent monitoring and review and reporting to senior management, the Board and the Board Committees.
- Business and strategic risk is managed through our strategic and business planning process and controls over the implementation of these plans. These plans are reviewed and discussed at the executive level and the key themes, issues and risks emerging are discussed by the Board and the Board Committees.
- Our business and strategic plans are subject to approval by the Board, which also receives regular reviews of implementation progress against key business plan objectives.
- Comprehensive policies including the Risk Management Framework, Risk Appetite Policy, Product Design and Pricing Policy, Mergers and Acquisition Policy and Capital Risk Policy are in place.
- Our corporate strategy and business objectives are established within the boundaries of the Risk Appetite Policy. Our business strategies and plans are designed to align with our risk appetite, our capital position and our financial performance objectives.
- Our risk appetite is periodically assessed, taking into consideration the economic and regulatory environments in which we operate.
- Merger, acquisition, strategic investments and divestiture transactions are governed by a Board-approved Merger and Acquisition Risk Management Policy and significant transactions require the approval of the Board.
- Stress-testing techniques, such as FCT, are used to measure the effects of large and sustained adverse scenarios.
- Key and emerging risks are identified, monitored and reported, including emerging regulatory changes that may have a material impact on our finances, operations or reputation.
- Internal capital targets are established at an enterprise level to cover all risks and are above minimum regulatory and supervisory levels. Actual capital levels are monitored to ensure they exceed internal targets.

We regularly review and adapt our business strategies and plans to take account of changes in the external business, economic, political and regulatory environments in which we operate. Our business strategies and plans are designed to align with our risk appetite, our capital position and our financial performance objectives. We periodically reassess our risk appetite taking into consideration the economic, regulatory and competitive environment in which we operate.

Specific business and strategic risks are discussed below in further detail.

Economic and Political Risk

We operate in various geographies and our business and financial operations are susceptible to regional and global economic, political and regulatory changes. We may be affected by economic and capital markets conditions and economic shocks around the globe as a result of increasingly connected global markets. Factors such as changes in interest rates, foreign exchange rates, market volatility, housing prices, consumer spending, saving and debt, business investment and inflation around the globe can affect the business and economic environments in which we operate. Continued economic and political uncertainty may give rise to increased business and strategic risks including those associated with

industry restructuring, mergers and acquisitions, changing competitive dynamics and changes in the legal, regulatory and tax regimes in which our businesses operate. In addition, adverse economic conditions often arise in conjunction with volatile and deteriorating capital markets conditions, which can have an adverse impact on Client behaviour and in turn on our sales and profitability, credit and financial strength ratings, and capital and liquidity positions.

Strategic Execution Risk

Our business strategies and plans are dependent on the successful execution of organizational and strategic initiatives designed to support the growth of our business. Our ability to manage the execution of these initiatives effectively and prioritize initiatives directly affects our ability to execute our strategies. Identifying and implementing the right set of initiatives is critical to achieving our business plan targets. Failure to identify and implement the right set of initiatives could also lead to cost structure challenges and inability to achieve our growth objectives.

Distribution Risk

Failure to achieve planned distribution scale or appropriate and compliant distribution of products could materially impact our financial and strategic objectives. This includes the inability to attract and retain intermediaries and agents at a cost that is financially feasible to the Company, or to develop digital sales and Client support capabilities and technologies. Distribution risk may also be influenced where our distribution or product strategy and related services (including digital sales and Client support capabilities and technologies) are not developed, modified or executed in line with our strategic objectives or in consideration of the changes in Client behaviour or our regulatory environment. In addition, the lack of a well-diversified distribution model in the jurisdictions in which we do business may cause over-reliance on agency channel or key partners.

Risks Relating to Mergers, Acquisitions, Divestitures and Strategic Investments

We regularly explore opportunities to selectively acquire other businesses or to divest ourselves of all or part of certain businesses, in support of our growth and strategic objectives. Any transaction that we enter into introduces a number of risks associated with economic, operational, strategic, financial, tax, legal, regulatory, compliance, and other factors.

There is a risk that we may be unable to make an appropriate acquisition in a desired market or business line or are unable to realize the financial and strategic benefits of the transactions due to competitive factors, regulatory requirements or other factors. These risks could adversely impact our ability to achieve our financial and strategic objectives.

Our ability to realize the contemplated economic, financial, and strategic benefit of any transaction that we enter into is contingent on the effective separation and integration of the transferred businesses, restructuring or reorganization of related businesses, and motivating and retaining personnel to effectively execute these transactions. In addition, the integration of operations and differences in organizational culture may require the dedication of significant management resources, which may distract management's attention from our day-to-day business. Anticipated cost synergies or other expected benefits may not materialize due to a failure to successfully integrate the acquired businesses with our existing operations. Any of these risks, if realized, could prevent us from achieving the expected results from a transaction or could impact our financial and strategic objectives.

To mitigate this risk, we have established procedures to oversee the execution and integration of merger and acquisition transactions. Regular updates on execution and integration risks relating to these transactions are provided to the Board, Board Committees and senior management committees, as appropriate.

Competitive Environment

Competition from insurance companies, banks, asset managers, mutual fund companies, financial planners and other service providers (including new entrants and non-traditional financial services companies) is intense, and could adversely affect our business in certain countries.

The businesses in which we engage are highly competitive and our ability to sell our products is dependent on many factors, including scale, price and yields offered, distribution channels, digital capabilities, financial strength ratings, range of product lines and product quality, brand strength, investment performance, historical dividend levels and the ability to provide value added services to distributors and Clients. In certain markets, some of our competitors may be superior to us on one or more of these factors. Our competitors have significant potential to disrupt our business through targeted strategies to reduce our market share which may include targeting our key people or bancassurance partners and other distributors or aggressively pricing their products. Our ability to achieve our business plans and strategies depends significantly upon our capacity to anticipate and respond quickly to these competitive pressures.

Technology is driving rapid change in the financial services sector and is enabling new entrants to compete or offer services to our competitors to enhance their ability to compete in certain segments of the insurance, wealth and asset management markets. The emergence of new technologies such as robotic process automation, artificial intelligence, blockchain and advanced analytics may have an impact on the financial services sector and how companies interact with their stakeholders. Our current competitors or new entrants may use these or other new technologies to provide services in various areas such as customized pricing, proactive outreach to Clients and targeted marketing in order to strengthen their Client relationships and influence Client behaviour. The impact of disruption from changing technology and innovation by traditional and non-traditional competitors who may offer a better user experience, functionality or lower priced products and may have lower distribution costs will require us to adapt at a more rapid pace and may create margin pressures. The risk of disruption may also impact our distribution models as new and low cost digital-based business models emerge in connection with the distribution of financial services and products, such as insurtechs and robo-advisors. These risks are evolving rapidly with an increasing number of digital users and are difficult to anticipate and respond to proactively, and may adversely impact our profitability and financial position.

Investment Performance

Investment performance risk is the possibility that we fail to achieve the desired return objectives on our investment portfolio, or that our asset management businesses fail to design or execute investment strategies in order to achieve competitive returns on the products and managed

accounts offered by these businesses. Failure to achieve investment objectives may adversely affect our revenue and profitability through slower growth prospects and adverse impacts on policyholder or Client behaviour.

Changes in Legal and Regulatory Environment

Most of our businesses are subject to extensive regulation and supervision. Changes to legislation, regulations or government policies, or the manner in which they are interpreted or enforced, may require that we make significant changes to our strategy, may result in increased implementation costs and diversion of resources to manage the change, could impact financial reporting, accounting processes and capital requirements, and could impact the ability of sales intermediaries to distribute our products, all of which could have an adverse effect on our business and operations. Our failure to comply with existing and evolving regulatory requirements could also result in regulatory sanctions and could affect our relationships with regulatory authorities and our ability to execute our business strategies and plans.

These changes could impact our capital requirements, the regulatory framework for our products and services, the regulation of selling practices, sales intermediaries (such as bancassurance) and product offerings (such as coverage for prescription drugs), solvency requirements, executive compensation, corporate governance practices and could impose restrictions on our foreign operations, which may include changes to the limits on foreign ownership of local companies.

Environmental and Social Risk

Our financial performance, operations, and reputation may be adversely affected if we do not adequately prepare for the direct or indirect negative impacts of environmental and social risks. Environmental and social risk include but are not limited to environmental damage on properties owned or managed by us and climate change related physical and transition risks, public health issues and issues of inequality.

Business units in our Asset Management pillar integrate environmental (as well as social and governance - ESG) considerations in their investment decision-making for Sun Life assets and Client assets. Existing and potential ESG risks are incorporated into initial and ongoing reviews and assessments of public equities and fixed income, private fixed income, real estate, infrastructure and commercial mortgage investments.

We engage in and monitor environmental and broader sustainability developments in part through commitments to the United Nations-supported Principles for Responsible Investment, United Nations Environment Programme - Finance Initiative, Climate Action 100+, and CDP (formerly the Carbon Disclosure Project). Our International Sustainability Council, composed of senior executives from each of our businesses, key functions and regions convenes on broader sustainability issues. We report on sustainability performance, including reporting related to climate change, the environment and social issues, in our annual Sustainability Report, available at sunlife.com/sustainability.

Climate Change

Climate change is one of the defining issues of our time. The science has clearly demonstrated that the world is warming. We believe that it is incumbent upon us to respond and to take actions that support the goal of the Paris Agreement to limit the global temperature increase in this century to well below 2 degrees Celsius compared to pre-industrial levels. Ultimately, the long-term resilience of society, and our Company, will be materially impacted if we don't take effective, collective action to address this global challenge.

Climate change presents medium to long-term risks to our business, with complex and broad potential impacts. As the commitments we make to our Clients extend decades into the future, the risks related to climate change impacts exist within the solutions we are providing to our Clients today. Our Purpose of helping our Clients achieve lifetime financial security and live healthier lives cannot be achieved without a sound approach to climate change that supports the transition to a lower-carbon future. Our Purpose can best be achieved through the integration of this thinking across our businesses, and through working collaboratively with other stakeholders towards a common goal of avoiding the worst effects of climate change.

Sun Life's climate strategy includes the following elements:

- We recognize that as a long-term investor, we have the opportunity to be part of the solution to this global challenge and invest proactively in assets and businesses that support the transition to a lower-carbon economy.
- We assess climate-related impacts on our businesses and investments and adjust accordingly, while acknowledging the challenges of uncertainty and imperfect data to inform such decisions.
- We advocate for better data and disclosures, so we can make better-informed assessments of climate-related risks.
- We commit to continuously improving our climate-related measurement, monitoring and reporting.
- We are focused on reducing climate impact and strengthening the resilience of our own operations around the world, as well as the properties that we own in our investment portfolio.

We commit to working together across industries and with our Clients to contribute to solving this global challenge and recognize that we do not yet have the answers to this complex topic.

Our strategy will continuously evolve over time, building on our experience and external developments.

TCFD Disclosures

Sun Life supports the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures ("TCFD"). The following sets out Sun Life's climate-related disclosures in line with the TCFD recommendations, which are structured around four themes that represent core elements of how organizations operate: strategy, governance, risk management, and metrics and targets.

A dedicated senior executive steering committee guides our implementation of TCFD recommendations. The Chief Legal Officer, who reports directly to the CEO, chairs the TCFD steering committee, with representation from Enterprise Risk Management, Finance, Asset Management, and Sustainability.

Strategy
Our Asset Management business group is comprised of two business units:
- MFS is a premier global asset management firm which offers a comprehensive selection of financial products and services that deliver superior value and active asset management for retail and institutional investors.
- SLC Management is an institutional asset management business that delivers liability driven investing, alternative fixed income and real estate solutions to Clients, including Sun Life's general account.

Our investment approach for climate change encompasses both a risk and opportunity viewpoint.

A transition to a lower carbon economy could affect public and private fixed income and non-fixed income asset values. Existing portfolio investments in coal, conventional oil and oil sands producers, utilities and related fossil fuel industries, railways and pipelines, as well as markets that depend on these industries, may be subject to additional financial risk as a result of changes in regulation, cost of capital, consumer preferences and competition from renewable energy companies leading to lower overall profitability and/or stranded assets.

Our previous work with climate change scenarios, as part of our Financial Condition Testing, has provided insight into the impact of climate-related risks on our investment portfolios. Throughout 2021, we will be participating in a climate scenario analysis pilot project between the Bank of Canada, OSFI, and a small group of Canadian financial institutions. We expect this work to enhance our climate scenario analysis capabilities and our understanding of transition-related risks.

Climate-related opportunities include those related to sustainability bonds, and investments in sustainable real estate investments and infrastructure and renewable energy. Such opportunities manifest in both direct (real estate, infrastructure) and securitized investments. Many companies and industries are benefitting from climate change-related tailwinds, such as mobility (vehicle electrification), energy efficiency services, and renewables. Through our ESG integration efforts, we seek to identify these opportunities in both public and private markets. We were the first life insurer globally to issue a sustainability bond, which helps support the transition to a lower-carbon economy. Through our Asset Management pillar, we are well-positioned to invest in the transition to a clean economy. Asset management is delivered by SLC Management, InfraRed and BGO, all of which operate under the SLC Management brand, as well as by MFS Investment Management.
- SLC Management invests in sustainable infrastructure around the world through its platform of public and private fixed income investments. Sustainable infrastructure categories include renewable energy, energy efficiency, and clean transportation. In deciding whether to invest in carbon-intensive companies, SLC Management also considers to what extent such investments will help those companies transition to a lower-carbon future. In cases such as thermal coal, SLC Management has reduced its exposure.
- InfraRed invests in and manages energy efficiency, low-carbon generation, and renewable energy projects, as well as green buildings, which advances our sustainable investment options for institutional Clients while complementing our focus on sustainable investing and climate change.
- BGO proactively addresses climate risks at the property and portfolio levels through strategic planning that assesses critical vulnerabilities to the built environment. These efforts help BGO to drive for long-term returns for Clients and investors.
- As long-term investors in public issuers, MFS assesses climate change as a key investment decision factor at both the issuer level and portfolio level. MFS also regularly engages with companies to encourage better disclosure and management of climate-related risks and opportunities.

As longer-term investors, we believe that integrating climate change as a key element of investment decision-making can be a source of competitive advantage for two reasons: we believe it should lead to stronger risk-adjusted returns for Clients over time, and stronger ESG investment ratings from groups like the UN-supported PRI, Morningstar, Global Real Estate Sustainability Benchmark (GRESB) and others are increasingly key decision factors for Clients. As participants in Climate Action 100+ investor initiative, we engage some of the world's largest corporate GHG emitters to ensure they are minimizing and disclosing the risks and maximizing the opportunities presented by climate change.

The same principles are used in the selection and monitoring of third-party investment managers that we engage to invest assets on behalf of our Clients in group retirement savings plans. We recognize that our Clients are increasingly bringing a sustainable investment lens to our solutions, and in 2020, we launched a proprietary ESG integration evaluation framework to help sponsors of Sun Life Canada group retirement plans make informed decisions about the investment options they make available to their employees in their workplace plans. The evaluation framework uses detailed criteria in three key areas: Firm Policies, Investment Process and Active Ownership.

Governance
Three Board Committees have oversight over aspects of climate change.
- The Governance, Investment and Conduct Review Committee ("GICRC") provides oversight of our sustainability program, including review and approval of the annual Sustainability Report, and enterprise-wide Sustainability Policy. The GICRC monitors progress on sustainability plan implementation, goals and targets, including greenhouse gas ("GHG") emissions performance.
- The Risk Committee provides enterprise-wide oversight of the management of current and emerging risks, including of climate-related risks and, broadly, environmental risks. For more detail on the Risk Committee's role, refer to Risk Management in this section.
- The Audit Committee has oversight of all financial disclosures, including those related to climate change.

The Board has ultimate oversight of climate change issues, and uses reports from the Board Committee Chairs noted above, and other direct presentations by management and external experts, to inform its views and decisions.

At the management level, the Chief Legal Officer, Chief Risk Officer, and Chief Investment Officer play key roles in assessing and managing climate-related risks and opportunities.
- Our Chief Legal Officer, who is a member of the most senior leadership team and reports directly to the CEO, is the executive sponsor of sustainability and chairs our International Sustainability Council ("ISC"), which meets at least four times per year. ISC members are responsible for the implementation of our sustainability plan, through the areas of focus with which their business or function aligns. Environment and Climate Change is part of the Trusted and Responsible Business foundation of our sustainability plan (available at sunlife.com/sustainability). As noted above, our Chief Legal Officer also chairs our senior executive TCFD steering committee with representation from Enterprise Risk Management, Finance, Asset Management, and Sustainability.
- Our Chief Risk Officer is responsible for leading the Risk Management function (as noted above in Risk Management sections 2 and 7). Key and emerging risks are monitored and reported to the Risk Committee of the Board.

- The Chief Investment Officer chairs the Sustainability Committee and Sustainable Investment Council within SLC Management. The Sustainability Committee is responsible for setting strategic direction related to sustainability and ESG matters, and sets priorities on key sustainability initiatives across SLC Management. The Sustainable Investment Council oversees the integration of material ESG factors, including climate change, into the investment process.

At MFS, three governance bodies have responsibility for sustainable investing and stewardship activities. These groups set sustainable investing strategy, monitor progress and broadly ensure that MFS is considering material risks such as climate change in its investment activities:
- MFS Sustainability Group (membership includes MFS president, head of sustainability and stewardship, and chief investment officer),
- MFS Responsible Investing Committee (membership includes MFS president, general counsel and chief compliance officer), and
- MFS Proxy Voting Committee (membership includes MFS chief investment officer, and head of sustainability and stewardship

In addition, MFS head of sustainable investing and stewardship chairs a sustainable investing steering committee within the MFS investment team. The steering committee has established a Climate Working Group tasked with engaging the broader investment team on how climate change and environmental issues impact the investment process, and developing a framework to support and enhance MFS's climate-related investment decision-making and corporate engagement activity.

Risk Management
Climate risk management is integrated into our Risk Management Framework, Governance, and supporting processes (as noted in preceding sections 1 through 8 and under Governance above).

Our definition of climate risk includes physical impacts of climate change and impacts of the transition to a lower-carbon economy. These impacts can include, but are not limited to, damage to owned and operated real assets including real estate and infrastructure, a reduction in the values of investments in public and private fixed income and non-fixed income assets tied to fossil fuels and carbon intensive industries, health impacts to affected populations, and socio-economic, geo-political and regulatory changes.

From an investment perspective, climate-related risks where material to an industry are integrated into the risk management process as we look to make long-term investments that are better positioned to withstand issues related to climate change. We incorporate a number of different analyses into our assessment of climate risks through both stand-alone analysis of physical risks by geographic region and through the assessment of business model and carbon transition risks. Climate-related risk types monitored may include acute and chronic physical risks and transition risks related to regulation, legal, technology, market and reputation or consumer preferences.

An environmental issue, which may or may not be caused by climate change, on a property owned or operated by us could have financial or reputational impacts. We maintain an environmental risk management program to help monitor and manage investment assets from losses due to environmental issues and to ensure compliance with applicable laws. We maintain insurance policies to cover certain environmental risks on owned assets. We have implemented a business continuity program to facilitate the recovery of critical business operations if an environmental issue affects a location where we conduct operations.

Metrics and Targets
We report our global Scope 1 and Scope 2 GHG emissions from company-occupied real estate and real estate investments under our financial control as well as Scope 3 GHG emissions[1] from corporate travel and as available, real estate-related sources such as water, waste and tenant- or landlord-paid utilities in our annual Sustainability Report available at www.sunlife.com/sustainability. In 2019, one year ahead of schedule, we achieved our target of reducing GHG emissions per square foot by 20%, from a 2014 base year, based on cumulative year-over-year reductions[2]. We have set a goal of carbon-neutrality for our global operations beginning in 2021.

In addition, SLC Management and MFS utilize third party data vendors and tools that provide valuable insights related to the various physical climate risks and GHG exposure for their underlying portfolio companies and securities and are beginning to conduct carbon intensity analyses.

Please refer to Environmental and Social Risk in our AIF for additional climate-related risk discussion.

[1] Scope 1, Scope 2 and Scope 3 GHG emissions are calculated according to the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard of the World Resources Institute and the World Business Council for Sustainable Development. Scope 1, Scope 2 and Scope 3 GHG emissions generally refer to, respectively, direct emissions from owned or controlled sources, indirect emissions from the generation of purchased energy, and other indirect sources.

[2] Target performance is calculated using a rolling base-year approach. Additional details on the methodology are available in our 2020 Sustainability Report, available at sunlife.com/sustainability. This method has been selected to allow for a meaningful presentation of historical performance, while ensuring that comparisons are still relevant given the significant turnover in properties in the portfolio over time.

v. Operational Risk

Risk Description

Operational risk is the risk of loss (financial and non-financial) resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is present in all of our business activities and encompasses a broad range of risks as described below. Operational risk is embedded in the practices utilized to manage other risks and, therefore, if not managed effectively, operational risk can impact our ability to manage other key risks.

Operational Risk Management Governance and Control

We employ a wide range of operational risk management practices and controls, as outlined below:

- Operational risk governance practices are in place, including independent monitoring and review and reporting to senior management and the Board Committees.
- Risk appetite limits have been established in Operational Risk.
- Comprehensive Operational Risk Management Framework, Policies, guidelines and practices are in place.
- Our governance practices, corporate values, Code of Conduct and Company-wide approach to managing risk set the foundation for mitigating operational risks.
- Our Code of Conduct sets the tone for a strong ethical culture, and we regularly review and update the Code of Conduct to ensure that it continues to meet the expectations of regulators and other stakeholders. All our directors and employees must reconfirm annually their understanding of and commitment to comply with the Code of Conduct.
- We have established appropriate internal controls and systems for talent acquisition, rewards and development programs that attract, build and retain top talent and create strong succession plans as well as compensation programs, and we provide ongoing training to our people.
- We conduct regular monitoring of employee engagement to ensure we create and maintain a work environment where all employees are welcome and able to contribute effectively.
- Stress-testing techniques, such as FCT, are used to measure the effects of large and sustained adverse scenarios.
- We mitigate a portion of our operational risk exposure through our corporate insurance program by purchasing insurance coverage that seeks to provide insurance against unexpected material losses resulting from events such as criminal activity, property loss or damage and liability exposures, or that satisfies legal requirements and contractual obligations.
- Internal capital targets are established at an enterprise level to cover all risks and are above minimum regulatory and supervisory levels. Actual capital levels are monitored to ensure they exceed internal targets.

Specific operational risks and our risk management strategies are discussed below in further detail and in the Risk Factor section in the AIF.

Information Security and Privacy Risks

Information and technology are used in almost all aspects of our business and operations. As part of our Client strategy, we continue to enhance the digital side of our business to support and enable new business models and processes, that are more personal, proactive and predictive.

Our business and the successful implementation of our digital strategy are dependent on various factors including maintaining a secure environment for our Clients, employees and other parties' information. This requires the effective and secure use, management and oversight of information and physical assets. We engage with various stakeholders and leverage emerging technologies, including digital, mobile applications, cloud computing, artificial intelligence and robotic process automation. These technologies are used to collect, process and maintain information relating to business transactions and financial reporting, as well as the personal information of our Clients and employees. We also obtain services from a wide range of third-party service providers and have outsourced some business and information technology functions in various jurisdictions.

We continue investing in people, processes and technology to strengthen our abilities to respond to the evolving threat landscape. Our Information Security framework is overseen by the Chief Information Security Officer, supported by senior leadership and by our Operational Risk Management Framework. Our information security framework and governance controls (policies, procedures, training) are aligned with recognized industry standards and are compliant with applicable laws and regulations.

Our well-established security controls and processes are intent on protecting our information and computer systems and the information entrusted to us by our Clients and employees. Our protection strategy leverages information security risk assessments and privacy impact assessments to evaluate potential risks. The security framework also includes technology and process safeguards and regularly promotes secure behavioural practices. As part of our layered security approach, we deliver general security awareness training sessions to all employees every year that is reinforced with regular awareness resources and activities.

Many jurisdictions in which we do business are developing and implementing cyber security reporting requirements and more stringent consumer privacy legislation. Our global privacy program monitors adherence to our global privacy commitments, local laws and local privacy policies. We have also established a network of privacy officers across the Company who monitor emerging privacy legislation and provide guidance on handling personal information and help manage, report and resolve any privacy incidents that may occur. We also conduct privacy training, provide regular monitoring and reporting and carry cyber risk insurance to help mitigate the impact of privacy incidents.

Human Resources Risk

Our ability to achieve business objectives can be adversely affected if we are unable to attract, retain or effectively deploy resources with the in-depth knowledge and necessary skills required, or are unable to design compensation programs that effectively drive employee behaviour. Failure to manage Human Resources risk can also lead to direct financial and reputational loss including losses arising from activity that is inconsistent with Human Rights or employment laws or health and safety regulations.

To mitigate this risk, we have comprehensive Human Resource policies, practices and programs in place to ensure compliance with employment legislation, minimize the risk of employee misconduct, and proactively develop employee skills, capabilities and behaviours to meet future business needs.

Regulatory Compliance, Legal and Conduct Risk

We are subject to extensive regulatory oversight by insurance and financial services regulators in the jurisdictions in which we conduct business. In recent years, there has been an increased focus by regulators globally on Client fairness, conduct, anti-money laundering, privacy and data governance. Failure to comply with applicable laws or to conduct our business consistent with changing regulatory or public expectations could adversely impact our reputation and may lead to regulatory investigations, examinations, proceedings, settlements, penalties, fines, restrictions on our business, litigation or an inability to carry out our business strategy.

Our Chief Compliance Officer oversees our comprehensive Company-wide compliance framework, which is consistent with regulatory guidance from OSFI and other regulators. This framework promotes proactive, risk-based management of compliance and regulatory risk, and includes Company-wide and business segment policies, standards and operating guidelines, programs to promote awareness of laws and regulations that impact us, ongoing monitoring of emerging legal issues and regulatory changes and training programs. There are also employee orientation programs that include anti-money laundering and anti-terrorist financing, anti-bribery and corruption, privacy and information security risk management. Effective governance, oversight and implementation is a coordinated effort between first and second lines of defense functions. Second line oversight relies on a network of compliance officers and the general counsel in each business segment. The Chief Compliance Officer reports regularly to the Board and Board Committees on the state of compliance, key compliance risks, emerging regulatory trends, escalation of key issues and key risk indicators.

Information Technology Risk

The use of technology and computer systems is essential in supporting and maintaining business operations. We use technology to support virtually all aspects of our business and operations. The rapidly changing business environment increases the risk of our technology strategy not being agile enough to adapt to new business demands in a timely manner leading to financial losses, increased costs and the inability to meet Client needs.

To manage the risks associated with our technology infrastructure and applications, we have implemented a number of policies, directives and controls through our technology approval and risk governance model to ensure ongoing systems availability, stability and currency.

Third-Party Risk

We engage in a variety of third-party relationships, including with distributors, independent contractors, outsourcing service providers and suppliers. Our profitability or reputation could be impacted if these third parties are unable to meet their ongoing service commitments or fail to perform to expected standards.

To manage these risks, we have established Company-wide policies and guidelines which are consistent with OSFI's and other local regulatory requirements, and which set out our requirements to identify, assess, manage, monitor and report on third-party risks. Our program includes third-party risk assessments and enhanced due diligence if a supplier will have access to any personal data and/or confidential information or access to non-public systems. The key elements and risks associated with the third party are documented in the form of a written agreement, and the company monitors performance of its third parties in a manner that is commensurate to the size, risk, scope and complexity of the third-party relationship.

Business Disruption Risk

Our businesses are dependent on the availability of trained employees, physical locations to conduct operations and access to technology. A significant business disruption to our operations can result if one or more of these key elements are negatively impacted. System disruptions as well as unanticipated events, including pandemics, can negatively affect staff, preventing them from getting to work or from operating business processes.

To manage this risk, we have implemented a business continuity program to facilitate the recovery of critical business operations. This program encompasses business continuity, crisis management and disaster recovery planning. Our policy, guidelines and operating procedures establish consistent processes designed to ensure that key business functions can continue and normal operations can resume effectively and efficiently should a major disruption occur. In addition, to regularly update and test business continuity plans for critical business operations, we conduct mandatory business continuity awareness training for all employees annually and have off-site backup facilities and failover capability designed to minimize downtime and accelerate recovery time in the event of a major disruption.

Model Risk

We use complex models to support many business functions including product development and pricing, capital management, valuation, financial reporting, planning, hedging, asset-liability management, risk management and advanced analytics (such as artificial intelligence, predictive modeling and decision making algorithms). Model risk is the risk of loss, either in the form of financial loss, inappropriate or poor business decisions, damage to reputation, or other adverse impact, arising from inaccurate model outputs or incorrect use or interpretation of model outputs.

To manage model risk, we have established robust, Company-wide model risk management procedures over the models' life cycle with respect to building, using, changing and retiring models. The policy and operating guidelines set out minimum, risk-based requirements to ensure that models are effectively controlled, maintained and appropriately understood by users.

Information Management Risk

As an international provider of financial services, we deal with extensive information across a number of countries. Information management risk is the inability to capture, manage, retain and appropriately dispose of business records, the inability to provide data that is fit for purpose, accurate, complete or timely to support business decisions, and the inability to manage data location and cross-border appropriately. Failure to manage these risks could have financial or reputational impacts, and may lead to regulatory proceedings, penalties and litigation.

To manage and monitor information management risk, we have an internal control framework, data governance and record management practices in place. Additional information on operational risk can be found in the Risk Factors section in the AIF.

vi. Liquidity Risk

Risk Description

Liquidity risk is the possibility that we will not be able to fund all cash outflow commitments and collateral requirements as they fall due. This includes the risk of being forced to sell assets at depressed prices resulting in realized losses on sale. This risk also includes restrictions on our ability to efficiently allocate capital among our subsidiaries due to various market and regulatory constraints on the movement of funds. Our funding obligations arise in connection with the payment of policyholder benefits, expenses, reinsurance settlements, asset purchases, investment commitments, interest on debt, and dividends on common and preferred shares. Sources of available cash flow include general fund premiums and deposits, investment related inflows (such as maturities, principal repayments, investment income and proceeds of asset sales), proceeds generated from financing activities, and dividends and interest payments from subsidiaries. We have various financing transactions and derivative contracts under which we may be required to pledge collateral or to make payments to our counterparties for the decline in market value of specified assets. The amount of collateral or payments required may increase under certain circumstances (such as changes to interest rates, credit spreads, equity markets or foreign exchange rates), which could adversely affect our liquidity.

Liquidity Risk Management Governance and Control

We generally maintain a conservative liquidity position and employ a wide range of liquidity risk management practices and controls, which are described below:

- Liquidity risk governance practices are in place, including independent monitoring and review and reporting to senior management and the Risk Committee.
- Liquidity is managed in accordance with our Asset Liability Management Policy and operating guidelines.
- Liquidity contingency plans are maintained for the management of liquidity in a liquidity event.
- Stress testing is performed by comparing liquidity coverage risk metrics under a one-month stress scenario to our policy thresholds. These liquidity coverage risk metrics are measured and managed at the enterprise and legal entity levels.
- Stress testing of our collateral is performed by comparing collateral coverage ratios to our policy threshold.
- Cash Management and asset-liability management programs support our ability to maintain our financial position by ensuring that sufficient cash flow and liquid assets are available to cover potential funding requirements. We invest in various types of assets with a view of matching them to our liabilities of various durations.
- Internal capital targets are established at an enterprise level to cover all risks and are above minimum regulatory and supervisory levels. Actual capital levels are monitored to ensure they exceed internal targets.
- We actively manage and monitor our capital and asset levels, and the diversification and credit quality of our investments.
- Various credit facilities for general corporate purposes are maintained.

The following table summarizes the contractual maturities of our significant financial liabilities and contractual commitments as at December 31, 2020 and 2019:

Financial Liabilities and Contractual Obligations

December 31, 2020 ($ millions)	**Within 1 year**	**1 year to 3 years**	**3 years to 5 years**	**Over 5 years**	**Total**
Insurance and investment contract liabilities[1]	**$ 14,735**	**$ 8,317**	**$ 8,641**	**$ 311,570**	**$ 343,263**
Senior debentures and unsecured financing[2]	**323**	**28**	**28**	**555**	**934**
Subordinated debt[2]	**143**	**285**	**285**	**5,661**	**6,374**
Bond repurchase agreements	**2,208**	**—**	**—**	**—**	**2,208**
Accounts payable and accrued expenses[3]	**6,992**	**—**	**—**	**—**	**6,992**
Lease liabilities[4]	**157**	**287**	**226**	**412**	**1,082**
Secured borrowings from mortgage securitization	**292**	**219**	**741**	**865**	**2,117**
Borrowed funds[2]	**54**	**128**	**32**	**256**	**470**
Credit facilities[3]	**338**	—	—	—	**338**
Total liabilities	**$ 25,242**	**$ 9,264**	**$ 9,953**	**$ 319,319**	**$ 363,778**
Contractual commitments:[5]					
Contractual loans, equities and mortgages	**$ 777**	**$ 799**	**$ 553**	**$ 1,454**	**$ 3,583**
Total contractual commitments	**$ 777**	**$ 799**	**$ 553**	**$ 1,454**	**$ 3,583**

December 31, 2019 ($ millions)	Within 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Total
Insurance and investment contract liabilities[1]	$ 11,931	$ 7,983	$ 8,737	$ 282,336	$ 310,987
Senior debentures and unsecured financing[2]	79	439	131	3,179	3,828
Subordinated debt[2]	114	229	229	4,208	4,780
Bond repurchase agreements	1,850	—	—	—	1,850
Accounts payable and accrued expenses[3]	6,041	—	—	—	6,041
Lease liabilities[4]	153	268	230	463	1,114
Secured borrowings from mortgage securitization	169	426	355	969	1,919
Borrowed funds[2]	77	57	20	234	388
Credit facilities[3]	73	—	—	—	73
Total liabilities	$ 20,487	$ 9,402	$ 9,702	$ 291,389	$ 330,980
Contractual commitments:[5]					
Contractual loans, equities and mortgages	$ 869	$ 1,039	$ 546	$ 1,129	$ 3,583
Total contractual commitments	$ 869	$ 1,039	$ 546	$ 1,129	$ 3,583

[1] These amounts represent the undiscounted estimated cash flows of insurance and investment contract liabilities on our Consolidated Statements of Financial Position. These cash flows include estimates related to the timing and payment of death and disability claims, policy surrenders, policy maturities, annuity payments, minimum guarantees on segregated fund products, policyholder dividends, amounts on deposit, commissions and premium taxes offset by contractual future premiums and fees on in-force contracts. These estimated cash flows are based on the best estimated assumptions used in the determination of insurance and investment contract liabilities. Due to the use of assumptions, actual cash flows will differ from these estimates.

[2] Payments due based on maturity dates and include expected interest payments. Actual redemption of certain securities may occur sooner as some include an option for the issuer to call the security at par at an earlier date.

[3] Reflects a change in presentation for our credit facility effective January 1, 2020. We have updated our prior period to reflect this change in presentation.

[4] Lease liabilities are included on the Consolidated Statements of Financial Position due to the implementation of IFRS 16*Leases* ("IFRS 16").

[5] Contractual commitments and operating lease commitments are not reported on our Consolidated Financial Statements. Additional information on these commitments is included in Note 23 of our 2020 Annual Consolidated Financial Statements.

Additional information on liquidity risk can be found in Note 6 of our 2020 Annual Consolidated Financial Statements and the Risk Factors section in the 2020 AIF.

vii. Other Risks

Risks relating to the COVID-19 Pandemic

Pandemics, epidemics or outbreaks of an infectious disease could have an adverse impact on our results, business, financial condition or liquidity, and could result in changes to the way we operate. The COVID-19 pandemic and the measures imposed by governments around the world to limit its spread including travel restrictions, business closures, social distancing protocols, school closures, quarantines, and restrictions on gatherings and events, have disrupted the global economy, financial markets, supply chains, business activity and productivity in unprecedented ways. The duration

and impacts of the COVID-19 pandemic in the countries in which we operate are varied and cannot currently be determined. Containment measures continue to impact global economic activity, including the pace and magnitude of recovery as well as contributing to increased market volatility and changes to the macroeconomic environment. Governments, monetary authorities, regulators and financial institutions, have taken, and continue to take, actions in support of the economy and financial system. These actions include fiscal, monetary and other financial measures to increase liquidity, and to provide financial aid to individuals and businesses. If the COVID-19 pandemic is prolonged, the adverse impact on the global economy could deepen, augmenting financial market declines or volatility, corporate insolvency risks and negative household wealth impacts. The continuing or worsening of the economic and market conditions caused by the COVID-19 pandemic, and impact on Clients, industries and individual countries could have a material adverse effect on our businesses including sales, fee income, investment performance, results of operations, corporate reputation and financial condition. Sustained adverse effects could also make it difficult for us to access capital markets, could impact our liquidity and capital position, or may result in downgrades in our credit ratings. To the extent the COVID-19 pandemic adversely affects our business, results of operations, corporate reputation and financial condition, it may also have the effect of heightening many of the other risks described in the Risk Factors section in our AIF and section J - Risk Management in this document. This includes, but is not limited to:

- Market risks, such as equity, interest rates and spread, real estate, and foreign currency risks, including impact on fee income;
- Insurance risk, including higher than expected mortality and, morbidity claims and adverse policyholder behaviour including but not limited to higher than expected policy lapses, withdrawals, and surrenders;
- Credit risk, including defaults, impairments and downgrades;
- Business and strategic risk including economic and political risk, business strategy implementation risk, distribution risk, expense risk, changes in Client behaviour, sales, investment performance, and changes in legal and regulatory environment;
- Operational risk, including information security and privacy risk, human resources risks, regulatory compliance, legal and conduct risk, information technology risk, processing risk, third-party risk, and business disruption risk, and change management risk with the need to quickly implement and execute new programs and procedures to support Clients, advisors, employees, products, and services; and
- Liquidity risk including collateral, and payment deferrals on invested assets or policyholder insurance premium impacts.

The overall impact of the COVID-19 pandemic is still uncertain and dependent on the progression of the virus, including mutations, the timing of mass vaccine production, distribution, public acceptance and the subsequent reduction in rates of infection and the actions taken by governments, monetary authorities, regulators, financial institutions, businesses and individuals, which could vary by country and result in differing outcomes. Given the extent of the circumstances, it is difficult to reliably measure or predict the potential impact of this uncertainty on our future financial results.

Consistent with the protocols and programs established in our Risk Management Framework, we continue to manage the risks that arise when providing products and services to Clients, which are in line with our Purpose to help Client achieve lifetime financial security and live healthier lives.

IFRS 17 and 9

IFRS 17 *Insurance Contracts* ("IFRS 17") and IFRS 9 *Financial Instruments* ("IFRS 9") are effective for Canadian insurance companies for annual periods beginning on or after January 1, 2023.

The adoption of IFRS 17 will be a significant change to the accounting and reporting process for the insurance industry. We have established a transition program for IFRS 17 and 9 and have dedicated significant resources to execute and oversee the multi-year cross functional plan to manage operational, regulatory, and business and strategic risks associated with the implementation of these standards.

- Operational risk - the standards requires a more expansive set of data, introduces complex estimation techniques, computational requirements and disclosures, which necessitate a major transformation to various actuarial and financial reporting processes, tools, and systems.
- Business and strategic risk - the standards may create additional volatility in our financial results and capital position. Volatility of reported results may require changes to business strategies and the introduction of new or modified non-GAAP measures to explain our results. The impact to business strategy could include changes to hedging and investment strategy, product strategy and the use of reinsurance and, as a result, could impact our exposures to other risks such as counterparty risk and liquidity risk.
- Regulatory Capital risk - the regulatory capital framework in Canada currently based on IFRS 4 *Insurance Contracts* ("IFRS 4") will align with IFRS 17 effective January 1, 2023. The impact to Sun Life from this change is currently uncertain. While OSFI has stated that it intends to maintain capital frameworks consistent with current capital policies and to minimize potential capital impacts at the industry level, the impact for individual companies may vary. OSFI will make changes to the LICAT guideline to reflect IFRS 17 and is consulting directly with affected stakeholders. LICAT guideline changes for Segregated Fund Guarantee capital are also planned to take effect January 1, 2023. OSFI has been engaging the industry in testing of new Segregated Fund Guarantee capital requirements, and the impact will not be known until the final calibrations are completed.

Additional information on other risks can be found in the Risk Factor section in our AIF.

K. Additional Financial Disclosure

1. Selected Annual Information

($ millions, after-tax, unless otherwise stated)	**2020**	2019	2018
Total revenue	**43,337**	39,679	26,997
Common shareholders' net income (loss)	**2,404**	2,618	2,522
Reported basic earnings per share ($)	**4.11**	4.42	4.16
Reported earnings per share (diluted) ($)	**4.10**	4.40	4.14
Total assets	**323,011**	297,202	271,827

2. Items related to Statement of Operations

i. Business Group Summary Statements of Operations

	2020						2019
($ millions, after-tax)	Canada	U.S.	Asset Management	Asia	Corporate	Total	Total
Net premiums	**13,433**	**5,436**	**—**	**4,750**	**119**	**23,738**	20,288
Net investment income	**6,823**	**2,610**	**23**	**2,550**	**712**	**12,718**	13,140
Fee income	**1,376**	**92**	**5,014**	**572**	**(173)**	**6,881**	6,251
Revenue	**21,632**	**8,138**	**5,037**	**7,872**	**658**	**43,337**	39,679
Gross claims and benefits paid and Changes in insurance/investment contract liabilities[1]	**18,350**	**7,071**	**—**	**5,703**	**483**	**31,607**	28,388
Operating expenses, commissions and other expenses[2]	**3,614**	**1,618**	**3,712**	**1,615**	**237**	**10,796**	10,189
Reinsurance expenses (recoveries)	**(1,295)**	**(864)**	**—**	**(181)**	**(13)**	**(2,353)**	(2,131)
Total benefits and expenses	**20,669**	**7,825**	**3,712**	**7,137**	**707**	**40,050**	36,446
Income tax expense (benefit)	**50**	**56**	**334**	**54**	**1**	**495**	286
Preferred shareholders' dividends	**—**	**—**	**—**	**—**	**94**	**94**	95
Non-controlling interests and participating policyholders' income in net income of subsidiaries	**196**	**—**	**11**	**87**	**—**	**294**	234
Reported net income (loss)	**717**	**257**	**980**	**594**	**(144)**	**2,404**	2,618

(1) Includes changes in reinsurance assets and net transfer to (from) segregated funds.
(2) Includes premium taxes and interest expense.

Canada
Canada's revenue increased by $1.2 billion or 6% in 2020 compared to 2019, driven by higher net premiums in Individual Insurance & Wealth and GB and higher net investment income, primarily from increases in the changes in fair value of FVTPL assets and liabilities in GRS and GB.

U.S.
U.S.'s revenue in 2020 was in line with 2019.

Asset Management
Asset Management's revenue increased by $0.5 billion or 11% in 2020 compared to 2019, driven by higher fee income in SLC Management and MFS.

Asia
Asia's revenue increased by $2.1 billion in 2020 compared to 2019, driven by higher net premiums in International Hubs, partially offset by lower net investment income, primarily from decreases in the changes in fair value of FVTPL assets and liabilities.

Corporate
Corporate's revenue decreased by $0.2 billion in 2020 compared to 2019, driven by lower net investment income, primarily from the changes in fair value of FVTPL assets.

ii. Revenue

Revenue includes: (i) premiums received on life and health insurance policies and fixed annuity products, net of premiums ceded to reinsurers; (ii) net investment income comprised of income earned on general fund assets, realized gains and losses on AFS assets and changes in the value of derivative instruments and assets designated as FVTPL and the impacts of foreign exchange translation on assets and liabilities; and (iii) fee income received for services provided. Premium and deposit equivalents from ASO, as well as deposits received by the Company on investment contracts such as segregated funds, mutual funds and managed funds are not included in revenue; however, the Company does receive fee income from these contracts, which is included in revenue. Fee income and ASO premium and deposit equivalents are an important part of our business and as a result, revenue does not fully represent sales and other activity taking place during the respective periods.

Net investment income can experience volatility arising from the quarterly fluctuation in the value of FVTPL assets and foreign currency changes on assets and liabilities, which may in turn affect the comparability of revenue from period to period. The change in fair value of FVTPL assets is driven largely by market-related factors such as interest rates, credit spreads and equity returns. The debt and equity securities that support insurance contract liabilities are generally designated as FVTPL and changes in fair values of these assets are recorded in net investment income in our Consolidated Statements of Operations. Changes in the fair values of the FVTPL assets supporting insurance contract liabilities are largely offset by a corresponding change in the liabilities.

($ millions)	**2020**	2019
Premiums		
Gross		
Life insurance	**11,812**	9,470
Health insurance	**10,649**	9,908
Annuities	**3,729**	3,302
Gross premiums	**26,190**	22,680
Ceded		
Life insurance	**(1,573)**	(1,570)
Health insurance	**(587)**	(511)
Annuities	**(292)**	(311)
Ceded premiums	**(2,452)**	(2,392)
Net premiums	**23,738**	20,288
Net investment income (loss)		
Interest and other investment income	**5,407**	5,855
Fair value[1] and foreign currency changes on assets and liabilities	**6,860**	7,118
Net gains (losses) on AFS assets	**451**	167
Net investment income (loss)	**12,718**	13,140
Fee income	**6,881**	6,251
Total revenue	**43,337**	39,679

[1] Represents the change in FVTPL assets and liabilities.

Revenue increased by $3.7 billion or 9% in 2020 compared to 2019, primarily driven by net premium revenue. The impacts of foreign exchange translation increased revenue by $322 million.

Gross premiums increased by $3.5 billion or 15% in 2020 compared to 2019, driven by increases in Asia, Canada, and the U.S.

Ceded premiums of $2.45 billion in 2020 were in line with 2019.

Net investment income decreased by $0.4 billion or 3% in 2020 compared to 2019, reflecting decreases in Asia, Corporate and the U.S., partially offset by increases in Canada. The impacts in Asia, Corporate and Canada were driven by the changes in fair value of FVTPL assets. The impacts in the U.S reflected higher net gains on AFS assets, including an AFS gain of $282 million in the third quarter of 2020 relating to the sale of debt securities and a loss of $342 million as a result of the termination of our fair value derivatives, both of which were related to the repayment of our senior financing obligation.[1]

Fee income increased by $0.6 billion or 10% in 2020, compared to 2019, driven by increases in Asset Management and Canada.

iii. Benefits and Expenses

($ millions)	**2020**	2019
Benefits and Expenses		
Gross claims and benefits paid	**18,307**	17,421
Changes in insurance/investment contract liabilities[1]	**15,125**	11,404
Reinsurance expenses (recoveries)	**(2,353)**	(2,131)
Commissions	**2,612**	2,417
Operating expenses	**7,401**	7,033
Other[2]	**(1,042)**	302
Total benefits and expenses	**40,050**	36,446

[1] Includes increase (decrease) in insurance contract liabilities, decrease (increase) in reinsurance assets, increase (decrease) in investment contract liabilities.
[2] Other includes net transfer to (from) segregated funds, premium taxes and interest expense.

Total benefits and expenses increased by $3.6 billion or 10% in 2020 compared to 2019, primarily driven by increases in the changes in insurance and investment contract liabilities, and gross claims and benefits paid, partially offset by higher net transfers from segregated funds in Canada.

Gross claims and benefits paid increased by $0.9 billion or 5% in 2020 compared to 2019, driven by increases in Canada.

[1] Our senior financing obligation related to U.S. statutory regulatory capital requirements for In-force Management. For additional information, refer to Note 12 of our 2020 Annual Consolidated Financial Statements.

Changes in insurance/investment contract liabilities and reinsurance assets increased by $3.7 billion in 2020 compared to 2019, driven by increases in insurance contract liabilities, primarily in Canada and Asia.

Commission expenses of $2.6 billion in 2020, increased by $0.2 billion compared to 2019, reflecting growth in Asia and Asset Management.

Operating expenses increased by $0.4 billion or 5% in 2020 compared to 2019, reflecting higher expenses in line with business growth, higher incentive compensation and project spend and the unfavourable impacts of foreign exchange translation. Additional information on operating expenses can be found in Note 18 of our 2020 Annual Consolidated Financial Statements.

Other decreased by $1.3 billion in 2020 compared to 2019, predominantly driven by net transfers from segregated funds in Canada.

iv. Taxes

Income Taxes

In 2020, we had an income tax expense of $495 million on reported net income before taxes of $3,287 million, which resulted in an effective income tax rate of 15.1%. This compares to an income tax expense of $286 million on reported net income before taxes of $3,233 million and an effective income tax rate of 8.8% in 2019.

On an underlying basis[1], in 2020, we had an income tax expense of $808 million on our underlying net income before taxes of $4,176 million, representing an effective income tax rate of 19.3% which is within our expected range of 15% to 20%. This compares to an income tax expense of $525 million on our underlying net income before taxes of $3,717 million and an effective income tax rate of 14.1% in 2019, which was below our expected range of 15% to 20%, primarily due to the favourable resolution of Canadian tax matters and higher tax-exempt investment income.

See section D - Profitability - 5 - Income taxes in this document for additional information on our effective tax rates.

Other Taxes

In addition to income taxes, we pay various indirect taxes in jurisdictions in which we carry on business. Indirect taxes include premium taxes, investment income tax, payroll related taxes, property taxes, sales taxes, business taxes and other taxes, as follows:

($ millions)	**2020**	2019
Income tax expense	**495**	286
Indirect taxes		
Premium taxes (net of premium taxes on ceded business)[1]	**395**	375
Payroll taxes	**190**	175
Property taxes	**124**	122
Goods and services tax ("GST"), harmonized tax ("HST") and other sales taxes	**121**	117
Business taxes and other	**30**	43
Total indirect taxes	**860**	832
Total taxes	**1,355**	1,118
Reported effective income tax rate	**15.1 %**	8.8 %
Total taxes as a percentage of net income before deduction of total taxes	**32.7 %**	27.5 %

[1] Premium taxes include investment income tax.

3. Items related to Statements of Financial Position

i. Changes in Liabilities and Shareholders' Equity

Insurance contract liabilities balances before Other policy liabilities of $137.7 billion as at December 31, 2020 increased by $13.8 billion compared to December 31, 2019, mainly due to changes in balances on in-force policies (which include fair value changes on FVTPL assets supporting insurance contract liabilities) and balances arising from new policies, partially offset by the impacts of foreign exchange translation.

Total shareholders' equity, including preferred share capital, was $24.5 billion as at December 31, 2020, compared to $23.4 billion as at December 31, 2019. The increase of $1.1 billion in total shareholders' equity was primarily due to:

(i) shareholders' net income of $2,498 million, before preferred share dividends of $94 million;
(ii) net unrealized gains on AFS assets in OCI of $319 million; partially offset by
(iii) common share dividend payments of $1,283 million;
(iv) a decrease of $204 million from the impacts of foreign exchange translation; and
(v) a decrease of $200 million from the repurchase and cancellation of common shares.

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

ii. Off-Balance Sheet Arrangements

In the normal course of business, we are engaged in a variety of financial arrangements. The principal purposes of these arrangements are to earn management fees and additional spread on a matched book of business and to reduce financing costs.

While most of these activities are reflected on our balance sheet with respect to assets and liabilities, certain of them are either not recorded on our balance sheet or are recorded on our balance sheet in amounts that differ from the full contract or notional amounts. The types of off-balance sheet activities we undertake primarily include asset securitizations and securities lending.

Asset Securitizations

In the past, we sold mortgage or bond assets to non-consolidated structured entities, which may also purchase investment assets from third parties. Our securitized AUM held by these non-consolidated structured entities were $nil as at December 31, 2020 and less than $1 million as at December 31, 2019.

However, the majority of our securitization activities are recorded on our Consolidated Statements of Financial Position. We securitize multi-residential mortgages under the National Housing Act Mortgage-Backed Securities program sponsored by the CMHC. The securitization of the multi-residential mortgages with the CMHC does not qualify for de-recognition and remains on our Consolidated Statements of Financial Position. Additional information on this program can be found in Note 5 of our 2020 Annual Consolidated Financial Statements.

Securities Lending

We lend securities in our investment portfolio to other institutions for short periods to generate additional fee income. We conduct our program only with well-established, reputable banking institutions that carry a minimum credit rating of "AA". Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with a lending agent, usually a securities custodian, and maintained by the lending agent until the underlying security has been returned to us. We monitor the fair value of the loaned securities on a daily basis with additional collateral obtained or refunded as the fair value fluctuates. Certain arrangements allow us to invest the cash collateral received for the securities loaned. Loaned securities are recognized in our Consolidated Statements of Financial Position as Invested Assets. As at December 31, 2020, we loaned securities with a carrying value of $2.0 billion for which the collateral held was $2.1 billion. This is consistent to loaned securities of $2.0 billion, with collateral of $2.1 billion as at December 31, 2019. Of the collateral held, we held cash collateral of $306 million as at December 31, 2020 ($nil as at December 31, 2019), which is recognized on our Consolidated Statements of Financial Position.

iii. Goodwill and Intangibles Impairment

The Company completed its annual goodwill and indefinite life intangible asset impairment testing in the fourth quarter of 2020. There were no goodwill impairment charges in 2020 or 2019. Impairment charges on intangible assets of $11 million were recognized in 2020 and there were impairment charges of $15 million in 2019.

iv. Commitments, Guarantees, Contingencies and Reinsurance Matters

In the normal course of business, we enter into leasing agreements, outsourcing arrangements and agreements involving indemnities to third parties. We are also engaged in arbitration proceedings from time to time with certain companies that have contracts to provide reinsurance to the Company. Information regarding our commitments, guarantees and contingencies are summarized in Note 23 of our 2020 Annual Consolidated Financial Statements. A table summarizing our significant financial liabilities and contractual obligations can be found in this MD&A in the section J - Risk Management - 9 - Risk Categories - vi - Liquidity Risk.

4. Fourth Quarter 2020 Profitability

The following table reconciles our net income measures and sets out the impacts that other notable items had on our net income in the fourth quarter of 2020 and 2019. All factors discussed in this document that impact our underlying net income are also applicable to reported net income.

	Q4'20	Q4'19
($ millions, after-tax)		
Reported net income	**744**	719
Less: Market-related impacts[1]	**20**	18
Assumption changes and management actions[1]	**(42)**	(15)
Other adjustments[1]	**(96)**	(76)
Underlying net income[2]	**862**	792
Reported ROE[2]	**13.3 %**	13.6 %
Underlying ROE[2]	**15.4 %**	15.0 %
Experience-related items[3]		
Investing activity	**3**	34
Credit	**18**	47
Mortality	**(4)**	(3)
Morbidity	**24**	(47)
Policyholder behaviour	**(18)**	(6)
Expenses	**(53)**	(45)
Other experience	**(1)**	(6)

(1) Represents an adjustment made to arrive at a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.
(2) Represents a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document.
(3) Experience-related items reflect the difference between actual experience during the reporting period and best estimate assumptions used in the determination of our insurance contract liabilities.

Reported net income increased by $25 million or 3% in the fourth quarter of 2020 compared to the same period in 2019, driven by the change in underlying net income of $70 million, partially offset by unfavourable ACMA impacts in the U.S. and higher fair value adjustments on MFS's share-based payment awards. Underlying net income increased driven by business growth, favourable morbidity experience related to Canada and the U.S., partially offset by lower investing activity reflecting losses in Canada in the current quarter due to asset repositioning, lower AFS gains reflecting an impairment in Asia, and less favourable credit experience in Asia and the U.S. Across the Company, mortality experience was in line with the prior year, as unfavourable experience in Canada was offset by favourable experience in Corporate. Furthermore, in the U.S., the unfavourable impact of COVID-19 claims in 2020 was comparable to the impacts of large case claims in In-force Management in the fourth quarter of 2019.

In the fourth quarter of 2020, our effective income tax rates on reported net income and underlying net income were 5.8% and 15.2%, respectively, compared to 10.8% and 13.9%, respectively, in the fourth quarter of 2019. Our effective tax rate on reported net income reflects favourable tax-exempt investment income within market-related impacts. Our effective tax rate on underlying net income in the fourth quarter of 2020 was within our expected range of 15% to 20%. In the fourth quarter of 2019, our effective tax rate on underlying net income was below our expected range, primarily due to higher tax-exempt investment income.

Performance by Business Group - Fourth Quarter

We manage our operations and report our financial results in five business segments. The following section describes the operations and financial performance of Canada, U.S., Asset Management, Asia and Corporate.

The following table sets out the differences between our reported net income (loss) and underlying net income (loss) by business group.

			Q4'20			
($ millions, after-tax)	**Canada**	**U.S.**	**Asset Management**	**Asia**	**Corporate**	**Total**
Reported net income (loss)	**255**	**88**	**267**	**132**	**2**	**744**
Less: Market-related impacts[1]	**15**	**2**	**—**	**3**	**—**	**20**
Assumption changes and management actions[1]	**(3)**	**(60)**	**—**	**21**	**—**	**(42)**
Other adjustments[1]	**—**	**(2)**	**(66)**	**(8)**	**(20)**	**(96)**
Underlying net income (loss)[2]	**243**	**148**	**333**	**116**	**22**	**862**

			Q4'19			
($ millions, after-tax)	Canada	U.S.	Asset Management	Asia	Corporate	Total
Reported net income (loss)	275	131	228	136	(51)	719
Less: Market-related impacts[1]	6	—	—	5	7	18
Assumption changes and management actions[1]	(1)	(3)	—	(11)	—	(15)
Other adjustments[1]	6	(3)	(53)	(1)	(25)	(76)
Underlying net income (loss)[2]	264	137	281	143	(33)	792

[1] Represents an adjustment made to arrive at a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.
[2] Represents a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document.

Canada

Canada's reported net income decreased by $20 million in the fourth quarter of 2020 compared to the same period in 2019, reflecting the change in underlying net income of $21 million, Market-related impacts in reported net income were in line with the prior year, reflecting favourable equity market impacts offset by changes in the fair value of investment properties and interest rate impacts. Underlying net income decreased reflecting investing activity losses due to asset repositioning in the current quarter, unfavourable expense and mortality experience, partially offset by improved morbidity experience and business growth. Unfavourable expense experience was largely driven by our continued investments in digital and GB operations.

U.S.

U.S.'s reported net income decreased by US$33 million ($43 million) or 33% (33%) in the fourth quarter of 2020 compared to the same period in 2019, reflecting unfavourable ACMA impacts relating to a new reinsurance agreement in In-force Management. Underlying net income increased by US$8 million ($11 million) or 8% (8%), driven by favourable morbidity experience in medical stop-loss, higher net investment returns on surplus and business growth, partially offset by less favourable credit experience and unfavourable expense experience. Unfavourable mortality experience in the quarter was in line with prior year, driven by current year COVID-19-related claims in employee benefits as compared to losses from large case claims in In-force Management in the fourth quarter of 2019.The impacts of foreign exchange translation decreased reported net income and underlying net income by $1 million and $2 million, respectively. The trailing four-quarter after-tax profit margin for Group Benefits[1] was 8.0% as of the fourth quarter of 2020, compared to 7.3% as of the fourth quarter of 2019.

Asset Management

Asset Management's reported net income increased by $39 million or 17% in the fourth quarter of 2020 compared to the same period in 2019, driven by the change in underlying net income of $52 million, partially offset by higher fair value adjustments on MFS's share-based payment awards and higher acquisition and integration costs. Underlying net income increased driven by higher ANA in MFS and higher results due to the BGO and InfraRed acquisitions. The impacts of foreign exchange translation decreased reported net income and decreased underlying net income $3 million and $4 million, respectively.

In U.S. dollars, MFS's reported net income was US$194 million in the fourth quarter of 2020, an increase of $21 million or 12% compared to the same period in 2019, driven by the change in underlying net income of US$29 million, partially offset by higher fair value adjustments on MFS's share-based payment awards. Underlying net income of US$230 million increased driven by higher ANA. Pre-tax net operating profit margin ratio for MFS for the fourth quarter of 2020 was 41%, compared to 40% for the fourth quarter of 2019.

SLC Management's reported net income was $14 million in the fourth quarter of 2020, an increase of $15 million compared to the same period in 2019, driven by the change in underlying net income of $19 million partially offset by higher acquisition and integration costs. Underlying net income of $34 million increased driven by results from the BGO and InfraRed acquisitions.

[1] Represents a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document.

Asia

Asia's reported net income decreased by $4 million or 3% in the fourth quarter of 2020 compared to the same period in 2019, reflecting the change in underlying net income of $27 million, offset by favourable ACMA impacts. Underlying net income decreased reflecting an AFS impairment of $20 million related to an investment in a fund managed by our joint venture in India and less favourable credit experience, partially offset by favourable expense experience and higher new business gain in International Hubs. The impacts of foreign exchange translation increased reported net income and underlying net income by $2 million and $3 million, respectively.

Corporate

Corporate's reported net income increased by $53 million in the fourth quarter of 2020 compared to the same period in 2019 driven by the increase in underlying net income of $55 million. Underlying net income increased driven by higher earnings in the run-off businesses, improved expense experience and lower project spend in Corporate Support, and higher investing activity in the UK. The impacts of foreign exchange translation were in line with the prior year for reported net income and underlying net income.

5. Fourth Quarter 2020 Growth

Revenue was $11.6 billion in the fourth quarter of 2020, an increase of $3.1 billion or 37% compared to the same period in 2019, driven by increases in the fair value of FVTPL assets and net premium revenue. The impacts of foreign exchange translation decreased revenue by $35 million.

Premiums and deposits increased by 18% in the fourth quarter of 2020 compared to the same period in 2019, excluding the unfavourable impacts of foreign exchange translation, driven by increased mutual fund sales, managed fund sales and segregated fund deposits.

6. Previous Quarters

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.

		Quarterly results						
($ millions, unless otherwise noted)	**Q4'20**	Q3'20	Q2'20	Q1'20	Q4'19	Q3'19	Q2'19	Q1'19
Total revenue	**11,649**	10,032	15,186	6,470	8,525	9,616	10,146	11,392
Common shareholders' net income (loss)								
Reported	**744**	750	519	391	719	681	595	623
Underlying[1]	**862**	842	739	770	792	809	739	717
Diluted EPS ($)								
Reported	**1.27**	1.28	0.88	0.67	1.22	1.15	1.00	1.04
Underlying[1]	**1.47**	1.44	1.26	1.31	1.34	1.37	1.24	1.20
Basic reported EPS ($)								
Reported	**1.27**	1.28	0.89	0.67	1.22	1.15	1.00	1.04
Reported net income (loss) by segment								
Canada	**255**	387	117	(42)	275	223	148	237
U.S.	**88**	(113)	118	164	131	(186)	94	124
Asset Management	**267**	251	223	239	228	221	229	219
Asia	**132**	236	126	100	136	170	134	80
Corporate	**2**	(11)	(65)	(70)	(51)	253	(10)	(37)
Total reported net income (loss)	**744**	750	519	391	719	681	595	623
Underlying net income (loss) by segment[1]								
Canada[1]	**243**	293	281	256	264	268	243	237
U.S.[1]	**148**	136	123	161	137	135	110	150
Asset Management[1]	**333**	294	259	242	281	251	245	227
Asia[1]	**116**	164	144	155	143	138	147	122
Corporate[1]	**22**	(45)	(68)	(44)	(33)	17	(6)	(19)
Total underlying net income (loss)[1]	**862**	842	739	770	792	809	739	717

[1] Represents a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document.

Third Quarter 2020

Reported net income was $750 million in the third quarter of 2020, an increase of $69 million or 10% compared to the same period in 2019, driven by favourable market-related impacts and lower acquisition costs, partially offset by unfavourable ACMA and fair value adjustments on MFS's share-based payment awards. Favourable market-related impacts were predominantly driven by interest rates and the rise in equity markets, partially offset by changes in the fair value of investment properties. Underlying net income was $842 million in the third quarter of 2020, an increase of $33 million or 4%, compared to the same period in 2019, driven by business growth, favourable results in GB in Canada, favourable morbidity experience in the U.S., higher new business gains and higher investing activity, partially offset by tax matters that were favourable in the third quarter of 2019, unfavourable credit experience, lower net investment returns on surplus, unfavourable mortality experience and lower available-for-sale gains.

Second Quarter 2020

Reported net income decreased by $76 million or 13% in the second quarter of 2020 compared to the same period in 2019, reflecting unfavourable market-related impacts and impacts from fair value adjustments on MFS's share-based payments, partially offset by ACMA. Unfavourable market-related impacts reflected interest rate impacts and changes in the fair value of investment properties, partially offset by equity market impacts. Underlying net income was in line with the same period in 2019, with positive impacts from business growth, investing activity, morbidity experience and higher net investment returns on surplus, largely offset by unfavourable tax impacts, credit experience and expense experience.

First Quarter 2020

Reported net income decreased by $232 million or 37% in the first quarter of 2020 compared to the same period in 2019, reflecting unfavourable market-related and ACMA impacts and higher acquisition, integration and restructuring costs, partially offset by favourable fair value adjustments on MFS's share-based payment awards. Market-related impacts predominantly reflected the decline in equity markets, partially offset by the impact of credit spreads. Underlying net income increased by $53 million or 7%, driven by higher investing activity in Canada and the U.S., business growth, higher AFS gains, higher new business gains and improved credit experience compared to the first quarter of 2019. These were partially offset by lower net investment returns on surplus in Canada and Corporate, unfavourable expense and mortality experience, less favourable morbidity experience and unfavourable other experience.

Fourth Quarter 2019

Reported net income increased by $139 million or 24% in the fourth quarter of 2019 compared to the same period in 2018, driven by favourable market-related impacts, primarily from equity markets, partially offset by higher fair value adjustments on MFS's share-based payment awards, unfavourable ACMA impacts and higher acquisition, integration and restructuring costs. Underlying net income increased by $74 million or 10%, driven by business growth, tax benefits in Corporate and favourable credit experience, partially offset by unfavourable morbidity experience in Canada and unfavourable expense experience, predominantly resulting from higher incentive compensation costs reported in Corporate.

Third Quarter 2019

Reported net income increased by $114 million or 20% in the third quarter of 2019 compared to the same period in 2018, driven by improved impacts from ACMA, partially offset by unfavourable market-related impacts, predominantly from interest rates, and higher acquisition costs related to the BGO acquisition. Underlying net income increased by $79 million or 11% in the third quarter of 2019, compared to the same period in 2018, which includes the favourable impact of tax matters from prior years of $78 million - $58 million in Corporate and $20 million in Canada. Underlying net income also reflected business growth, favourable credit experience, a gain from a mortgage investment prepayment in the U.S. and higher available-for-sale gains, offset by unfavourable morbidity experience in Canada and the U.S., and lower investing activity gains.

Second Quarter 2019

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

First Quarter 2019

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

L. Non-IFRS Financial Measures

i. Underlying Net Income and Underlying EPS

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

(a) market-related impacts that differ from our best estimate assumptions, which include: (i) impacts of returns in equity markets, net of hedging, for which our best estimate assumptions are approximately 2% per quarter. This also includes the impacts of the basis risk inherent in our hedging program, which is the difference between the return on underlying funds of products that provide benefit guarantees and the return on the derivative assets used to hedge those benefit guarantees; (ii) the impacts of changes in interest rates in the reporting period and on the value of derivative instruments used in our hedging programs including changes in credit and swap spreads, and any changes to the assumed fixed income reinvestment rates in determining the actuarial liabilities; and (iii) the impacts of changes in the fair value of investment properties in the reporting period;

(b) assumption changes and management actions, which include: (i) the impacts of revisions to the methods and assumptions used in determining our liabilities for insurance contracts and investment contracts, and (ii) the impacts on insurance contracts and investment contracts of actions taken by management in the current reporting period, referred to as management actions which include, for example, changes in the prices of in-force products, new or revised reinsurance on in-force business, and material changes to investment policies for assets supporting our liabilities; and

(c) other adjustments:
  (i) certain hedges in Canada that do not qualify for hedge accounting - this adjustment enhances the comparability of our net income from period to period, as it reduces volatility to the extent it will be offset over the duration of the hedges;
  (ii) fair value adjustments on MFS's share-based payment awards that are settled with MFS's own shares and accounted for as liabilities and measured at fair value each reporting period until they are vested, exercised and repurchased - this adjustment enhances the comparability of MFS's results with publicly traded asset managers in the United States;
  (iii) acquisition, integration and restructuring costs (including impacts related to acquiring and integrating acquisitions); and
  (iv) other items that are unusual or exceptional in nature.

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

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

The following table sets out the amounts that were excluded from our underlying net income (loss) and underlying EPS, and provides a reconciliation to our reported net income (loss) and EPS based on IFRS. A reconciliation of our underlying net income to our reported net income for the fourth quarters of 2020 and 2019 is provided in this MD&A in section K - Additional Financial Disclosure - 4 - Fourth Quarter 2020 Profitability.

Reconciliations of Select Net Income Measures

($ millions, unless otherwise noted)	**2020**	2019
Reported net income	**2,404**	2,618
Market-related impacts		
Equity market impacts		
Impacts from equity market changes	**(34)**	120
Basis risk impacts	**(109)**	7
Equity market impacts	**(143)**	127
Interest rate impacts[1]		
Impacts of interest rate changes	**(187)**	(307)
Impacts of credit spread movements	**(35)**	(45)
Impacts of swap spread movements	**8**	4
Interest rate impacts	**(214)**	(348)
Impacts of changes in the fair value of investment properties	**(104)**	(16)
Less: Market-related impacts	**(461)**	(237)
Less: Assumption changes and management actions	**(143)**	(46)
Other adjustments		
Certain hedges in Canada that do not qualify for hedge accounting	**4**	(5)
Fair value adjustments on MFS's share-based payment awards	**(92)**	(64)
Acquisition, integration and restructuring[2]	**(117)**	(87)
Less: Total of other adjustments	**(205)**	(156)
Underlying net income	**3,213**	3,057
Reported EPS (diluted) ($)	**4.10**	4.40
Less: Market-related impacts ($)	**(0.80)**	(0.39)
Assumption changes and management actions ($)	**(0.24)**	(0.08)
Certain hedges in Canada that do not qualify for hedge accounting ($)	**0.01**	(0.01)
Fair value adjustments on MFS's share-based payment awards ($)	**(0.16)**	(0.11)
Acquisition, integration and restructuring ($)	**(0.20)**	(0.15)
Impact of convertible securities on diluted EPS ($)	**—**	(0.02)
Underlying EPS (diluted) ($)	**5.49**	5.16

(1) Our exposure to interest rates varies by product type, line of business, and geography. Given the long-term nature of our business, we have a higher degree of sensitivity in respect of interest rates at long durations.
(2) Amounts relate to acquisition costs for the BGO acquisition and the InfraRed acquisition, which include the unwinding of the discount for the Other financial liabilities of $47 million and $16 million in 2020 and in 2019, respectively. As a result of various projects to simplify our organizational structure and drive efficiencies, we recorded a restructuring charge of $48 million and $25 million in 2020 and in 2019, respectively.

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

($ millions, unless otherwise noted)	**2020**	2019
Reported net income (after tax)	**2,404**	2,618
Underlying net income adjustments (pre-tax):		
Less: Market-related impacts	**(716)**	(383)
Assumption changes and management actions	**(214)**	(127)
Other adjustments	**(290)**	(237)
Total underlying net income adjustments (pre-tax)	**(1,220)**	(747)
Tax-related to underlying net income adjustments	**411**	308
Underlying net income (after tax)	**3,213**	3,057

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

ii. Additional Non-IFRS Measures

Management also uses the following non-IFRS financial measures:

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

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

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

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

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

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

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

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

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

Note 10.A of our 2020 Annual Consolidated Financial Statements shows the pre-tax impacts of method and assumption changes on shareholders' and participating policyholders' insurance contract liabilities net of reinsurance assets, excluding changes in other policy liabilities and assets.

The view in this document of ACMA is the impacts on shareholders' reported net income (after tax). The 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)	**2020**	2019
Impacts of method and assumption changes on insurance contract liabilities (pre-tax)[1]	**(116)**	(13)
Less: Participating policyholders[2]	**54**	1
Impacts of method and assumption changes excluding participating policyholders (pre-tax)	**(170)**	(14)
Less: Tax	**(64)**	(59)
Impacts of method and assumption changes excluding participating policyholders (after-tax)	**(106)**	45
Add: Management actions (after-tax)[3][4]	**(65)**	19
Other (after-tax)[5]	**28**	(110)
Assumption changes and management actions (after-tax)[4][6][7]	**(143)**	(46)

(1) Note 10.A of our 2020 Annual Consolidated Financial Statements shows the pre-tax impacts of method and assumption changes on shareholders' and participating policyholders' insurance contract liabilities net of reinsurance assets, excluding changes in other policy liabilities and assets, whereas the amounts shown in the table above are the shareholders' income impacts related to the amount shown in Note 10.A of our 2020 Annual Consolidated Financial Statements.
(2) Adjustment to remove the pre-tax impacts of method and assumption changes on amounts attributed to participating policyholders.
(3) Adjustment to include the after-tax impacts of management actions on insurance contract liabilities and investment contract liabilities which include, for example, changes in the prices of in-force products, new or revised reinsurance on in-force business, and material changes to investment policies for assets supporting our liabilities.
(4) In the third quarter of 2020, ACMA includes an after-tax loss of $10 million relating to the impact from the repayment of a senior financing obligation related to U.S. statutory regulatory capital requirements for In-force Management. The transaction mainly comprises of the benefit of an unwind fee of $15 million, more than offset by the net impact from the liquidation of the investment portfolio of $47 million. The latter includes a loss on the termination of derivatives and realized AFS gains on the disposal of debt securities of $270 million and $223 million ($342 million and $282 million, on a pre-tax basis), respectively. See section K - Additional Financial Disclosure in this document.
(5) Adjustments to include the after-tax impacts of method and assumption changes on investment contracts and other policy liabilities.
(6) Includes the tax impacts of ACMA on insurance contract liabilities and investment contract liabilities, reflecting the tax rates in the jurisdictions in which we do business.
(7) ACMA is included in reported net income and is excluded in calculating underlying net income, as described in section D - Profitability - 2020 vs. 2019 in this document.

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

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

M. Accounting and Control Matters

1. Critical Accounting Policies and Estimates

Our significant accounting and actuarial policies are described in Note 1, 2, 3, 5, 6, 7 and 10 of our 2020 Annual Consolidated Financial Statements. 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.

Benefits to Policyholders

General

The liabilities for insurance contracts represent the estimated amounts which, together with estimated future premiums and net investment income, will provide for outstanding claims, estimated future benefits, policyholders' dividends, taxes (other than income taxes), and expenses on in-force insurance contracts.

In determining our liabilities for insurance contracts, assumptions must be made about mortality and morbidity rates, lapse and other policyholder behaviour, interest rates, equity market performance, asset default, inflation, expenses, and other factors over the life of our products. Most 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.

We use best estimate assumptions for expected future experience and apply margins for adverse deviations to provide for uncertainty in the choice of the best estimate assumptions. The amount of insurance contract liabilities related to the application of margins for adverse deviations to best estimate assumptions is called a provision for adverse deviations.

Best Estimate Assumptions

Best estimate assumptions are intended to be current, neutral estimates of the expected outcome as guided by Canadian actuarial standards of practice. The choice of best estimate assumptions takes into account current circumstances, past experience data (Company and/or industry), the relationship of past to expected future experience, anti-selection, the relationship among assumptions, and other relevant factors. For assumptions on economic matters, the assets supporting the liabilities and the expected policy for asset-liability management are relevant factors.

Margins for Adverse Deviations

The appropriate level of margin for adverse deviations on an assumption is guided by Canadian actuarial standards of practice. For most assumptions, the standard range of margins for adverse deviations is 5% to 20% of the best estimate assumption, and the actuary chooses from within that range based on a number of considerations related to the uncertainty in the determination of the best estimate assumption. The level of uncertainty, and hence the margin chosen, will vary by assumption and by line of business and other factors. Considerations that would tend to indicate a choice of margin at the high end of the range include:

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

Provisions for adverse deviations in future interest rates are included by testing a number of scenarios of future interest rates, some of which are prescribed by Canadian actuarial standards of practice, and determining the liability based on the range of possible outcomes. A scenario of future interest rates includes, for each forecast period between the statement of financial position date and the last liability cash flow, interest rates for risk-free assets, premiums for asset default, rates of inflation, and an investment strategy consistent with the Company's investment policy. The starting point for all future interest rate scenarios is consistent with the current market environment. If few scenarios are tested, the liability would be at least as great as the largest of the outcomes. If many scenarios are tested, the liability would be within a range defined by the average of the outcomes that are above the 60th percentile of the range of outcomes and the corresponding average for the 80th percentile.

Provisions for adverse deviations in future equity returns are included by scenario testing or by applying margins for adverse deviations. In blocks of business where the valuation of liabilities uses scenario testing of future equity returns, the liability would be within a range defined by the average of the outcomes that are above the 60th percentile of the range of outcomes and the corresponding average for the 80th percentile. In blocks of business where the valuation of liabilities does not use scenario testing of future equity returns, the margin for adverse deviations on common share dividends is between 5% and 20%, and the margin for adverse deviations on capital gains would be 20% plus an assumption that those assets reduce in value by 20% to 50% at the time when the reduction is most adverse. A 30% reduction is appropriate for a diversified portfolio of North American common shares and, for other portfolios, the appropriate reduction depends on the volatility of the portfolio relative to a diversified portfolio of North American common shares.

In choosing margins, we ensure that, when taken one at a time, each margin is reasonable with respect to the underlying best estimate assumption and the extent of uncertainty present in making that assumption, and also that, in aggregate, the cumulative impact of the margins for adverse deviations is reasonable with respect to the total amount of our insurance contract liabilities. Our margins are generally stable over time and are generally only revised to reflect changes in the level of uncertainty in the best estimate assumptions. Our margins tend to be at the high end of the range for expenses and in the mid-range or higher for other assumptions. When considering the aggregate impact of margins, the actuary assesses the consistency of margins for each assumption across each block of business to ensure there is no double counting or omission and to avoid choosing margins that might be mutually exclusive. In particular, the actuary chooses similar margins for blocks of business with similar characteristics, and also chooses margins that are consistent with other assumptions, including assumptions about economic factors. The actuary is guided by Canadian actuarial standards of practice in making these professional judgments about the reasonableness of margins for adverse deviations.

The best estimate assumptions and margins for adverse deviations are reviewed at least annually and revisions are made when appropriate. The choice of assumptions underlying the valuation of insurance contract liabilities is subject to external actuarial peer review.

Critical Accounting Estimates

Significant factors affecting the determination of policyholders' benefits, the methodology by which they are determined, their significance to the Company's financial condition and results of operations are described below.

Non-fixed Income Market Movements

We are exposed to equity markets through our segregated fund products (including variable annuities) that provide guarantees linked to underlying fund performance and through insurance products where the insurance contract liabilities are supported by non-fixed income assets.

For segregated fund products (including variable annuities), we have implemented hedging programs involving the use of derivative instruments to mitigate a large portion of the equity market risk associated with the guarantees. The cost of these hedging programs is reflected in the liabilities. The equity market risk associated with anticipated future fee income is not hedged.

The majority of non-fixed income assets that are designated as FVTPL support our participating and universal life products where investment returns are passed through to policyholders through routine changes in the amount of dividends declared or in the rate of interest credited. In these cases, changes in non-fixed income asset values are largely offset by changes in insurance contract liabilities.

Interest Rates

We generally maintain distinct asset portfolios for each major line of business. In the valuation of insurance contract liabilities, the future cash flows from insurance contracts and the assets that support them are projected under a number of interest rate scenarios, some of which are prescribed by Canadian actuarial standards of practice. Reinvestments and disinvestments take place according to the specifications of each scenario, and the liability is set based on the range of possible outcomes.

For certain products, including participating insurance and certain forms of universal life policies and annuities, policyholders share investment performance through routine changes in the amount of dividends declared or in the rate of interest credited. These products generally have minimum interest rate guarantees.

Hedging programs are in place to help mitigate the impact of interest rate movements.

Mortality

Mortality refers to the rates at which death occurs for defined groups of people. Life insurance mortality assumptions are generally based on the past five to ten years of experience. Our experience is combined with industry experience 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 both the rates of accident or sickness 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 long-term care and critical illness insurance, 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 experience.

Policy Termination Rates

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 experience on life insurance are generally based on our five-year average experience. Lapse rates vary by plan, age at issue, method of premium payment, and policy duration.

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, and policy duration.

Expense

Future policy-related expenses include the costs of premium collection, claims adjudication and processing, actuarial calculations, preparation and mailing of policy statements, and related indirect expenses and overhead. Expense assumptions are mainly based on our recent experience using an internal expense allocation methodology. Inflationary increases assumed in future expenses are consistent with the future interest rates used in scenario testing.

Asset Default

As required by Canadian actuarial standards of practice, insurance contract liabilities include a provision for possible future default of the assets supporting those liabilities. The amount of the provision for asset default included in the insurance contract liabilities is based on possible reductions in future investment yield that vary by factors such as type of asset, asset credit quality (rating), duration, and country of origin. The asset default assumptions are comprised of a best estimate plus a margin for adverse deviations, and are intended to provide for loss of both principal and income. Best estimate asset default assumptions by asset category and geography are derived from long-term studies of industry experience and the Company's experience. Margins for adverse deviation are chosen from the standard range (of 25% to 100%) as recommended by Canadian actuarial standards of practice based on the amount of uncertainty in the choice of best estimate assumption. The credit quality of an asset is based on external ratings if available (public bonds) and internal ratings if not (mortgages and loans). Any assets without ratings are treated as if they are rated below investment grade.

In contrast to asset impairment provisions and changes in FVTPL assets arising from impairments, both of which arise from known credit events, the asset default provision in the insurance contract liabilities covers losses related to possible future (unknown) credit events. Canadian actuarial standards of practice require the asset default provision to be determined taking into account known impairments that are recognized elsewhere on the statement of financial position. The asset default provision included in the insurance contract liabilities is reassessed each reporting period in light of impairments, changes in asset quality ratings, and other events that occurred during the period.

Sensitivities to Best Estimate Assumptions

The sensitivities presented below are forward-looking statements. They include measures of our estimated shareholders' net income sensitivity to changes in the best estimate assumptions in our insurance contract liabilities based on a starting point and business mix as at December 31, 2020 and as at December 31, 2019, reflecting the update of actuarial method and assumption changes described in this MD&A under the heading Assumption Changes and Management Actions and, where appropriate, taking into account hedging programs in place as at December 31, 2020 and December 31, 2019 described in this MD&A under the heading Market Risk. 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, 2020 and December 31, 2019.

Changes to the starting point for interest rates, equity market prices and business mix will result in different estimated sensitivities. Additional information regarding equity and interest rate sensitivities, including key assumptions, can be found under the heading J - Risk Management - 9 - Risk Categories - Market Risk Sensitivities in this document.

The following table sets out the estimated immediate impact on, or sensitivity of, our common shareholders' net income attributable to certain changes in best estimate assumptions as at December 31, 2020 and December 31, 2019:

Critical Accounting Estimate	**Sensitivity**	**2020**	2019
($ millions, after-tax)			
Mortality	2% increase in the best estimate assumption for insurance products	**(25)**	(35)
	2% decrease in the best estimate assumption for annuity products	**(150)**	(135)
Morbidity	5% adverse change in the best estimate assumption	**(250)**	(205)
Policy Termination Rates	10% decrease in the termination rate - where fewer terminations would be financially adverse	**(295)**	(265)
	10% increase in the termination rate - where more terminations would be financially adverse	**(200)**	(195)
Operating Expenses and Inflation	5% increase in unit maintenance expenses	**(175)**	(170)
Real Estate	1% reduction in assumed future real estate returns	**(495)**	(455)
Equities	1% reduction in assumed future equity returns	**(235)**	(195)

Fair Value of Assets and Liabilities

Debt securities, equity securities and certain other invested assets are designated as FVTPL or AFS and are recorded at fair value in our Consolidated Statements of Financial Position. Changes in fair value of assets designated as FVTPL, and realized gains and losses on sale of FVTPL assets are recorded in income. Changes in fair value of AFS assets are recorded in OCI. For foreign currency translation, exchange differences calculated on the amortized cost of AFS debt securities are recognized in income and other changes in carrying amount are recognized in OCI. The exchange differences from the translation of AFS equity securities and other invested assets are recognized in OCI. Net impairment losses and realized gains and losses on sale of AFS assets are reclassified from OCI to income.

The fair value of government and corporate debt securities is determined using quoted prices in active markets for identical or similar securities. When quoted prices in active markets are not available, fair value is determined using market standard valuation methodologies, which include discounted cash flow analysis, consensus pricing from various broker dealers that are typically the market makers, or other similar techniques. The assumptions and valuation inputs in applying these market standard valuation methodologies are determined primarily using observable market inputs, which include, but are not limited to, benchmark yields, reported trades of identical or similar instruments, broker-dealer quotes, issuer spreads, bid prices, and reference data including market research publications. In limited circumstances, non-binding broker quotes are used.

The fair value of asset-backed securities is determined using quoted prices in active markets for identical or similar securities, when available, or valuation methodologies and valuation inputs similar to those used for government and corporate debt securities. Additional valuation inputs include structural characteristics of the securities, and the underlying collateral performance, such as prepayment speeds and delinquencies. Expected prepayment speeds are based primarily on those previously experienced in the market at projected future interest rate levels. In instances where there is a lack of sufficient observable market data to value the securities, non-binding broker quotes are used.

The fair value of equity securities is determined using quoted prices in active markets for identical securities or similar securities. When quoted prices in active markets are not available, fair value is determined using equity valuation models, which include discounted cash flow analysis and other techniques that involve benchmark comparison. Valuation inputs primarily include projected future operating cash flows and earnings, dividends, market discount rates, and earnings multiples of comparable companies.

Mortgages and loans are generally carried at amortized cost. The fair value of mortgages and loans, for disclosure purposes, is determined by discounting the expected future cash flows using a current market interest rate applicable to financial instruments with a similar yield, credit quality and maturity characteristics. Valuation inputs typically include benchmark yields and risk-adjusted spreads from current lending activities or loan issuances. The risk-adjusted spreads are determined based on the borrower's credit and liquidity, as well as term and other loan-specific features. Long-term mortgages and loans are generally categorized in Level 3 of the fair value hierarchy. The significant unobservable input is a portion of these risk adjusted spreads at or beyond the 20 year point for mortgages and at or beyond the 10 year point for loans.

Derivative financial instruments are recorded at fair value with changes in fair value recorded in income unless the derivative is part of a qualifying hedging relationship for accounting purposes. The fair value of derivative financial instruments depends upon derivative types. The fair value of exchange-traded futures and options is determined using quoted prices in active markets, while the fair value of OTC derivatives is determined using pricing models, such as discounted cash flow analysis or other market standard valuation techniques, with primarily observable market inputs. Valuation inputs used to price OTC derivatives may include swap interest rate curves, foreign exchange spot and forward rates, index prices, the value of underlying securities, projected dividends, volatility surfaces, and in limited circumstances, counterparty quotes. The fair value of OTC derivative financial instruments also includes credit valuation adjustments to reflect the credit risk of both the derivative counterparty and ourselves as well as the impact of contractual factors designed to reduce our credit exposure, such as collateral and legal rights of offset under master netting agreements. Inputs into determining the appropriate credit valuation adjustments are typically obtained from publicly available information and include credit default swap spreads when available, credit spreads derived from specific bond yields, or published cumulative default experience data adjusted for current trends when credit default swap spreads are not available.

The fair value of other invested assets is determined using quoted prices in active markets for identical securities or similar securities. When quoted prices in active markets are not available, fair value is determined using equity valuation models, which include discounted cash flow analysis and other techniques that involve benchmark comparison. Valuation inputs primarily include projected future operating cash flows and earnings, dividends, market discount rates, and earnings multiples of comparable companies.

Investment properties are recorded at fair value with changes in fair value recorded in income. The fair value of investment properties is generally determined using property valuation models that are based on expected capitalization rates and models that discount expected future net cash flows at current market interest rates reflective of the characteristics, location, and market of each property. Expected future net cash flows include contractual and projected cash flows and forecasted operating expenses, and take into account interest, rental and occupancy rates derived from market surveys. The estimates of future cash inflows, in addition to expected rental income from current leases, include projected income from future leases based on significant assumptions that are consistent with current market conditions. The future rental rates are estimated based on the location, type and quality of the properties, and take into account market data and projections at the valuation date. The fair values are typically compared to market-based information for reasonability, including recent transactions involving comparable assets. The methodologies and inputs used in these models are in accordance with real estate industry valuation standards. Valuations are prepared externally or internally by professionally accredited real estate appraisers.

The fair value of short-term securities is approximated by their carrying amount adjusted for credit risk where appropriate.

Due to their nature, the fair value of policy loans and cash are assumed to be equal to their carrying values, which is the amount these assets are recorded at in our Consolidated Statements of Financial Position.

Investments for accounts of segregated fund holders are recorded at fair value with changes in fair value recorded in net realized and unrealized gains (losses) within the segregated fund and are not recorded in our Consolidated Statements of Operations. The fair value of investments for accounts of segregated fund holders is determined using quoted prices in active markets or independent valuation information provided by investment managers. The fair value of direct investments within investments for accounts of segregated fund holders, such as short-term securities and government and corporate debt securities, is determined according to valuation methodologies and inputs described above in the respective asset type sections. The fair value of the secured borrowings from mortgage securitization is based on the methodologies and assumptions as described above for asset-backed securities.

The methodologies and assumptions for determining the fair values of investment contract liabilities are included in Note 10.B of our 2020 Annual Consolidated Financial Statements.

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

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

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

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

As pricing inputs become more or less observable, assets are transferred between levels in the hierarchy. Total gains and losses in income and OCI are calculated assuming transfers into or out of Level 3 occur at the beginning of the period. For a financial instrument that transfers into Level 3 during the reporting period, the entire change in fair value for the period is included in the Level 3 reconciliation schedule in Note 5 of our 2020 Annual Consolidated Financial Statements. For transfers out of Level 3 during the reporting period, the change in fair value for the period is excluded from the Level 3 reconciliation schedule in Note 5 of our 2020 Annual Consolidated Financial Statements. Transfers into Level 3 occur when the inputs used to price the financial instrument lack observable market data and as a result, no longer meet the Level 1 or 2 criteria at the reporting date. Transfers out of Level 3 occur when the pricing inputs become more transparent and satisfy the Level 1 or 2 criteria at the reporting date.

Transfers into and out of Level 3 for financial assets were $5 million and $89 million for the year ended December 31, 2020, respectively, compared to $15 million and $304 million, respectively, for the year ended December 31, 2019. The total amount of the net realized/unrealized gains (losses) related to financial instruments transferred out of Level 3 during the period, which were excluded from the Level 3 reconciliation, was a loss of $5 million as at December 31, 2020 compared to a gain of $1 million as at December 31, 2019.

Additional information on the fair value measurement of investments can be found in Note 5 of our 2020 Annual Consolidated Financial Statements.

Impairment

Management assesses debt and equity securities, mortgages and loans and other invested assets for objective evidence of impairment at each reporting date. Financial assets are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that have an impact on the estimated future cash flows that can be reliably estimated. Objective evidence of impairment generally includes significant financial difficulty of the issuer, including actual or anticipated bankruptcy or defaults and delinquency in payments of interest or

principal or disappearance of an active market for the financial assets. All equity instruments in an unrealized loss position are reviewed to determine if objective evidence of impairment exists. Objective evidence of impairment for an investment in an equity instrument or other invested asset also includes, but is not limited to, the financial condition and near-term prospects of the issuer, including information about significant changes with adverse effects that have taken place in the technological, market, economic or legal environment in which the issuer operates, and a significant or prolonged decline in the fair value of an equity instrument or other invested asset below its cost.

Additional information on the impairment of financial assets can be found in Note 1 and 6 of our 2020 Annual Consolidated Financial Statements.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable tangible and intangible assets of the acquired businesses. Goodwill is carried at original cost less any impairment subsequently incurred. Goodwill is assessed for impairment annually or more frequently if events or circumstances occur that may result in the recoverable amount of a cash generating unit ("CGU") falling below its carrying value. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other groups of assets. The goodwill balances are allocated to either individual or groups of CGUs that are expected to benefit from the synergies of the business combination. Goodwill impairment is quantified by comparing a CGU's or a group of CGU's carrying value to its recoverable amount, which is the higher of fair value less cost to sell and value in use. Impairment losses are recognized immediately and cannot be reversed in future periods.

No impairment charges were recognized in 2020. We had a carrying value of $6.1 billion in goodwill as at December 31, 2020. Additional information on goodwill can be found in Note 9 of our 2020 Annual Consolidated Financial Statements.

Intangible Assets

Intangible assets consist of finite life and indefinite life intangible assets. Finite life intangible assets are amortized on a straight-line basis or using a units-of-production method, over the useful economic lives which are varying periods of up to 40 years. Amortization is charged through operating expenses. The useful lives of finite life intangible assets are reviewed annually, and the amortization is adjusted as necessary. Indefinite life intangibles are not amortized, and are assessed for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. Impairment is assessed by comparing the carrying values of the indefinite life intangible assets to their recoverable amounts. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. If the carrying values of the indefinite life intangibles exceed their recoverable amounts, these assets are considered impaired, and a charge for impairment is recognized in our Consolidated Statements of Operations. The recoverable amount of intangible assets is determined using various valuation models, which require management to make certain judgments and assumptions that could affect the estimates of the recoverable amount. Impairment charges on intangible assets of $11 million were recognized in 2020 and there were impairment charges of $15 million in 2019.

As at December 31, 2020 our finite life intangible assets had a carrying value of $1.6 billion, which reflected the value of the field force, asset administration contracts, and Client relationships acquired as part of the Clarica, CMG Asia, Genworth EBG, Ryan Labs, Prime Advisors, Bentall Kennedy, and the U.S. employee benefits business acquisitions, as well as software costs. Our indefinite life intangible assets had a carrying value of $0.9 billion as at December 31, 2020. The value of the indefinite life intangible assets reflected fund management contracts of MFS, BGO and InfraRed.

Income Taxes

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Deferred income tax is provided using the liability method. Our provision for income taxes is calculated based on the tax rates and tax laws that have been enacted or substantially enacted by the end of the reporting period.

As a multinational organization, we are subject to taxation in numerous jurisdictions. We seek to operate in a tax efficient manner while ensuring that we are in compliance with all laws and regulations. The determination of the required provision for current and deferred income taxes requires that we interpret tax legislation in the jurisdictions in which we operate and that we make assumptions about the expected timing of realization of deferred income tax assets and liabilities. Tax laws are complex and their interpretation requires significant judgment. The provision for income taxes reflects management's interpretation of the relevant tax laws and its best estimate of the income tax implications of the transactions and events during the period. We believe that our provisions for uncertain tax positions appropriately reflect the risk of tax positions that are under audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. The adequacy of our tax provision is reviewed at the end of each reporting period. To the extent that our interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience. The amount of any increase or decrease cannot be reasonably estimated.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. At each reporting period, we assess all available evidence, both positive and negative, to determine the amount of deferred income tax assets to be recorded. If it is probable that the benefit of tax losses and tax deductions will not be realized, a deferred income tax asset is not recognized. The assessment requires significant estimates and judgment about future events based on the information available at the reporting date.

From time to time, local governments, in countries in which we operate, enact changes to statutory corporate income tax rates. These changes require us to review and re-measure our deferred tax assets and liabilities as of the date of enactment. As at December 31, 2020, our net deferred tax asset in the Consolidated Statements of Financial Position was $1,251 million, primarily in Canada. Any future tax rate reductions in jurisdictions where we carry a net deferred tax asset, could result in a reduction in the carrying value of the deferred tax asset and a corresponding income tax expense at the time of substantial enactment of a rate reduction.

Pension Plans and Other Post-Retirement Benefits

The Company sponsors defined benefit pension plans and defined contribution plans for eligible employees. All of our material defined benefit plans worldwide are closed to new entrants with new hires participating in defined contribution plans. Our defined benefit pension plans offer benefits based on length of service and final average earnings and certain plans offer some indexation of benefits. We maintain certain supplementary non-contributory defined benefit pension arrangements for eligible employees, which are primarily for benefits which are in excess of local tax limits. In addition to these plans, in some countries the Company sponsors certain post-retirement benefit plans (for medical, dental and/or life insurance benefits) for eligible qualifying employees and their dependents who meet certain requirements.

In Canada, since January 1, 2009, all new employees participate in a defined contribution plan, while existing employees continue to accrue future benefits in the prior plan which provides a defined benefit plan and an optional contributory defined contribution plan.

With the closure of the Canadian defined benefit plans to new entrants, the volatility associated with future service accruals for active members has been limited and will decline over time. As at December 31, 2020, there are no active members in the UK and no active employees accruing future service benefits in the U.S. defined benefit plans.

The major risks remaining in relation to past service obligations are increases in liabilities due to a decline in discount rates, greater life expectancy than assumed and adverse asset returns. We have significantly de-risked the investments of our material defined benefit pension plans Company-wide by systematically shifting the pension asset mix towards liability matching investments. The target for our significant plans is to minimize volatility in funded status arising from changes in discount rates and exposure to equity markets.

Due to the long-term nature of these defined benefit plans, the calculation of benefit expenses and accrued benefit obligations depends on various assumptions, including discount rates, rates of compensation increases, health care cost trend rates, retirement ages, mortality rates and termination rates. Based upon consultation with external pension actuaries, management determines the assumptions used for these plans on an annual basis. The discount rate used for our material defined benefit plans is determined with reference to market yields of high-quality corporate bonds that are denominated in the same currency in which the benefits will be paid, and that have terms to maturity approximating the terms of obligations.

Actual experience may differ from that assumed, which would impact the valuation of defined benefit plans and the level of benefit expenses recognized in future years. Details of our pension and post-retirement benefit plans and the key assumptions used for the valuation these plans are included in Note 25 of our 2020 Annual Consolidated Financial Statements.

2. Changes in Accounting Policies

We have included in this section a summary of changes in accounting policies. Where there are references to Notes, these are part of our 2020 Annual Consolidated Financial Statements.

2.A New and Amended International Financial Reporting Standards Adopted in 2020

We adopted the following amendments on January 1, 2020:

In March 2018, the IASB issued a revised *Conceptual Framework for Financial Reporting* ("Conceptual Framework"), which replaced the Conceptual Framework issued in 2010. The revised Conceptual Framework includes revised definitions of an asset and a liability, as well as new guidance on measurement, derecognition, presentation and disclosure, to be applied prospectively. The adoption of this guideline did not have a material impact on our Consolidated Financial Statements.

In October 2018, the IASB issued *Definition of a Business*, which amended IFRS 3 *Business Combinations* ("IFRS 3"). The amendments clarify the definition of a business to assist entities in determining whether a transaction represents a business combination or an acquisition of assets, and are applied prospectively. The adoption of these amendments did not have a material impact on our Consolidated Financial Statements.

In October 2018, the IASB issued *Definition of Material (Amendments to IAS 1 and IAS 8)*. The amendments clarify the definition of material and provide guidance to improve consistency in its application in IFRS standards. The adoption of these amendments did not have a material impact on our Consolidated Financial Statements.

In September 2019, the IASB issued the *Interest Rate Benchmark Reform*, which includes amendments to IFRS 9, IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") and IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7"). We have deferred adoption of IFRS 9 and continue to apply IAS 39. The amendments clarify that entities can continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The adoption of the IAS 39 amendments did not have a material impact on our Consolidated Financial Statements.

We adopted the following amendment on June 1, 2020:

In May 2020, the IASB issued *COVID-19-Related Rent Concessions*, which is an amendment to IFRS 16 *Leases*. The amendment provides lessees with a practical expedient to not account for COVID-19-related rent concessions as lease modifications. The amendment does not affect lessors. The adoption of this amendment did not have a material impact on our Consolidated Financial Statements. The amendment was applied retrospectively.

2.B Amended International Financial Reporting Standards to be Adopted in 2021

The following new and amended IFRS were issued by the IASB and are expected to be adopted by us in 2021:

In August 2020, the IASB issued the *Interest Rate Benchmark Reform Phase 2*, which includes amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. They address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. We do not expect the adoption of this amendment to have a material impact on our Consolidated Financial Statements.

2.C Amended International Financial Reporting Standards to be Adopted in 2022 or Later

We are currently assessing the impact the adoption these amendments will have on our Consolidated Financial Statements:

In May 2020, the IASB issued *Reference to the Conceptual Framework*, which includes amendments to IFRS 3. The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. The amendments are effective to business combinations for which the acquisition date is on or after January 1, 2022.

In May 2020, the IASB issued *Property, Plant and Equipment - Proceeds before Intended Use*, which includes amendments to IAS 16 *Property, Plant and Equipment*. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The amendments apply retrospectively to assets ready for use in the comparative period. The amendments are effective for annual periods beginning on or after January 1, 2022.

In May 2020, the IASB issued *Onerous Contracts - Cost of Fulfilling a Contract*, which includes amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual periods beginning on or after January 1, 2022.

In May 2020, the IASB issued *Annual Improvements to IFRS Standards 2018-2020*, which includes minor amendments to three IFRS standards applicable to our Consolidated Financial Statements. The amendments apply prospectively. The amendments are effective for annual periods beginning on or after January 1, 2022.

In May 2017, the IASB issued IFRS 17, which replaces IFRS 4. In June 2020, the IASB issued amendments to IFRS 17, which include deferral of the effective date to annual periods beginning on or after January 1, 2023. The deferral option of IFRS 9 for insurers was also extended to that same date. IFRS 17 establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities at their current fulfillment values using one of three measurement models, depending on the nature of the contract. IFRS 17 is to be applied retrospectively to each group of insurance contracts unless impracticable. If, and only if, it is impracticable to apply IFRS 17 retrospectively for a group of insurance contracts, an entity shall apply IFRS 17 using a modified retrospective approach or a fair value approach. IFRS 17 will affect how we account for our insurance contracts and how we report our financial performance in our Consolidated Statements of Operations. We are currently assessing IFRS 17, which will have a significant impact on our Consolidated Financial Statements.

In July 2014, the IASB issued the final version of IFRS 9, which replaces IAS 39. IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. In addition, a new model for hedge accounting was introduced to achieve better alignment with risk management activities. This standard is effective for annual periods beginning on or after January 1, 2018. In October 2017, the IASB issued narrow-scope amendments to IFRS 9. The amendments clarify the classification of certain prepayable financial assets and the accounting of financial liabilities following modification. The amendments are effective for annual periods beginning on or after January 1, 2019. However, pursuant to the aforementioned amendments to IFRS 4, we elected the deferral approach permitted under IFRS 4 to continue to apply IAS 39. We are currently assessing the impact that IFRS 9, along with these amendments, will have on our Consolidated Financial Statements.

3. Disclosure Controls and Procedures

The Company has established disclosure controls and procedures that are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and CEO, Executive Vice-President and Chief Financial Officer ("CFO"), and Executive Vice-President, Chief Legal Officer and Public Affairs, on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of our disclosure controls and procedures, as defined under rules adopted by the Canadian securities regulatory authorities and the SEC, as at December 31, 2020, was carried out under the supervision of and with the participation of the Company's management, including the CEO and the CFO. Based on our evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2020.

Management's Report on 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 our financial reporting and the preparation of our financial statements in accordance with IFRS.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We conducted an assessment of the effectiveness of our internal control over financial reporting, as of December 31, 2020, based on the framework and criteria established in *Internal Control-Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, we have concluded that our internal control over financial reporting was effective as of December 31, 2020.

Our internal control over financial reporting, as of December 31, 2020, has been audited by the Company's external auditor, Deloitte LLP, Independent Registered Public Accounting Firm, who also audited our Annual Consolidated Financial Statements for the year ended December 31, 2020. As stated in the Report of Independent Registered Public Accounting Firm, they have expressed an unqualified opinion on our internal control over financial reporting as of December 31, 2020.

Changes in Internal Control over Financial Reporting

No changes were made in our internal control over financial reporting for the period which began on January 1, 2020 and ended December 31, 2020 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

N. Legal and Regulatory Proceedings

We are regularly involved in legal actions, both as a defendant and as a plaintiff. Information on legal and regulatory proceedings can be found in Note 23 of our 2020 Annual Consolidated Financial Statements.

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, financial objectives, future results of operations, and strategic goals; (ii) concerning our medium-term financial objectives which are described in this MD&A under the heading B - Overview - 2 - Financial Objectives, (collectively, our "medium-term financial objectives"); (iii) relating to productivity and expense initiatives, growth initiatives, outlook, and other business objectives; (iv) relating to our expected tax range for future years; (v) relating to the plans we have implemented in response to the COVID-19 pandemic and related economic conditions and their impact on the Company; (vi) that are predictive in nature or that depend upon or refer to future events or conditions; (vii) set out in this document under the heading J - Risk Management - 9 Risk Categories - Market Risk - Market Risk Sensitivities - Equity Market Sensitivities and Interest Rate Sensitivities; (viii) relating to cash flows, anticipated payment obligations, funding requirements and our ability to meet these obligations; (ix) relating to tax provisions; (x) relating to risks and uncertainties; and (xi) that include words such as "achieve", "aim", "ambition", "anticipate", "aspiration", "assumption", "believe", "continue", "could", "estimate", "expect", "goal", "initiatives", "intend", "may", "objective", "outlook", "plan", "potential", "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, particularly in light of the ongoing and developing COVID-19 pandemic and its impact on the global economy and its uncertain impact on our business.

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 impact of the COVID-19 pandemic and related economic conditions on our operations, liquidity, financial conditions or results and the matters set out in this document under the headings B - Overview - 2 - Financial Objectives; D - Profitability - 2020 vs. 2019; I - Capital and Liquidity Management; J - Risk Management; and M - Accounting and Control Matters - 1 - Critical Accounting Policies and Estimates and in the AIF under the heading Risk Factors, and the factors detailed in SLF Inc.'s other filings with Canadian and U.S. securities regulators, which are available for review at www.sedar.com and www.sec.gov, respectively.

Medium-Term Financial Objectives

The Company's medium-term financial objectives set out in B - Overview - 2 - Financial Objectives are forward-looking non-IFRS financial measures. Our ability to achieve those objectives is dependent on our success in achieving growth initiatives and business objectives and on certain key assumptions that include: (i) no significant changes in the level of interest rates; (ii) average total equity market return of approximately 8-10% per annum; (iii) credit experience in line with best estimate actuarial assumptions; (iv) no significant changes in the level of our regulatory capital requirements; (v) no significant changes to our effective tax rate; (vi) no significant increase in the number of shares outstanding; (vii) other key assumptions include: no material changes to our hedging program, hedging costs that are consistent with our best estimate assumptions, no material assumption changes including updates to the economic scenario generator and no material accounting standard changes; and (viii) our best estimate actuarial assumptions used in determining our insurance and investment contract liabilities. Our underlying ROE is dependent upon capital levels and options for deployment of excess capital. Our medium-term financial objectives do not reflect the indirect effects of interest rate and equity market movements including the potential impacts on goodwill or the current valuation allowance on deferred tax assets as well as other items that may be non-operational in nature.

Our target dividend payout ratio of 40%-50% of our underlying net income assumes that economic conditions and our results will enable us to maintain our payout ratio in the target range, while maintaining a strong capital position. The declaration, amount and payment of dividends is subject to the approval of SLF Inc.'s Board of Directors and our compliance with the capital requirements in the *Insurance Companies Act* (Canada). Additional information on dividends is provided in the section I - Capital and Liquidity Management - 3 - Shareholder Dividends in this MD&A.

Although considered reasonable by the Company, we may not be able to achieve our medium-term financial objectives as the assumptions on which these objectives were based may prove to be inaccurate. Accordingly, our actual results could differ materially from our medium-term financial objectives as described in the section B - Overview - 2 - Financial Objectives in this MD&A. Our medium-term financial objectives do not constitute guidance.

Risk Factors

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, including our medium-term financial objectives, are set out below. The realization of our forward-looking statements, including our ability to meet our medium-term financial objectives, essentially depends on our business performance which, in turn, is subject to many risks, which have been further heightened with the current COVID-19 pandemic given the uncertainty of its duration and impact. 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; and fluctuations in foreign currency exchange rates; **insurance risks** - related to policyholder behaviour; mortality experience, morbidity experience and longevity; product design and pricing; the impact of higher-than-expected future expenses; and the availability, cost and effectiveness of reinsurance; **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 mergers, acquisitions, strategic investments and divestitures; the impact of competition; the performance of our investments and investment portfolios managed for Clients; changes in the legal or regulatory environment, including capital requirements; the environment and social, 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; 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** - COVID-19 matters, including the severity, duration and spread of COVID-19; its impact on the global economy, and its impact on Sun Life's business, financial condition and or results; risks associated with IFRS 17 and IFRS 9; 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.

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Financial Reporting Responsibilities

Management is responsible for preparing the Consolidated Financial Statements. This responsibility includes selecting appropriate accounting policies and making estimates and other judgments consistent with International Financial Reporting Standards. The financial information presented elsewhere in the annual report to shareholders is consistent with these Consolidated Financial Statements.

The Board of Directors ("Board") oversees management's responsibilities for financial reporting. An Audit Committee of non-management directors is appointed by the Board to review the Consolidated Financial Statements and report to the Board prior to their approval of the Consolidated Financial Statements for issuance to shareholders. Other key responsibilities of the Audit Committee include reviewing the Company's existing internal control procedures and planned revisions to those procedures, and advising the Board on auditing matters and financial reporting issues.

Management is also responsible for maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and that Sun Life Financial Inc. and its subsidiaries, collectively referred to as "the Company", adhere to legislative and regulatory requirements. These systems include the communication of policies and the Company's Code of Business Conduct throughout the organization. Internal controls are reviewed and evaluated by the Company's internal auditors.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting, as of December 31, 2020, based on the framework and criteria established in *Internal Control - Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2020.

The Audit Committee also conducts such review and inquiry of management and the internal and external auditors as it deems necessary towards establishing that the Company is employing appropriate systems of internal control, is adhering to legislative and regulatory requirements and is applying the Company's Code of Business Conduct. Both the internal and external auditors and the Company's Appointed Actuary have full and unrestricted access to the Audit Committee with and without the presence of management.

The Office of the Superintendent of Financial Institutions, Canada conducts periodic examinations of the Company. These examinations are designed to evaluate compliance with provisions of the *Insurance Companies Act* (Canada) and to ensure that the interests of policyholders, depositors, and the public are safeguarded. The Company's foreign operations and foreign subsidiaries are examined by regulators in their local jurisdictions.

The Company's Appointed Actuary, who is a member of management, is appointed by the Board to discharge the various actuarial responsibilities required under the *Insurance Companies Act* (Canada), and conducts the valuation of the Company's actuarial liabilities. The role of the Appointed Actuary is described in more detail in Note 10. The report of the Appointed Actuary accompanies these Consolidated Financial Statements.

The Company's external auditor, Deloitte LLP, Independent Registered Public Accounting Firm, has audited the Company's internal control over financial reporting as of December 31, 2020, in addition to auditing the Company's Consolidated Financial Statements for the years ended December 31, 2020 and December 31, 2019. Its reports to the Board and shareholders express unqualified opinions and accompany these Consolidated Financial Statements. Deloitte LLP meets separately with both management and the Audit Committee to discuss the results of its audit.



Dean A. Connor
President and Chief Executive Officer



Kevin D. Strain, CPA, CA
Executive Vice-President and Chief Financial Officer

Toronto, Ontario, Canada
February 10, 2021

Appointed Actuary’s Report

THE SHAREHOLDERS AND DIRECTORS OF SUN LIFE FINANCIAL INC.

I have valued the policy liabilities and reinsurance recoverables of Sun Life Financial Inc. and its subsidiaries for its Consolidated Statements of Financial Position at December 31, 2020 and December 31, 2019 and their change in the Consolidated Statements of Operations for the year ended December 31, 2020 in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policy obligations and the Consolidated Financial Statements fairly present the results of the valuation.



Kevin Morrissey
Fellow, Canadian Institute of Actuaries

Toronto, Ontario, Canada
February 10, 2021

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Sun Life Financial Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Sun Life Financial Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows, for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and its financial performance and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 10, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex auditor judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Insurance Contract Liabilities - Refer to Notes 1 and 10 to the Financial Statements

Critical Audit Matter Description

The Company has significant insurance contract liabilities representing the majority of its total liabilities. Application of different assumptions may result in different measurement of the insurance contract liabilities. There is insurance risk from the uncertainty of product performance due to differences between the actual experience and expected experience. The Company uses various actuarial models to determine insurance contract liabilities, some of which involve high levels of complexity.

While there are many assumptions which management makes, the assumptions with the greatest uncertainty are those related to mortality, including the impact, if any, of the COVID-19 pandemic, and lapse and other policyholder behaviour ("policyholder behaviour"). These assumptions required subjective and complex auditor judgment in certain circumstances, including where (i) there is limited Company and industry experience data, (ii) the historical experience may not be a good indicator of the future, and (iii) the policyholder behaviour may be irrational. Auditing of certain actuarial models and mortality and policyholder behaviour assumptions required a high degree of auditor judgment and an increased extent of audit effort, including the need for the integral involvement of actuarial specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to actuarial models and assumptions of mortality and policyholder behaviour included the following, among others:

- We evaluated and tested the effectiveness of controls over actuarial models and the determination of the mortality and policyholder behaviour assumptions used in the calculation of insurance contract liabilities as well as access and change management controls over those actuarial models.
- With the assistance of actuarial specialists, we tested the reasonableness of key mortality and policyholder behaviour assumptions, by:
  - Evaluating management’s methods and assumptions in accordance with actuarial principles and practices under the Canadian actuarial standards of practice.
  - Testing experience studies and other inputs used in the determination of the mortality and policyholder behaviour assumptions.
  - Analyzing management’s interpretation of its experience study results, evaluating triggers and drivers for revisions of assumptions, assessing reasonably possible alternative assumptions, and considering industry and other external sources of data, where applicable.
- With the assistance of actuarial specialists, we tested the appropriateness of actuarial models used in the estimation process by:
  - Calculating an independent estimate of the insurance contract liability for a sample of insurance policies and comparing the results to the Company’s results.
  - Testing the accuracy of a sample of actuarial models for changes in key assumptions.

Valuation of Investment Properties - Refer to Notes 1 and 5 to the Financial Statements

Critical Audit Matter Description

Investment properties are accounted for at fair value. The fair values of investment properties are generally determined using property valuation models and are based on expected capitalization rates and models that discount expected future net cash flows at current market expected rates of return reflective of the characteristics, location, and market of each property. Expected future net cash flows include contractual and projected cash flows and forecasted operating expenses, and take into account discount, rental, and occupancy rates derived from market surveys. The estimates of future cash inflows in addition to expected rental income from current leases, include projected income from future leases based on significant assumptions that are consistent with current market conditions.

The assumptions with the greatest uncertainty are the discount rates, terminal capitalization rates and future rental rates. Performing audit procedures to assess inputs required a high degree of auditor judgment and an increased extent of audit effort, including the need for the integral involvement of fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to valuation models and assumptions including discount rates, terminal capitalization rates, and future rental rates included the following, among others:

- We evaluated and tested the effectiveness of controls over the fair value process for investment properties. These controls include an assessment and approval by senior management of the discount rates, terminal capitalization rates, and future rental rates assumptions used in the determination of the valuation of investment properties and the valuation conclusions relative to comparable properties.
- With the assistance of fair value specialists, we evaluated on a sample basis the reasonableness of management's discount rates, terminal capitalization rates, and future rental rates assumptions and valuation conclusions by comparing them to the discount rates, terminal capitalization rates and future rental rates of market surveys and transactions in comparable properties.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario, Canada
February 10, 2021

We have served as the Company's auditor since 1875.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Sun Life Financial Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Sun Life Financial Inc. and subsidiaries (the "Company") as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 10, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Financial Reporting Responsibilities report. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario, Canada
February 10, 2021

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, (in millions of Canadian dollars, except for per share amounts)	2020	2019
Revenue		
Premiums		
Gross	**$ 26,190**	$ 22,680
Less: Ceded	**2,452**	2,392
Net premiums	**23,738**	20,288
Net investment income (loss):		
Interest and other investment income (Note 5)	**5,407**	5,855
Fair value and foreign currency changes on assets and liabilities (Note 5)	**6,860**	7,118
Net gains (losses) on available-for-sale assets	**451**	167
Net investment income (loss)	**12,718**	13,140
Fee income (Note 17)	**6,881**	6,251
Total revenue	**43,337**	39,679
Benefits and expenses		
Gross claims and benefits paid (Note 10)	**18,307**	17,421
Increase (decrease) in insurance contract liabilities (Note 10)	**14,860**	11,367
Decrease (increase) in reinsurance assets (Note 10)	**204**	(28)
Increase (decrease) in investment contract liabilities (Note 10)	**61**	65
Reinsurance expenses (recoveries) (Note 11)	**(2,353)**	(2,131)
Commissions	**2,612**	2,417
Net transfer to (from) segregated funds (Note 22)	**(1,825)**	(437)
Operating expenses (Note 18)	**7,401**	7,033
Premium taxes	**428**	406
Interest expense	**355**	333
Total benefits and expenses	**40,050**	36,446
Income (loss) before income taxes	**3,287**	3,233
Less: Income tax expense (benefit) (Note 20)	**495**	286
Total net income (loss)	**2,792**	2,947
Less: Net income (loss) attributable to participating policyholders (Note 21)	**283**	230
Net income (loss) attributable to non-controlling interests	**11**	4
Shareholders' net income (loss)	**2,498**	2,713
Less: Preferred shareholders' dividends	**94**	95
Common shareholders' net income (loss)	**$ 2,404**	$ 2,618
Average exchange rates during the reporting periods: U.S. dollars	**1.34**	1.33
Earnings (loss) per share (Note 26)		
Basic earnings (loss) per share	**$ 4.11**	$ 4.42
Diluted earnings (loss) per share	**$ 4.10**	$ 4.40
Dividends per common share	**$ 2.200**	$ 2.100

The attached notes form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31, (in millions of Canadian dollars)		2020		2019
Total net income (loss)	**$**	**2,792**	$	2,947
Other comprehensive income (loss), net of taxes:				
Items that may be reclassified subsequently to income:				
Change in unrealized foreign currency translation gains (losses):				
Unrealized gains (losses)		**(204)**		(564)
Change in unrealized gains (losses) on available-for-sale assets:				
Unrealized gains (losses)		**658**		489
Reclassifications to net income (loss)		**(339)**		(120)
Change in unrealized gains (losses) on cash flow hedges:				
Unrealized gains (losses)		**(15)**		33
Reclassifications to net income (loss)		**9**		(19)
Share of other comprehensive income (loss) in joint ventures and associates:				
Unrealized gains (losses)		**(9)**		(9)
Total items that may be reclassified subsequently to income		**100**		(190)
Items that will not be reclassified subsequently to income:				
Remeasurement of defined benefit plans		**22**		(42)
Total items that will not be reclassified subsequently to income		**22**		(42)
Total other comprehensive income (loss)		**122**		(232)
Total comprehensive income (loss)		**2,914**		2,715
Less: Participating policyholders' comprehensive income (loss) (Note 21)		**277**		227
Non-controlling interests' comprehensive income (loss)		**11**		4
Shareholders' comprehensive income (loss)	**$**	**2,626**	$	2,484

INCOME TAXES INCLUDED IN OTHER COMPREHENSIVE INCOME (LOSS)

For the years ended December 31, (in millions of Canadian dollars)		2020		2019
Income tax benefit (expense):				
Items that may be reclassified subsequently to income:				
Unrealized foreign currency translation gains (losses)	**$**	**(16)**	$	—
Unrealized gains (losses) on available-for-sale assets		**(180)**		(110)
Reclassifications to net income for available-for-sale assets		**87**		31
Unrealized gains (losses) on cash flow hedges		**2**		(13)
Reclassifications to net income for cash flow hedges		**1**		8
Total items that may be reclassified subsequently to income		**(106)**		(84)
Items that will not be reclassified subsequently to income:				
Remeasurement of defined benefit plans		**(8)**		21
Total items that will not be reclassified subsequently to income		**(8)**		21
Total income tax benefit (expense) included in other comprehensive income (loss)	**$**	**(114)**	$	(63)

The attached notes form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, (in millions of Canadian dollars)	2020	2019
Assets		
Cash, cash equivalents and short-term securities (Note 5)	**$ 13,527**	$ 9,575
Debt securities (Notes 5 and 6)	**89,089**	81,606
Equity securities (Notes 5 and 6)	**6,631**	4,787
Mortgages and loans (Notes 5 and 6)	**49,946**	48,222
Derivative assets (Notes 5 and 6)	**2,160**	1,548
Other invested assets (Note 5)	**5,778**	5,357
Policy loans (Note 5)	**3,265**	3,218
Investment properties (Note 5)	**7,516**	7,306
Invested assets	**177,912**	161,619
Other assets (Note 8)	**5,152**	5,216
Reinsurance assets (Notes 10 and 11)	**3,843**	4,024
Deferred tax assets (Note 20)	**1,634**	1,455
Intangible assets (Note 9)	**2,477**	2,083
Goodwill (Note 9)	**6,072**	5,832
Total general fund assets	**197,090**	180,229
Investments for account of segregated fund holders (Note 22)	**125,921**	116,973
Total assets	**$ 323,011**	$ 297,202
Liabilities and equity		
Liabilities		
Insurance contract liabilities (Note 10)	**$ 145,773**	$ 131,184
Investment contract liabilities (Note 10)	**3,189**	3,116
Derivative liabilities (Notes 5 and 6)	**1,744**	2,040
Deferred tax liabilities (Note 20)	**383**	406
Other liabilities (Note 12)	**14,858**	14,937
Senior debentures (Note 13)	**500**	500
Subordinated debt (Note 14)	**4,781**	3,538
Total general fund liabilities	**171,228**	155,721
Insurance and investment contracts for account of segregated fund holders (Note 22)	**125,921**	116,973
Total liabilities	**$ 297,149**	$ 272,694
Equity		
Issued share capital and contributed surplus	**$ 10,591**	$ 10,619
Shareholders' retained earnings and accumulated other comprehensive income	**13,878**	12,779
Total shareholders' equity	**24,469**	23,398
Participating policyholders' equity	**1,368**	1,091
Non-controlling interests' equity	**25**	19
Total equity	**$ 25,862**	$ 24,508
Total liabilities and equity	**$ 323,011**	$ 297,202
Exchange rates at the end of the reporting periods: U.S. dollars	**1.27**	1.30

The attached notes form part of these Consolidated Financial Statements.

Approved on behalf of the Board of Directors on February 10, 2021.



Dean A. Connor
President and Chief Executive Officer



Sara Grootwassink Lewis
Director

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, (in millions of Canadian dollars)		2020		2019
Shareholders:				
Preferred shares (Note 15)				
Balance, beginning and end of year	**$**	**2,257**	$	2,257
Common shares (Note 15)				
Balance, beginning of year		**8,289**		8,419
Stock options exercised		**23**		28
Common shares purchased for cancellation		**(50)**		(158)
Balance, end of year		**8,262**		8,289
Contributed surplus				
Balance, beginning of year		**73**		73
Share-based payments		**4**		5
Stock options exercised		**(5)**		(5)
Balance, end of year		**72**		73
Retained earnings				
Balance, beginning of year		**11,318**		11,267
Adjustment for change in accounting policy (Note 2)		**—**		(22)
Balance, beginning of year, after change in accounting policy		**11,318**		11,245
Net income (loss)		**2,498**		2,713
Dividends on common shares		**(1,283)**		(1,236)
Dividends on preferred shares		**(94)**		(95)
Common shares purchased for cancellation (Note 15)		**(150)**		(434)
Changes attributable to acquisition (Note 3)		**—**		(875)
Balance, end of year		**12,289**		11,318
Accumulated other comprehensive income (loss), net of taxes (Note 27)				
Balance, beginning of year		**1,461**		1,690
Total other comprehensive income (loss) for the year		**128**		(229)
Balance, end of year		**1,589**		1,461
Total shareholders' equity, end of year	**$**	**24,469**	$	23,398
Participating policyholders:				
Balance, beginning of year	**$**	**1,091**	$	864
Net income (loss) (Note 21)		**283**		230
Total other comprehensive income (loss) for the year (Note 27)		**(6)**		(3)
Total participating policyholders' equity, end of year	**$**	**1,368**	$	1,091
Non-controlling interests:				
Balance, beginning of year	**$**	**19**	$	—
Net income (loss)		**11**		4
Changes attributable to acquisition (Note 3)		**—**		15
Additional contribution		**13**		—
Distribution to non-controlling interests		**(18)**		—
Total non-controlling interests' equity, end of year	**$**	**25**	$	19
Total equity	**$**	**25,862**	$	24,508

The attached notes form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, (in millions of Canadian dollars)	2020	2019
Cash flows provided by (used in) operating activities		
Income (loss) before income taxes	**$ 3,287**	$ 3,233
Adjustments:		
Interest expense related to financing activities	**209**	249
Increase (decrease) in insurance and investment contract liabilities	**14,921**	11,432
Decrease (increase) in reinsurance assets	**204**	(28)
Realized and unrealized (gains) losses and foreign currency changes on invested assets	**(7,311)**	(7,285)
Sales, maturities and repayments of invested assets	**76,289**	59,162
Purchases of invested assets	**(81,709)**	(64,165)
Income taxes received (paid)	**(690)**	(698)
Mortgage securitization (Note 5)	**197**	264
Other operating activities[1]	**1,856**	310
Net cash provided by (used in) operating activities	**7,253**	2,474
Cash flows provided by (used in) investing activities		
Net (purchase) sale of property and equipment	**(158)**	(114)
Investment in and transactions with joint ventures and associates (Note 16)	**(1)**	19
Dividends received from joint ventures and associates (Note 16)	**29**	45
Acquisitions, net of cash and cash equivalents (Note 3)[2]	**(469)**	(167)
Other investing activities	**(287)**	(213)
Net cash provided by (used in) investing activities	**(886)**	(430)
Cash flows provided by (used in) financing activities		
Increase in (repayment of) borrowed funds	**81**	132
Issuance of subordinated debt, net of issuance costs (Note 14)	**1,740**	747
Repayment of senior financing (Note 12)	**(2,020)**	—
Increase in (repayment of) borrowings from credit facility[1]	**275**	73
Redemption of senior debentures and subordinated debt (Notes 13 and 14)	**(500)**	(1,050)
Issuance of common shares on exercise of stock options	**18**	23
Transactions with non-controlling interests	**(5)**	—
Common shares purchased for cancellation (Note 15)	**(200)**	(592)
Dividends paid on common and preferred shares	**(1,360)**	(1,318)
Payment of lease liabilities	**(136)**	(125)
Interest expense paid	**(205)**	(253)
Net cash provided by (used in) financing activities	**(2,312)**	(2,363)
Changes due to fluctuations in exchange rates	**(92)**	(190)
Increase (decrease) in cash and cash equivalents	**3,963**	(509)
Net cash and cash equivalents, beginning of year	**6,685**	7,194
Net cash and cash equivalents, end of year	**10,648**	6,685
Short-term securities, end of year	**2,873**	2,860
Net cash, cash equivalents and short-term securities, end of year (Note 5)	**$ 13,521**	$ 9,545

[1] Reflects a change in presentation for our credit facility effective January 1, 2020. We have updated our prior period to reflect this change in presentation.
[2] Consists of total cash consideration paid of $514 ($192 in 2019), less cash and cash equivalents acquired of $45 ($25 in 2019).

The attached notes form part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

(Amounts in millions of Canadian dollars, except for per share amounts and where otherwise stated. All amounts stated in U.S. dollars are in millions.)

1. Significant Accounting Policies

Description of Business

Sun Life Financial Inc. ("SLF Inc.") is a publicly traded company domiciled in Canada and is the holding company of Sun Life Assurance Company of Canada ("Sun Life Assurance"). Both companies are incorporated under the *Insurance Companies Act* (Canada), and are regulated by the Office of the Superintendent of Financial Institutions, Canada ("OSFI"). SLF Inc. and its subsidiaries are collectively referred to as "us", "our", "ours", "we", or "the Company". We are an internationally diversified financial services organization providing savings, retirement and pension products, and life and health insurance to individuals and groups through our operations in Canada, the United States ("U.S."), Asia, and the United Kingdom ("UK"). We also operate mutual fund and investment management businesses, primarily in Canada, the U.S., and Asia.

Statement of Compliance

We prepared our Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued and adopted by the International Accounting Standards Board ("IASB"). Our accounting policies have been applied consistently within our Consolidated Financial Statements.

Basis of Presentation

Our Consolidated Statements of Financial Position are presented in the order of liquidity and each statement of financial position line item includes both current and non-current balances, as applicable.

We have defined our reportable business segments and the amounts disclosed for those segments based on our management structure and the manner in which our internal financial reporting is conducted. Transactions between segments are executed and priced on an arm's-length basis in a manner similar to transactions with third parties.

The significant accounting policies used in the preparation of our Consolidated Financial Statements are summarized below and are applied consistently by us.

Estimates, Assumptions and Judgments

The application of our accounting policies requires estimates, assumptions and judgments as they relate to matters that are inherently uncertain. We have established procedures to ensure that our accounting policies are applied consistently and that the processes for changing methodologies for determining estimates are controlled and occur in an appropriate and systematic manner.

Use of Estimates and Assumptions

The preparation of our Consolidated Financial Statements requires us to make estimates and assumptions that affect the application of our policies and the reported amounts of assets, liabilities, revenue and expenses. Key sources of estimation uncertainty include the measurement of insurance contract liabilities and investment contract liabilities, determination of fair value, impairment of financial instruments, determination and impairment of goodwill and intangible assets, determination of provisions and liabilities for pension plans, other post-retirement benefits, income taxes, and the determination of fair value of share-based payments. Actual results may differ from our estimates thereby impacting our Consolidated Financial Statements. Information on our use of estimates and assumptions are discussed in this Note.

Judgments

In preparation of these Consolidated Financial Statements, we use judgments to select assumptions and determine estimates as described above. We also use judgment when applying accounting policies and when determining the classification of insurance contracts, investment contracts and service contracts; the substance of whether our relationship with a structured entity, subsidiary, joint venture or associate constitutes control, joint control or significant influence; functional currencies; contingencies; acquisitions; deferred income tax assets; and the determination of cash generating unit ("CGU").

COVID-19 Pandemic Considerations

In early 2020, the world was impacted by COVID-19, which was declared a pandemic by the World Health Organization. The overall impact of the COVID-19 pandemic is still uncertain and dependent on the progression of the virus and on actions taken by governments, businesses and individuals, which could vary by country and result in differing outcomes.

The application of our accounting policies requires estimates, assumptions and judgments as they relate to matters that are inherently uncertain. We have established procedures to ensure that our accounting policies are applied consistently and that the processes for changing methodologies for determining estimates are controlled and occur in an appropriate and systematic manner. For our insurance contract liabilities, no material COVID-19 specific provisions or adjustments to our long-term assumptions have been made, and we continue to monitor our experience and exposure to the COVID-19 pandemic.

Significant estimates and judgments have been made in the following areas and are discussed as noted:

Insurance contract and investment contract assumptions and measurement	Note 1 Insurance Contract Liabilities and Investment Contract Liabilities Note 10 Insurance Contract Liabilities and Investment Contract Liabilities
Determination of fair value	Note 1 Basis of Consolidation Note 1 Determination of Fair Value Note 3 Acquisitions and Other Note 5 Total Invested Assets and Related Net Investment Income
Impairment of financial instruments	Note 1 Financial Assets Excluding Derivative Financial Instruments Note 6 Financial Instrument Risk Management
Income taxes	Note 1 Income Taxes Note 20 Income Taxes
Pension plans	Note 1 Pension Plans and Other Post-Retirement Benefits Note 25 Pension Plans and Other Post-Retirement Benefits
Goodwill and intangible assets on acquisition and impairment	Note 1 Goodwill Note 1 Intangible Assets Note 3 Acquisitions and Other Note 9 Goodwill and Intangible Assets
Determination of control for purpose of consolidation	Note 1 Basis of Consolidation Note 16 Interests in Other Entities
Share-based payments	Note 19 Share-Based Payments

Basis of Consolidation

Our Consolidated Financial Statements include the results of operations and the financial position of subsidiaries, which includes structured entities controlled by us, after intercompany balances and transactions have been eliminated. Subsidiaries are fully consolidated from the date we obtain control, and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary from an unrelated party at the date that control is obtained, with the difference between the consideration transferred and the fair value of the subsidiary's net identifiable assets acquired recorded as goodwill. Judgment is required to determine fair value of the net identifiable assets acquired in a business combination.

We control an entity when we have power over an entity, exposure to or rights to variable returns from our involvement with an entity, and the ability to affect our returns through our power over an entity. Power exists when we have rights that give us the ability to direct the relevant activities, which are those activities that could significantly affect the entity's returns. Power can be obtained through voting rights or other contractual arrangements. Judgment is required to determine the relevant activities and which party has power over these activities. When we have power over and variable returns from an entity, including an investment fund that we manage, we also apply significant judgment in determining whether we are acting as a principal or agent. To make this determination, we consider factors such as how much discretion we have regarding the management of the investment fund and the magnitude and extent of variability associated with our interests in the fund. If we determine we are the principal rather than the agent, we would consolidate the assets and liabilities of the fund. Interests held by external parties in investment funds that we consolidate are recorded as third-party interest in consolidated investment funds in Other liabilities. If we lose control of an entity, the assets and liabilities of that entity are derecognized from our Consolidated Statements of Financial Position at the date at which control is lost and any investment retained is remeasured to fair value.

A joint venture exists when SLF Inc., or one of its subsidiaries, has joint control of a joint arrangement and has rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control and exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. Associates are entities over which SLF Inc. or its subsidiaries are able to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an investee but not have control or joint control over those decisions. Significant influence is generally presumed to exist when SLF Inc. or its subsidiaries holds greater than 20% of the voting power of the investee but does not have control or joint control. The equity method is used to account for our interests in joint ventures and associates. A joint operation exists when SLF Inc., or one of its subsidiaries, has joint control of an arrangement that gives it rights to the assets and obligations for the liabilities of the operation, rather than the net assets of the arrangement. For joint operations, we record our share of the assets, liabilities, revenue and expenses of the joint operation. Judgment is required to determine whether contractual arrangements between multiple parties results in control, joint control or significant influence, with consideration of the relevant activities of the entity, voting rights, representation on boards of directors and other decision-making factors. Judgment is also required to determine if a joint arrangement is a joint venture or joint operation, with consideration of our rights and obligations and the structure and legal form of the arrangement.

Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is measured using the assumptions that market participants would use when pricing an asset or liability. We determine fair value by using quoted prices in active markets for identical or similar assets or liabilities. When quoted prices in active markets are not available, fair value is determined using valuation techniques that maximize the use of observable inputs. When observable valuation inputs are not available, significant judgment is required to determine fair value by assessing the valuation techniques and valuation inputs. The use of alternative valuation techniques or valuation inputs may result in a different fair value. A description of the fair value methodologies, assumptions, valuation techniques, and valuation inputs by type of asset is included in Note 5.

Foreign Currency Translation

Translation of Transactions in Foreign Currencies

The financial results of SLF Inc. and its subsidiaries, joint ventures and associates are prepared in the currency in which they conduct their ordinary course of business, which is referred to as functional currency. Transactions occurring in currencies other than the functional currency are translated to the functional currency using the spot exchange rates at the dates of the transactions.

Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate at the statement of financial position date. Non-monetary assets and liabilities in foreign currencies that are held at fair value are translated using the exchange rate at the statement of financial position date, while non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

The resulting exchange differences from the translation of monetary items and non-monetary items held at fair value, with changes in fair value recorded to income, are recognized in our Consolidated Statements of Operations. For monetary assets classified as available-for-sale ("AFS"), translation differences calculated on amortized cost are recognized in our Consolidated Statements of Operations and other changes in carrying amount are recognized in other comprehensive income ("OCI"). The exchange differences from the translation of non-monetary items classified as AFS are recognized in OCI.

Translation to the Presentation Currency

In preparing our Consolidated Financial Statements, the financial statements of foreign operations are translated from their respective functional currencies to Canadian dollars, our presentation currency. Assets and liabilities are translated at the closing exchange rate at the statement of financial position date, and income and expenses are translated using the average exchange rates. The accumulated gains or losses arising from translation of functional currencies to the presentation currency, net of the effect of any hedges, are included as a separate component of OCI within equity. Upon disposal of a foreign operation that includes loss of control, significant influence or joint control, the cumulative exchange gain or loss related to that foreign operation is recognized in income.

Invested Assets

Financial Assets Excluding Derivative Financial Instruments

Financial assets include cash, cash equivalents and short-term securities, debt securities, equity securities, mortgages and loans, financial assets included in other invested assets and policy loans. Financial assets are designated as financial assets at fair value through profit or loss ("FVTPL") or AFS assets, or are classified as loans and receivables at initial recognition.

The following table summarizes the financial assets included in our Consolidated Statements of Financial Position and the asset classifications applicable to these assets:

Cash, cash equivalents and short-term securities	FVTPL
Debt securities	FVTPL and AFS
Equity securities	FVTPL and AFS
Mortgages and loans	Loans and receivables
Other invested assets	FVTPL and AFS
Policy loans	Loans and receivables

Mortgages and loans include mortgages, loans and debt securities not quoted in an active market. Financial assets included in Other invested assets include investments in limited partnerships, segregated funds and mutual funds. Cash equivalents are highly liquid instruments with a term to maturity of three months or less, while short-term securities have a term to maturity exceeding three months but less than one year. Policy loans are fully secured by the policy values on which the loans are made. The accounting for each asset classification is described in the following sections.

i) Initial Recognition and Subsequent Measurement

Generally, debt securities, equity securities and other invested assets supporting our insurance contract liabilities or investment contract liabilities measured at fair value are designated as FVTPL, while debt securities, equity securities and other invested assets not supporting our insurance contract liabilities or that are supporting investment contract liabilities are measured at amortized cost or designated as AFS. Mortgages and loans and policy loans are classified as loans and receivables. Financial assets are recognized in the Consolidated Statements of Financial Position on their trade dates, which are the dates that we commit to purchase or sell the assets. Originated mortgages and loans are recognized in the Consolidated Statements of Financial Position on their funding dates.

Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL include financial assets that are held-for-trading ("HFT"), as well as financial assets that have been designated as FVTPL at initial recognition. A financial asset is classified as HFT if it is acquired principally for the purpose of selling in the near term. A financial asset can be designated as FVTPL if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or if a group of financial assets, financial liabilities or both, is managed and its performance is evaluated on a fair value basis. Cash equivalents and short-term securities have been classified as HFT.

Generally, debt securities, equity securities and other invested assets supporting insurance contract liabilities or investment contract liabilities measured at fair value have been designated as FVTPL. This designation has been made to eliminate or significantly reduce the measurement inconsistency that would arise due to the measurement of the insurance contract or investment contract liabilities, which are based on the carrying value of the assets supporting those liabilities. Because the carrying value of insurance contract liabilities is determined by reference to the assets supporting those liabilities, changes in the insurance contract liabilities generally offset changes in the fair value of debt securities classified as

FVTPL, except for changes that are due to impairment. The majority of equity securities and other invested assets classified as FVTPL are held to support products where investment returns are passed through to policyholders and therefore, changes in the fair value of those assets are significantly offset by changes in insurance contract liabilities.

Financial assets classified as FVTPL are recorded at fair value in our Consolidated Statements of Financial Position and transaction costs are expensed immediately. Changes in fair value as well as realized gains and losses on sale are recorded in Fair value and foreign currency changes on assets and liabilities in our Consolidated Statements of Operations. Interest income earned and dividends received are recorded in Interest and other investment income in our Consolidated Statements of Operations.

Available-for-Sale Financial Assets

Financial assets classified as AFS are recorded at fair value in our Consolidated Statements of Financial Position and transaction costs are capitalized on initial recognition. Transaction costs for debt securities are recognized in income using the effective interest method, while transaction costs for equity securities and other invested assets are recognized in income when the asset is derecognized. Changes in fair value are recorded to unrealized gains and losses in OCI. For foreign currency translation, exchange differences calculated on the amortized cost of AFS debt securities are recognized in income and exchange differences calculated on other changes in carrying amount are recognized in OCI. The exchange differences from the translation of AFS equity securities and other invested assets are recognized in OCI. Interest income earned and dividends received are recorded in Interest and other investment income in our Consolidated Statements of Operations. Net impairment losses and realized gains and losses on the sale of assets classified as AFS are reclassified from accumulated OCI to Net gains (losses) on available-for-sale assets in our Consolidated Statements of Operations.

Loans and Receivables

Loans and receivables are generally carried at amortized cost. Transaction costs for mortgages and loans are capitalized on initial recognition and are recognized in income using the effective interest method. Realized gains and losses on the sale of mortgages and loans, interest income earned, and fee income are recorded in Interest and other investment income in our Consolidated Statements of Operations.

Solely Payments of Principal and Interest ("SPPI") Disclosures

In September 2016, the IASB issued *Amendments to IFRS 4* to allow insurance entities whose predominant activities are to issue contracts within the scope of IFRS 4 *Insurance Contracts* ("IFRS 4") an optional temporary exemption from applying IFRS 9 *Financial Instruments* ("IFRS 9") ("deferral approach"). We qualify and have elected to take the deferral approach as our activities are predominantly connected with insurance and we will continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"), the existing financial instrument standard.

To enable a comparison to entities applying IFRS 9 we disclose those invested assets that pass the SPPI test, excluding any that are managed and whose performance is evaluated on a fair value basis. Except for Debt securities designated as AFS and Mortgages and loans, our financial assets are managed and their performance is evaluated on a fair value basis. Please refer to Note 5.A.i for the related disclosure as at December 31, 2020 and 2019.

Financial assets that pass the SPPI test are assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ii) Derecognition

Financial assets are derecognized when our rights to contractual cash flows expire, when we transfer substantially all our risks and rewards of ownership, or when we no longer retain control.

iii) Impairment

Financial assets are assessed for impairment on a quarterly basis. Financial assets are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events and that event has an impact on the estimated future cash flows that can be reliably estimated. Objective evidence of impairment generally includes significant financial difficulty of the issuer, including actual or anticipated bankruptcy or defaults and delinquency in payments of interest or principal or disappearance of an active market for that financial asset. Objective evidence of impairment for an investment in an equity instrument or other invested asset also includes, but is not limited to, the financial condition and near-term prospects of the issuer, including information about significant changes with adverse effects that have taken place in the technological, market, economic, or legal environment in which the issuer operates that may indicate that the carrying amount will not be recovered, and a significant or prolonged decline in the fair value of an equity instrument or other invested asset below its cost. Management exercises considerable judgment in assessing for objective evidence of impairment. Due to the inherent risks and uncertainties in our evaluation of assets or groups of assets for objective evidence of impairment, the actual impairment amount and the timing of the recognition of impairment may differ from management assessment. The impairment assessment process is discussed in Note 6.

Financial Assets at Fair Value Through Profit or Loss

Since financial assets classified as FVTPL are carried at fair value with changes in fair value recorded to income, any reduction in value of the assets due to impairment is already reflected in income. However, the impairment of assets classified as FVTPL generally impacts the change in insurance contract liabilities due to the impact of asset impairment on estimates of future cash flows.

Available-for-Sale Financial Assets

When there is objective evidence that a financial asset classified as AFS is impaired, the loss in accumulated OCI is reclassified to Net gains (losses) on available-for-sale assets in our Consolidated Statements of Operations. Following impairment loss recognition, a debt security continues to be carried at fair value with changes in fair value recorded in OCI, and it is assessed quarterly for further impairment loss or reversal. Subsequent losses on an impaired equity security or other invested asset, including losses relating to foreign currency changes, are reclassified from OCI to income in subsequent reporting periods until the asset is derecognized. Once an impairment loss on a debt security classified as AFS is recorded to income, any reversal of impairment loss through income occurs only when the recovery in fair value is objectively related to an event occurring after the impairment was recognized. Impairment losses on an equity security or other invested asset classified as AFS are not reversed through income.

Loans and Receivables

If an impairment loss on an individual mortgage or loan has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For collateralized financial assets, the present value of the estimated future cash flows reflects the cash flows that may result from foreclosure less costs to sell, whether or not foreclosure is probable. If no evidence of impairment exists for an individually assessed mortgage or loan, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment.

When an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in income. If the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the initial impairment charge was recognized, the previous impairment charge is reversed by adjusting the allowance account and the reversal is recognized in income. Interest income is recognized on impaired mortgages and loans using the effective interest rate method and it is based on the estimated future cash flows used to measure the impairment loss. Changes in the allowance account, other than write-offs net of recoveries, are charged against Interest and other investment income in our Consolidated Statements of Operations. Write-offs, net of recoveries, are deducted from the allowance account when there is no realistic prospect of recovery, which is typically not before derecognition of the asset through foreclosure or sale.

Collateral

Cash received (pledged) as collateral is recognized (derecognized) in our Consolidated Statements of Financial Position with corresponding amounts recognized in Other liabilities (Other assets), respectively. All other types of assets received (pledged) as collateral are not recognized (derecognized) in our Consolidated Statements of Financial Position.

Derivative Financial Instruments

All derivative financial instruments are recorded at fair value in our Consolidated Statements of Financial Position. Derivatives with a positive fair value are recorded as Derivative assets while derivatives with a negative fair value are recorded as Derivative liabilities.

The accounting for the changes in fair value of a derivative instrument depends on whether or not it is designated as a hedging instrument for hedge accounting purposes. Changes in (i) fair value of derivatives that are not designated for hedge accounting purposes, which are defined as derivative investments, and (ii) embedded derivatives that are bifurcated, are recorded in Fair value and foreign currency changes on assets and liabilities in our Consolidated Statements of Operations. Income earned or paid on these derivatives is recorded in Interest and other investment income in our Consolidated Statements of Operations. Hedge accounting is applied to certain derivatives to reduce income statement volatility. When certain qualification criteria are met, hedge accounting recognizes the offsetting effects of hedging instruments and hedged items in income or defers the effective portion of changes in fair value of hedging instruments in OCI until there is a recognition event, such as the occurrence of a forecasted transaction or the disposal of an investment in a foreign operation, or hedge accounting is discontinued. All hedging relationships are documented at inception and hedge effectiveness is assessed at inception and on a quarterly basis to determine whether the hedging instruments are highly effective in offsetting changes attributable to the hedged risk in the fair value or cash flows of the hedged items.

Fair Value Hedges

Certain interest rate swaps and foreign currency forwards are designated as hedging instruments in fair value hedges of the interest rate or foreign exchange rate risks associated with AFS assets. Changes in fair value of the derivatives are recorded in Interest and other investment income in our Consolidated Statements of Operations. The change in fair value of the AFS assets related to the hedged risk is reclassified from OCI to income. As a result, ineffectiveness, if any, is recognized in income to the extent that changes in fair value of the derivatives and AFS assets do not offset. Interest income earned and paid on the AFS assets and swaps in the fair value hedging relationships are recorded in Interest and other investment income in our Consolidated Statements of Operations.

Cash Flow Hedges

Certain equity and foreign currency forwards are designated as hedging instruments in cash flow hedges for anticipated payments of awards under certain share-based payment plans and for anticipated foreign currency purchases of foreign operations. Changes in the fair value of derivatives for the effective portion of the hedge are recognized in OCI, while the ineffective portion of the hedge and any items excluded from the hedging relationship, such as the spot-to-forward differential, are recognized in Interest and other investment income in our Consolidated Statements of Operations. A portion of the amount recognized in OCI related to the equity forwards is reclassified to income as a component of Operating expenses as the liabilities for the share-based payment awards are accrued over the vesting period. A portion of the amounts recognized in OCI related to the foreign currency forwards would be reclassified to income upon disposal or impairment of the foreign operations. All amounts recognized in, or reclassified from, OCI are net of related taxes.

Embedded Derivatives

An embedded derivative is a component of a host contract that modifies the cash flows of the host contract in a manner similar to a derivative, according to a specified interest rate, financial instrument price, foreign exchange rate, underlying index or other variable. We are required to separate embedded derivatives from the host contract, if an embedded derivative has economic and risk characteristics that are not closely related to the host contract, meets the definition of a derivative, and the combined contract is not measured at fair value with changes recognized in income. If an embedded derivative is bifurcated for accounting purposes from the host contract, it will be accounted for as a derivative. For further details on embedded derivatives in insurance contracts, see the Insurance Contract Liabilities accounting policy in this Note.

Investment Properties

Investment properties are real estate held to earn rental income, for capital appreciation, or both. Properties held to earn rental income or for capital appreciation that have an insignificant portion that is owner-occupied are classified as investment properties. Properties that do not meet these criteria are classified as property and equipment, included in Other assets as described below. Expenditures related to ongoing maintenance of properties incurred subsequent to acquisition are expensed. Investment properties are initially recognized at cost in our Consolidated Statements of Financial Position. Various costs incurred associated with the acquisition of an investment property are either capitalized or expensed depending

on whether or not the acquisition is considered a business combination. Investment properties are subsequently measured at fair value with changes in value recorded to Fair value and foreign currency changes on assets and liabilities in our Consolidated Statements of Operations.

When the use of a property changes from owner-occupied to investment property, any gain arising on the remeasurement of the property to fair value at the date of transfer is recognized in our Consolidated Statements of Operations to the extent that it reverses a previous impairment loss. Any remaining increase is recognized in OCI.

Other Invested Assets - Non-Financial Assets

Other invested assets also include non-financial assets such as investments in joint ventures and associates, which are accounted for using the equity method. Investments in joint ventures and associates are initially recorded at cost. The investment in joint ventures and associates is increased by our share of capital contributions and for purchases of additional interests and is reduced by distributions received. In addition, subsequent adjustments to the investment are made for our share of net income or loss and our share of OCI. Our share of net income is recorded in Interest and other investment income in our Consolidated Statements of Operations and our share of OCI is recorded in our Consolidated Statements of Comprehensive Income (Loss). Impairment losses on equity method investments are recognized when events or changes in circumstances indicate that they are impaired. The impairment loss recognized is the difference between the carrying amount and the recoverable amount.

Other Assets

Other assets, which are measured at amortized cost, include accounts receivable, investment income due and accrued, deferred acquisition costs, property and equipment, and lessee's right-of-use assets. Deferred acquisition costs arising from service contracts or from service components of investment contracts are amortized over the expected life of the contracts based on the future expected fees. Owner-occupied properties are amortized to their residual value over 25 to 49 years. Furniture, computers, other office equipment, and leasehold improvements are amortized to their residual value over 2 to 20 years. The right-of-use asset is subsequently depreciated on a straight-line basis over the lease term.

Reinsurance Assets

In the normal course of business, we use reinsurance to limit exposure to large losses. We have a retention policy that requires that such arrangements be placed with well-established, highly-rated reinsurers. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Amounts due to or from reinsurers with respect to premiums received or paid claims are included in Other assets and Other liabilities in the Consolidated Statements of Financial Position. Premiums for reinsurance ceded are presented as premiums ceded in the Consolidated Statements of Operations. Reinsurance expenses (recoveries), as presented in our Consolidated Statements of Operations, represent reinsurance expenses and expense recoveries resulting from reinsurance agreements.

Reinsurance assets are subject to impairment testing. If impaired, the carrying value is reduced, and an impairment loss is recognized in Reinsurance expenses (recoveries) in our Consolidated Statements of Operations. Impairment occurs when objective evidence exists (as a result of an event) after the initial recognition of the reinsurance asset indicating that not all amounts due under the terms of the contract will be received, and the impairment can be reliably measured.

Reinsurance assumed is accounted for as an insurance, investment or service contract depending on the underlying nature of the agreement and if it meets the definition of an insurance, investment or service contract. For the accounting for these types of contracts, see the respective policy section in this Note.

Leases

At inception of a contract, we assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For leases where we act as the lessee, we recognize a right-of-use asset and a lease liability at the commencement date of the lease. For leases where we act as the lessor, we assess whether the leases should be classified as finance or operating leases. Our leases are classified as operating leases. Operating leases are recognized into income on a straight-line basis.

The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability with certain adjustments, and subsequently depreciated using the straight-line method, with depreciation expense included in Operating expenses in the Consolidated Statements of Operations. The right-of-use asset is depreciated to the earlier of the lease term and its useful life. The right-of-use asset is assessed for impairment under IAS 36 *Impairment of Assets*. Right-of-use assets are assessed for indicators of impairment at each reporting period. If there is an indication that a right-of-use asset may be impaired, an impairment test is performed by comparing the asset's carrying amount to its recoverable amount. If an impairment loss has been incurred, the carrying value of the right-of-use asset is reduced with the corresponding amount recognized in income.

The lease liability is initially measured at the present value of lease payments over the term of the lease using a discount rate that is based on our incremental borrowing rate. The discount rate is specific to each lease and is determined by various factors, such as the lease term and currency. The lease term includes the non-cancellable period and the optional period where it is reasonably certain we will exercise an extension or termination option, considering various factors that create an economic incentive to do so. Subsequently, the lease liability is measured at amortized cost using the effective interest method, with interest charged to Interest expense in the Consolidated Statements of Operations. Lease liabilities and right-of-use assets are remeasured upon lease modifications. A lease modification is considered as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease.

Intangible Assets

Intangible assets consist of finite life and indefinite life intangible assets. Finite life intangible assets are amortized on a straight-line basis or using a units-of-production method, over the useful economic lives which are varying periods of up to 40 years. Amortization is charged through Operating expenses in the Consolidated Statements of Operation. The useful lives of finite life intangible assets are reviewed annually, and the amortization is adjusted as necessary. Indefinite life intangibles are not amortized, and are assessed for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. Impairment is assessed by comparing the carrying values of the indefinite life intangible assets to their recoverable amounts. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. If the carrying values of the indefinite life intangibles exceed their recoverable amounts, these assets are considered impaired, and a charge for impairment is recognized in our Consolidated Statements of Operations. The recoverable amount of intangible assets is determined using various valuation models, which require management to make certain judgments and assumptions that could affect the estimates of the recoverable amount.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable tangible and intangible assets of the acquired businesses. It is carried at original cost less any impairment subsequently incurred. Goodwill is assessed for impairment annually or more frequently if events or circumstances occur that may result in the recoverable amount of a CGU or a group of CGUs falling below its carrying value. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other groups of assets. We exercise significant judgment in determining our CGUs. The factors considered in determining our CGUs include product cash inflows, product distribution, target markets, and how management monitors and evaluates the operations.

The goodwill balances are allocated to either individual or groups of CGUs that are expected to benefit from the synergies of the business combination. Goodwill impairment is quantified by comparing a CGU's or a group of CGUs' carrying value to its recoverable amount, which is the higher of fair value less costs of disposal and value in use. Impairment losses are recognized immediately and cannot be reversed in future periods. Significant judgment is involved in estimating the model inputs used to determine the recoverable amount of our CGUs or group of CGUs, including those for discount rates, capital, the value of new business, expenses, cash flow projections, and market multiples, due to the uncertainty and the forward-looking nature of these inputs. The assumptions may differ from the actual experience, and estimates may change from period to period based on future events or revisions of assumptions. These key assumptions are discussed in Note 9.

Insurance Contract Liabilities

Insurance contracts are contracts under which we accept significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The presence of significant insurance risk in individual contracts is assessed by reviewing books of contracts with homogeneous risk features. Judgment is required to determine the classification of a contract as an insurance contract, investment contract or a service contract.

As discussed in the Segregated Funds section of this Note, certain insurance contracts under which the policyholder bears the risks associated with the underlying investments are classified as Insurance contracts for account of segregated fund holders in our Consolidated Statements of Financial Position.

Insurance contract liabilities, including policy benefits payable and provisions for policyholder dividends, are determined in accordance with Canadian accepted actuarial practice and any requirements of OSFI. As confirmed by guidance provided by the Canadian Institute of Actuaries ("CIA"), the current Canadian Asset Liability Method ("CALM") of valuation of insurance contract liabilities satisfies the IFRS 4 requirements for eligibility for use under IFRS. Under CALM, liabilities are set equal to the statement of financial position value of the assets required to support them.

Some insurance contracts contain discretionary participation features ("DPF"), whereby the policyholder has the right to receive potentially significant additional benefits based on the actual investments and other experience on a block of similar contracts. IFRS allows the non-guaranteed, or participating, elements of such contracts to be classified as either a liability or as equity, depending on the nature of our obligation to the policyholder. The contracts issued by us contain constructive obligations to the policyholder with respect to the DPF of the contracts. We have therefore elected to classify these features as a liability, consistent with accounting treatment under CALM, and in accordance with guidance provided by the CIA.

Derivatives embedded in insurance contracts are treated as separate derivatives and measured at fair value with changes in fair value recognized in income, except when the embedded derivative itself meets the definition of an insurance contract under IFRS, or when the risks and characteristics are closely related to those of the host contracts or when the derivative is the policyholder's option to surrender an insurance contract for a fixed amount or an amount based on a fixed amount and an interest rate. The derivatives that have not been separated are accounted for as insurance contract liabilities.

Significant judgment is required in determining our liabilities for insurance contracts including the assumptions required for their determination. Application of different assumptions may result in different measurement of the insurance contract liabilities. Actual experience may differ from assumptions, and estimates may change from period to period based on future events or revisions of assumptions. Key assumptions and considerations in choosing assumptions are discussed in Note 10 and sensitivities are discussed in Note 7.

Financial Liabilities

Investment Contract Liabilities

Contracts issued by us that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to us, are financial liabilities and are accounted for as investment contracts. Service components of investment contracts are treated as service contracts. For further details on how service components of investment contracts are treated, see the Service Contracts accounting policy in this Note.

Liabilities for investment contracts without DPF are measured at FVTPL or amortized cost. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period. Contracts recorded at amortized cost are initially recognized at fair value, less transaction costs directly attributable to the issue of the contract. At each subsequent period, the contracts are measured at amortized cost using the effective interest method. Changes in fair value of investment contract liabilities recorded at FVTPL and amortization on contracts recorded at amortized cost are recorded as an Increase (decrease) in investment contract liabilities in our Consolidated Statements of Operations. Deposits collected from and payments made to contract holders are recorded as an increase and decrease in Investment contract liabilities in our Consolidated Statements of Financial Position. These liabilities are derecognized when the obligation of the contract is discharged, cancelled or expired.

As discussed in the Segregated Funds section of this Note, certain investment contracts under which the policyholder bears the risks associated with the underlying investments are classified as Investment contracts for account of segregated fund holders in the Consolidated Statements of Financial Position. The accounting for investment contracts that contain DPF is described in the Insurance Contract Liabilities section of this Note.

Other Liabilities

Other liabilities which are measured at amortized cost, include accounts payable, lines of credit, repurchase agreements, accrued expenses and taxes, senior financing, provisions, lessee's lease liabilities and a deferred payment liability. Liabilities for provisions, other than insurance contract liabilities and investment contract liabilities, are recognized for present legal or constructive obligations as a result of a past event if it is probable that they will result in an outflow of economic resources and the amount can be reliably estimated. The amounts recognized for these provisions are the best estimates of the expenditures required to settle the present obligations or to transfer them to a third party at the statement of financial position date, considering all the inherent risks and uncertainties, as well as the time value of money. These provisions are reviewed as relevant facts and circumstances change.

The lease liabilities are initially measured at the present value of lease payments over the term of the lease using a discount rate that is based on our incremental borrowing rate. Subsequently, the lease liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities are measured at amortized cost. For put option liabilities, upon initial recognition, the present value is calculated using our incremental borrowing rate and subsequent revisions to the expected timing or amount of cash flows payable as well as interest expense will be recognized in the Consolidated Statements of Operations.

Further details on other financial liabilities, the put option and the deferred payment liability are included in Note 3.

Senior Debentures and Subordinated Debt

Senior debentures and subordinated debt liabilities are recorded at amortized cost using the effective interest method. Transaction costs are recorded as part of the liability and are recognized in income using the effective interest method. These liabilities are derecognized when the obligation of the contract is discharged, cancelled or expired.

Service Contracts

Contracts issued by us to customers that do not transfer significant insurance risk and do not transfer financial risk from the customer to us, including contracts for investment management service, are classified as service contracts. Service components of investment contracts are also accounted for as service contracts. Fee income earned from these contracts is described in the Premium and Fee Income Recognition accounting policy section of this Note. Deferred acquisition costs are described under the Other Assets accounting policy section of this Note. Where the cost of meeting the obligations of the contract exceed the economic benefits expected to be received under it, a provision is recognized in Other liabilities.

Segregated Funds

Segregated funds are products for which we issue a contract where the benefit amount is directly linked to the fair value of the investments held in the particular segregated fund. Although the underlying assets are registered in our name and the segregated fund contract holder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risks and rewards of the fund's investment performance. In addition, certain contracts include guarantees from us. We derive fee income from segregated funds, which is included in Fee income in our Consolidated Statements of Operations. Policyholder transfers between general funds and segregated funds are included in Net transfer to (from) segregated funds in our Consolidated Statements of Operations. Deposits to segregated funds are reported as increases in segregated funds liabilities and are not reported as revenues in our Consolidated Statements of Operations.

Investments for Account of Segregated Fund Holders

Investments for account of segregated fund holders are recorded separately from the Total general fund assets in our Consolidated Statements of Financial Position and are carried at fair value. Fair values are determined using quoted market values or, where quoted market values are not available, estimated fair values as determined by us.

Insurance and Investment Contracts for Account of Segregated Fund Holders

Insurance contracts for account of segregated fund holders are recorded separately from the Total general fund liabilities in our Consolidated Statements of Financial Position. Insurance contracts under which the segregated fund holders bear the risks associated with the underlying investments are classified as Insurance contracts for account of segregated fund holders. The liabilities reported as Insurance contracts for account of segregated fund holders are measured at the aggregate of the policyholder account balances. Changes in the fair value of the invested assets of the segregated funds are recorded in net realized and unrealized gains (losses) within the segregated fund and are not recorded in our Consolidated Statements of Operations.

Other assets and liabilities associated with these insurance contracts, such as origination costs and the liabilities associated with guarantees provided by us, are included in general fund liabilities in Insurance contract liabilities in our Consolidated Statements of Financial Position.

Investment contracts for account of segregated fund holders are recorded separately from the Total general fund liabilities in our Consolidated Statements of Financial Position. Investment contracts under which the segregated fund holders bear the risks associated with the underlying investments are classified as Investment contracts for account of segregated fund holders. The liabilities reported as Investment contracts for account of segregated fund holders are measured at the aggregate of the policyholder account balances.

Other liabilities associated with these investment contracts, such as onerous contract provisions required for service components, are included in general fund liabilities in Investment contract liabilities in our Consolidated Statements of Financial Position.

Income Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Deferred income tax is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred income tax relating to items recognized in the current or previous period in OCI or directly in equity is accordingly recognized in OCI or equity and not in our Consolidated Statements of Operations. Interest and penalties payable to taxation authorities are recorded in Interest expense and Operating expenses, respectively, in our Consolidated Statements of Operations.

Deferred income tax assets and liabilities are calculated based on income tax rates and laws that are expected to apply when the liability is settled or the asset is realized, which are normally those enacted or considered substantively enacted at our Consolidated Statements of Financial Position dates. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent of the probability that future taxable profit will be available against which these assets can be utilized. At each reporting period, we assess all available evidence, both positive and negative, to determine the amount of deferred income tax assets to be recognized. The recognition of deferred income tax assets requires estimates and significant judgment about future events, such as projections of future taxable profits, based on the information available at the reporting date.

The determination of the required provision for current and deferred income taxes requires that we interpret tax legislation in the jurisdictions in which we operate. For each reporting period, our income tax provision reflects our best estimate, based on the information available at the reporting date, of tax positions that are under audit or appeal by relevant tax authorities. To the extent that our estimate of tax positions or the timing of realization of deferred income tax assets or liabilities are not as expected, the provision for income taxes may increase or decrease in the future to reflect the actual experience.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where we control the timing of the reversal of the temporary difference and it is apparent that the temporary difference will not reverse in the foreseeable future. No deferred income tax asset or liability is recognized in relation to temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, did not affect either the accounting profit or taxable profit or loss. Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxable entity and the same taxation authority and we intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

In determining the impact of taxes, we are required to comply with Canadian accepted actuarial practice and IFRS. CALM requires that all projected cash flows associated with insurance contract liabilities, including income taxes, be included in the determination of insurance contract liabilities. The insurance contract liabilities are therefore determined including all policy-related income tax effects on a discounted basis, and then adjusted for any related deferred income tax assets and liabilities held in accordance with IFRS. The net result of this adjustment is to leave the discounting effect of the deferred income taxes associated with temporary differences on policy-related tax items in the insurance contract liabilities.

Pension Plans and Other Post-Retirement Benefits

For defined benefit plans, the present value of the defined benefit obligation is calculated by independent actuaries using the projected unit credit method, and actuarial assumptions that represent best estimates of future variables that will affect the ultimate cost of these obligations. The discount rate used for our material defined benefit plans is determined with reference to market yields of high-quality corporate bonds that are denominated in the same currency in which the benefits will be paid, and that have terms to maturity approximating the terms of obligations. Plan assets are measured at fair value and are held in separate trustee administered funds or as qualifying insurance contracts. The difference between the fair value of the plan assets and the present value of the defined benefit obligation is recognized on the Consolidated Statements of Financial Position as an asset or liability in Other assets or Other liabilities, respectively.

Costs charged to our Consolidated Statements of Operations include current service cost, any past service costs, any gains or losses from curtailments or settlements, and interest on the net defined benefit liability (asset). Remeasurement of the net defined benefit liability (asset), which includes the impact of changes to the actuarial assumption underlying the liability calculations, liability experience gains or losses, the difference between the return on plan assets and the amount included in the interest on the net defined benefit liability (asset), is reflected immediately in OCI. The calculation of the defined benefit expenses and obligations requires judgment as the recognition is dependent on various actuarial assumptions such as discount rates, health care cost trend rates and projected compensation increases. These key assumptions are discussed in Note 25.

Dividends

Dividends payable to holders of shares of SLF Inc. are recognized in the period in which they are authorized or approved. Dividends that have been reinvested in additional common shares under the Dividend Reinvestment and Share Purchase Plan ("DRIP") are also reflected as dividends within retained earnings. Where SLF Inc. has issued common shares from treasury under the DRIP, the additional shares have been reflected in common shares.

Premium and Fee Income Recognition

Gross premiums for all types of insurance contracts excluding segregated fund contracts are generally recognized as revenue when due.

Fee income is generated from insurance contracts and service contracts.

Fee income from insurance contracts includes fees from segregated fund contracts, guarantee fees and other fees associated with insurance contracts and is typically recognized as revenue when services are rendered.

Fee income from service contracts represents fees associated with non-insurance contracts with customers and includes Distribution fees, Fund management and other asset-based fees, and Administrative services and other fees. Distribution fees includes fees earned from the distribution of investment products and other intermediary activities. Fund management and other asset-based fees includes fees earned from investment management services. Administrative services and other fees includes fees earned from contract administration and other management services. Fee income from service contracts is typically recognized as revenue when services are rendered at either a point in time or over time. The majority of fee income from service contracts is comprised of variable consideration which is based on a percentage of assets under management or another variable metric and is recognized as revenue when it is highly probable that a significant reversal in the amount of the revenue recognized will not occur.

Share-Based Payments

Stock options of SLF Inc. granted to employees are accounted for as equity-settled share-based payment transactions. The total compensation expense for stock options is computed based on the fair value of the stock option at the date of grant and the estimated number of options expected to vest at the end of the vesting period. The expense is recognized over the vesting period as compensation expense in Operating expenses in our Consolidated Statements of Operations, with an offset to contributed surplus in our Consolidated Statements of Changes in Equity. When options are exercised, new common shares are issued, contributed surplus is reversed and the common shares issued are credited to common shares in our Consolidated Statements of Changes in Equity.

Other share-based payment plans based on the value of SLF Inc.'s common shares are accounted for as cash-settled share-based payment transactions. The total liabilities for these plans are computed based on the estimated number of awards expected to vest at the end of the vesting period. The liabilities are recomputed at the end of each reporting period and are measured at the fair value of the award at that reporting date. The liabilities are accrued and expensed on a straight-line basis over the vesting periods. The liabilities are settled in cash at the end of the vesting period.

Share-based payment awards within MFS Investment Management ("MFS"), which are based on their own shares, are accounted for as cash-settled share-based payment awards. The vested and unvested awards, as well as the shares that have been issued under these plans, are recognized as liabilities because MFS has a practice of purchasing the issued shares from employees after a specified holding period. The total liabilities for these plans are computed based on the estimated number of awards expected to vest at the end of the vesting period. The liabilities are accrued over the vesting period and are measured at fair value at each reporting period with the change in fair value recognized as compensation expense in Operating expenses in our Consolidated Statements of Operations. The liabilities are settled in cash when the shares are purchased from the employees.

Basic and Diluted Earnings Per Share ("EPS")

Basic EPS is calculated by dividing the common shareholders' net income by the weighted average number of common shares issued and outstanding.

Diluted EPS adjusts common shareholders' net income and the weighted average number of common shares for the effects of all dilutive potential common shares under the assumption that convertible instruments are converted and that outstanding options are exercised. Diluted EPS is calculated by dividing the adjusted common shareholders' net income by the adjusted weighted average number of common shares outstanding. For convertible instruments, common shareholders' net income is increased by the after-tax expense on the convertible instrument while the weighted average common shares are increased by the number of common shares that would be issued at conversion. For stock options, it is assumed that the proceeds from the exercise of options whose exercise price is less than the average market price of common shares during the period are used to repurchase common shares at the average market price for the period. The difference between the number of common shares issued for the exercise of the dilutive options and the number of common shares that would have been repurchased at the average market price of the common shares during the period is adjusted to the weighted average number of common shares outstanding.

2. Changes in Accounting Policies

2.A New and Amended International Financial Reporting Standards Adopted in 2020

We adopted the following amendments on January 1, 2020:

In March 2018, the IASB issued a revised *Conceptual Framework for Financial Reporting* ("Conceptual Framework"), which replaced the Conceptual Framework issued in 2010. The revised Conceptual Framework includes revised definitions of an asset and a liability, as well as new guidance on measurement, derecognition, presentation and disclosure, to be applied prospectively. The adoption of this guideline did not have a material impact on our Consolidated Financial Statements.

In October 2018, the IASB issued *Definition of a Business*, which amended IFRS 3 *Business Combinations* ("IFRS 3"). The amendments clarify the definition of a business to assist entities in determining whether a transaction represents a business combination or an acquisition of assets, and are applied prospectively. The adoption of these amendments did not have a material impact on our Consolidated Financial Statements.

In October 2018, the IASB issued *Definition of Material (Amendments to IAS 1 and IAS 8)*. The amendments clarify the definition of material and provide guidance to improve consistency in its application in IFRS standards. The adoption of these amendments did not have a material impact on our Consolidated Financial Statements.

In September 2019, the IASB issued the *Interest Rate Benchmark Reform*, which includes amendments to IFRS 9, IAS 39 and IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7"). We have deferred adoption of IFRS 9 and continue to apply IAS 39. The amendments clarify that entities can continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The adoption of the IAS 39 amendments did not have a material impact on our Consolidated Financial Statements.

We adopted the following amendment on June 1, 2020:

In May 2020, the IASB issued *COVID-19-Related Rent Concessions*, which is an amendment to IFRS 16 *Leases* ("IFRS 16"). The amendment provides lessees with a practical expedient to not account for COVID-19-related rent concessions as lease modifications. The amendment does not affect lessors. The adoption of this amendment did not have a material impact on our Consolidated Financial Statements. The amendment was applied retrospectively.

2.B Amended International Financial Reporting Standards to be Adopted in 2021

The following new and amended IFRS were issued by the IASB and are expected to be adopted by us in 2021:

In August 2020, the IASB issued the *Interest Rate Benchmark Reform Phase 2*, which includes amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. They address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. We do not expect the adoption of this amendment to have a material impact on our Consolidated Financial Statements.

2.C Amended International Financial Reporting Standards to be Adopted in 2022 or Later

We are currently assessing the impact the adoption these amendments will have on our Consolidated Financial Statements:

In May 2020, the IASB issued *Reference to the Conceptual Framework*, which includes amendments to IFRS 3. The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. The amendments are effective to business combinations for which the acquisition date is on or after January 1, 2022.

In May 2020, the IASB issued *Property, Plant and Equipment - Proceeds before Intended Use*, which includes amendments to IAS 16 *Property, Plant and Equipment*. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The amendments apply retrospectively to assets ready for use in the comparative period. The amendments are effective for annual periods beginning on or after January 1, 2022.

In May 2020, the IASB issued *Onerous Contracts - Cost of Fulfilling a Contract*, which includes amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual periods beginning on or after January 1, 2022.

In May 2020, the IASB issued *Annual Improvements to IFRS Standards 2018-2020*, which includes minor amendments to three IFRS standards applicable to our Consolidated Financial Statements. The amendments apply prospectively. The amendments are effective for annual periods beginning on or after January 1, 2022.

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (“IFRS 17”), which replaces IFRS 4. In June 2020, the IASB issued amendments to IFRS 17, which include deferral of the effective date to annual periods beginning on or after January 1, 2023. The deferral option of IFRS 9 for insurers was also extended to that same date. IFRS 17 establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities at their current fulfillment values using one of three measurement models, depending on the nature of the contract. IFRS 17 is to be applied retrospectively to each group of insurance contracts unless impracticable. If, and only if, it is impracticable to apply IFRS 17 retrospectively for a group of insurance contracts, an entity shall apply IFRS 17 using a modified retrospective approach or a fair value approach. IFRS 17 will affect how we account for our insurance contracts and how we report our financial

performance in our Consolidated Statements of Operations. We are currently assessing IFRS 17, which will have a significant impact on our Consolidated Financial Statements.

In July 2014, the IASB issued the final version of IFRS 9, which replaces IAS 39. IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. In addition, a new model for hedge accounting was introduced to achieve better alignment with risk management activities. This standard is effective for annual periods beginning on or after January 1, 2018. In October 2017, the IASB issued narrow-scope amendments to IFRS 9. The amendments clarify the classification of certain prepayable financial assets and the accounting of financial liabilities following modification. The amendments are effective for annual periods beginning on or after January 1, 2019. However, pursuant to the aforementioned amendments to IFRS 4, we elected the deferral approach permitted under IFRS 4 to continue to apply IAS 39. We are currently assessing the impact that IFRS 9, along with these amendments, will have on our Consolidated Financial Statements.

3. Acquisitions and Other

InfraRed Capital Partners

On July 1, 2020, we acquired 80% of InfraRed Capital Partners ("InfraRed"), a UK-based global infrastructure and real estate investment manager, as well as the ability to acquire the remaining interest in the future. InfraRed is reported in the SLC Management business unit within our Asset Management business segment. Consideration included approximately $517 in cash and $29 of contingent consideration to the former owners of InfraRed. InfraRed's infrastructure platform focuses on value-add investing in both greenfield and brownfield assets worldwide across social, transportation, and renewable energy sectors; while InfraRed's real estate platform is a combination of European and Asian value-add strategies. This acquisition provided SLC Management with capabilities in infrastructure equity, a fit with SLC Management's mission to provide a broad spectrum of solutions built on alternative asset classes and liability-driven investing strategies.

The fair values of the identifiable assets and liabilities acquired were:

	As at July 1, 2020
Intangible assets	$ 357
Net assets	97
Deferred tax liabilities	(67)
Total identifiable net assets at fair value	387
Financial liability	(129)
Goodwill arising on acquisition[1]	288
Total consideration[2]	$ 546

(1) Goodwill of $288 reflects InfraRed's non-contractual customer relationships.
(2) Amount includes $29 of contingent consideration.

The fair values of the identifiable assets and liabilities are subject to refinement and may be retroactively adjusted to reflect new information obtained about facts and circumstances that existed at the acquisition date during the measurement period.

The non-controlling interest ("NCI") of 20% will be recognized as a financial liability initially measured at fair value and subsequently measured at amortized cost. Any changes to the carrying value of the financial liability will be recognized in the Consolidated Statements of Operations. As part of the transaction, InfraRed minority shareholders have the option to require us to purchase their shares in 2024. We have a call option to acquire the remaining outstanding shares in InfraRed commencing in 2025.

BentallGreenOak

On July 1, 2019, we acquired 56% of BentallGreenOak ("BGO"), which was the product of the merger of the Bentall Kennedy group of companies ("Bentall Kennedy") and GreenOak Real Estate ("GreenOak"), a global real estate investment firm. The former GreenOak shareholders hold the remaining interest in BGO. Total consideration of $411 included approximately $192 in cash and 44% of our interest in Bentall Kennedy which, valued on a discounted cash flow basis, represents consideration of $219. The combined entity is reported in our Asset Management business segment.

The fair values of the identifiable assets and liabilities acquired were:

	As at July 1, 2019
Intangible assets	$ 238
Net assets	23
Deferred tax liabilities	(48)
Total identifiable net assets at fair value	213
Non-controlling interests[1]	(339)
Goodwill arising on acquisition	537
Total consideration	$ 411

[1] We have elected to measure NCI at fair value for this acquisition. The fair value was determined by calculating the proportionate share of the present value of future cash flows relating to NCI. Significant assumptions inherent in the valuation of NCI include the estimated after-tax cash flows expected to be received and an assessment of the appropriate discount rate.

This transaction has two additional components ("Additional components"):

A. We have the option to acquire the remaining outstanding shares in BGO commencing in 2026 ("call option"), and BGO minority shareholders have the option to require us to purchase their shares in 2027 ("put option").
B. In addition to our 56% ownership interest in BGO, we have acquired the right to 75% of former GreenOak shareholders' share of BGO's earnings for the period from July 2019 to December 2027. Consideration is to be paid in quarterly instalments over that period ("deferred payments").

The present values of the put option and deferred payments are calculated using our incremental borrowing rate; the subsequent interest expense recorded using the effective interest method will be recognized in the Consolidated Statements of Operations. Subsequent revisions to the expected exercise price payable for the put option will be recognized in the Consolidated Statements of Operations. If the put option expires unexercised or is cancelled, the carrying value of the financial liability will be released first to NCI, with excess amounts if any recognized against Retained earnings. If the call option is exercised, the liabilities relating to the Additional components will be extinguished and recognized against Retained earnings.

The Additional components are financial liabilities. Amounts were initially measured at the present value of $951 for the put option and $467 for the deferred payments in Other liabilities, with a corresponding reduction to NCI, limited to the original amount recorded upon the acquisition of BGO. Excess amounts were recognized against Retained earnings. At the date of acquisition, the impact to our assets, liabilities, and equity is as follows:

As at July 1, 2019	Share purchase	Additional components	Total
Cash consideration	$ (192)	$ —	$ (192)
Net assets	23	—	23
Intangible assets	238	—	238
Goodwill[1]	537	—	537
Total assets	$ 606	$ —	$ 606
Deferred tax liability	$ (48)	$ —	$ (48)
Put option liability	—	(951)	(951)
Deferred payments liability	—	(467)	(467)
Total liabilities	$ (48)	$ (1,418)	$ (1,466)
Non-controlling interests - Bentall Kennedy	$ (171) [2]	$ 171	$ —
Non-controlling interests - GreenOak[3]	(339)	324	(15)
Retained earnings	(48) [2]	923	875
Total equity	$ (558)	$ 1,418	$ 860

[1] Goodwill of $537 reflects GreenOak's non-contractual customer relationships. Approximately $285 of goodwill is tax-deductible.
[2] The aggregate amount of $219 represents the fair value of our interest in Bentall Kennedy transferred as consideration.
[3] The remaining $15 represents specifically identifiable assets where the risks and rewards accrue to the former GreenOak shareholders and are distributed through a separate class of shares.

Acquisitions and Other in Asia

On October 17, 2019, we entered into a 15-year bancassurance partnership with Tien Phong Commercial Bank ("TPBank"). TPBank is fast growing with a strong Client focus, and is a digital leader in Vietnam. The new partnership aligns with our strategic priority to be a leader in Asia through distribution excellence. The agreement includes an initial payment of approximately $107, which was funded with internal resources. The initial payment is capitalized as an intangible asset and will be amortized over 15 years based on a units-of-production method.

4. Segmented Information

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

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

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

Intersegment transactions consist primarily of internal financing agreements which are measured at fair values prevailing when the arrangements are negotiated. Intersegment investment income consists primarily of interest paid by U.S. to Corporate. Intersegment fee income is primarily asset management fees paid by our business segments to Asset Management. Effective January 1, 2020, SLC Management is collecting fee income and is incurring the operational expenses associated with the management of the general fund assets. Intersegment transactions are eliminated in the Consolidation adjustments column in the following tables.

Management considers its external Clients to be individuals and corporations. We are not reliant on any individual Client as none is individually significant to our operations.

Results by segment for the years ended December 31, are as follows:

	Canada	U.S.	Asset Management[1]	Asia	Corporate	Consolidation adjustments[1]	Total
2020							
Gross premiums:							
Annuities	**$ 3,594**	**$ —**	**$ —**	**$ 108**	**$ 27**	**$ —**	**$ 3,729**
Life insurance	**5,358**	**1,548**	**—**	**4,821**	**85**	**—**	**11,812**
Health insurance	**6,011**	**4,583**	**—**	**33**	**22**	**—**	**10,649**
Total gross premiums	**14,963**	**6,131**	**—**	**4,962**	**134**	**—**	**26,190**
Less: Ceded premiums	**1,530**	**695**	**—**	**212**	**15**	**—**	**2,452**
Net investment income (loss)	**6,823**	**2,610**	**23**	**2,550**	**758**	**(46)**	**12,718**
Fee income	**1,376**	**92**	**5,014**	**572**	**103**	**(276)**	**6,881**
Total revenue	**21,632**	**8,138**	**5,037**	**7,872**	**980**	**(322)**	**43,337**
Less:							
Total benefits and expenses	**20,669**	**7,825**	**3,712**	**7,137**	**1,029**	**(322)**	**40,050**
Income tax expense (benefit)	**50**	**56**	**334**	**54**	**1**	**—**	**495**
Total net income (loss)	**$ 913**	**$ 257**	**$ 991**	**$ 681**	**$ (50)**	**$ —**	**$ 2,792**
Less:							
Net income (loss) attributable to participating policyholders	**196**	**—**	**—**	**87**	**—**	**—**	**283**
Net income (loss) attributable to non-controlling interests	**—**	**—**	**11**	**—**	**—**	**—**	**11**
Shareholders' net income (loss)	**$ 717**	**$ 257**	**$ 980**	**$ 594**	**$ (50)**	**$ —**	**$ 2,498**
2019							
Gross premiums:							
Annuities	$ 3,276	$ 1	$ —	$ 2	$ 23	$ —	$ 3,302
Life insurance	5,178	1,605	—	2,597	90	—	9,470
Health insurance	5,629	4,232	—	31	16	—	9,908
Total gross premiums	14,083	5,838	—	2,630	129	—	22,680
Less: Ceded premiums	1,488	662	—	222	20	—	2,392
Net investment income (loss)	6,474	2,802	83	2,865	905	11	13,140
Fee income	1,320	86	4,471	531	118	(275)	6,251
Total revenue	20,389	8,064	4,554	5,804	1,132	(264)	39,679
Less:							
Total benefits and expenses	19,317	7,878	3,391	5,172	1,014	(326)	36,446
Income tax expense (benefit)	15	28	262	51	(70)	—	286
Total net income (loss)	$ 1,057	$ 158	$ 901	$ 581	$ 188	$ 62	$ 2,947
Less:							
Net income (loss) attributable to participating policyholders	174	(5)	—	61	—	—	230
Net income (loss) attributable to non-controlling interests	—	—	4	—	—	—	4
Shareholders' net income (loss)	$ 883	$ 163	$ 897	$ 520	188	$ 62	$ 2,713

[1] Reflects a change in presentation for our Asset Management segment effective January 1, 2020. We have updated the prior period to reflect this change in presentation.

Assets and liabilities by segment are as follows:

	Canada	U.S.	Asset Management	Asia	Corporate	Consolidation adjustments	Total
As at December 31, 2020							
Total general fund assets	**$ 106,318**	**$ 33,790**	**$ 6,957**	**$ 36,414**	**$ 13,897**	**$ (286)**	**$ 197,090**
Investments for account of segregated fund holders	**$ 107,494**	**$ 541**	**$ —**	**$ 7,211**	**$ 10,675**	**$ —**	**$ 125,921**
Total general fund liabilities	**$ 97,728**	**$ 30,354**	**$ 4,898**	**$ 30,004**	**$ 8,530**	**$ (286)**	**$ 171,228**
As at December 31, 2019							
Total general fund assets	$ 94,909	$ 34,711	$ 5,666	$ 31,285	$ 13,930	$ (272)	$ 180,229
Investments for account of segregated fund holders	$ 98,758	$ 514	$ —	$ 6,675	$ 11,026	$ —	$ 116,973
Total general fund liabilities	$ 86,847	$ 31,044	$ 4,250	$ 25,750	$ 8,102	$ (272)	$ 155,721

The revenue and assets of our business segments differ from geographic segments primarily due to the geographic segmenting of our Asset Management and Corporate segments.

The following table shows revenue by country for Asset Management and Corporate:

	Asset Management		Corporate	
For the years ended December 31,	**2020**	2019	**2020**	2019
Revenue:				
United States[1]	**$ 4,505**	$ 4,185	**$ 169**	$ 129
United Kingdom	**174**	32	**725**	903
Canada[1]	**311**	326 [2]	**79**	93
Other countries	**47**	11	**7**	7
Total revenue	**$ 5,037**	$ 4,554	**$ 980**	$ 1,132

[1] Reflects a change in presentation for our Asset Management segment effective January 1, 2020. We have updated the prior period to reflect this change in presentation.
[2] Consists of the Canadian operations of Bentall Kennedy and Sun Life Institutional Investments (Canada) Inc. for Asset Management.

The following table shows total assets by country for Asset Management and Corporate:

	Asset Management		Corporate	
As at December 31,	**2020**	2019	**2020**	2019
Total general fund assets:				
United States	**$ 5,124**	$ 4,770	**$ 2,227**	$ 2,329
United Kingdom	**1,037**	145	**7,766**	8,210
Canada	**580**	534 [1]	**3,716**	3,202
Other countries	**216**	217	**188**	189
Total general fund assets	**$ 6,957**	$ 5,666	**$ 13,897**	$ 13,930
Investment for account of segregated fund holders:				
United Kingdom	**$ —**	$ —	**$ 10,675**	$ 11,026
Total investment for account of segregated fund holders	**$ —**	$ —	**$ 10,675**	$ 11,026

[1] Consists of the Canadian operations of Bentall Kennedy and Sun Life Institutional Investments (Canada) Inc. for Asset Management.

5. Total Invested Assets and Related Net Investment Income

5.A Fair Value of Invested Assets

5.A.i Carrying Value and Fair Value of Financial Assets and Other Financial Liabilities

The carrying values and fair values of our financial assets are shown in the following table:

As at	**December 31, 2020**		December 31, 2019	
	Carrying value	**Fair value**	Carrying value	Fair value
Assets				
Cash, cash equivalents and short-term securities	**$ 13,527**	**$ 13,527**	$ 9,575	$ 9,575
Debt securities - fair value through profit or loss	**77,834**	**77,834**	67,894	67,894
Debt securities - available-for-sale[1]	**11,255**	**11,255**	13,712	13,712
Equity securities - fair value through profit or loss	**6,369**	**6,369**	4,474	4,474
Equity securities - available-for-sale	**262**	**262**	313	313
Mortgages and loans[1]	**49,946**	**56,231**	48,222	52,028
Derivative assets	**2,160**	**2,160**	1,548	1,548
Other invested assets - fair value through profit or loss[2]	**3,339**	**3,339**	3,016	3,016
Other invested assets - available-for-sale[2]	**828**	**828**	813	813
Policy loans	**3,265**	**3,265**	3,218	3,218
Total financial assets[3]	**$ 168,785**	**$ 175,070**	$ 152,785	$ 156,591

(1) As at December 31, 2020, the fair value of invested assets that have contractual cash flows that qualify as SPPI include $11,159 of Debt securities - AFS ($13,602 as at December 31, 2019), $51,480 of Mortgages and loans supporting insurance contract liabilities ($47,398 as at December 31, 2019), and $4,741 of Mortgages and loans not supporting insurance contract liabilities ($4,315 as at December 31, 2019).

(2) Other invested assets (FVTPL and AFS) include our investments in segregated funds, mutual funds and limited partnerships.

(3) Invested assets on our Consolidated Statements of Financial Position of $177,912 ($161,619 as at December 31, 2019) includes Total financial assets in this table, Investment properties of $7,516 ($7,306 as at December 31, 2019), and Other invested assets - non-financial assets of $1,611 ($1,528 as at December 31, 2019).

Our mortgages and loans are generally carried at amortized cost. The fair value of mortgages and loans, for disclosure purposes, is determined based on the methodology and assumptions described in Note 5.A.ii. As at December 31, 2020, $43,904 and $12,327 are categorized in Level 2 and Level 3, respectively, of the fair value hierarchy described in this Note ($41,858 and $10,170, respectively, as at December 31, 2019).

Other financial liabilities are carried at amortized cost. The fair value of Other financial liabilities, for disclosure purposes, is determined based on the methodology and assumptions described in Note 5.A.ii. As at December 31, 2020, carrying value of $1,136 and fair value of $1,233 are categorized in Level 3 of the fair value hierarchy described in this Note ($956 and $972, respectively, as at December 31, 2019). Effective December 31, 2020, we have updated our disclosures to reflect this classification and have excluded these items from 5.A.iii Fair Value Hierarchy disclosures.

Derivative liabilities with a fair value of $1,744 ($2,040 as at December 31, 2019) are also included on the Consolidated Statements of Financial Position.

Policy loans are carried at their unpaid principal balances. The fair value of policy loans, for disclosure purposes, is approximated by their carrying value, as policy loans are fully secured by policy values on which the loans are made and are categorized in Level 2 of the fair value hierarchy.

5.A.ii Fair Value Methodologies and Assumptions

The fair value of government and corporate debt securities is determined using quoted prices in active markets for identical or similar securities. When quoted prices in active markets are not available, fair value is determined using market standard valuation methodologies, which include discounted cash flow analysis, consensus pricing from various broker dealers that are typically the market makers, or other similar techniques. The assumptions and valuation inputs in applying these market standard valuation methodologies are determined primarily using observable market inputs, which include, but are not limited to, benchmark yields, reported trades of identical or similar instruments, broker-dealer quotes, issuer spreads, bid prices, and reference data including market research publications. In limited circumstances, non-binding broker quotes are used.

The fair value of asset-backed securities is determined using quoted prices in active markets for identical or similar securities, when available, or valuation methodologies and valuation inputs similar to those used for government and corporate debt securities. Additional valuation inputs include structural characteristics of the securities, and the underlying collateral performance, such as prepayment speeds and delinquencies. Expected prepayment speeds are based primarily on those previously experienced in the market at projected future interest rate levels. In instances where there is a lack of sufficient observable market data to value the securities, non-binding broker quotes are used.

The fair value of equity securities is determined using quoted prices in active markets for identical securities or similar securities. When quoted prices in active markets are not available, fair value is determined using equity valuation models, which include discounted cash flow analysis and other techniques that involve benchmark comparison. Valuation inputs primarily include projected future operating cash flows and earnings, dividends, market discount rates, and earnings multiples of comparable companies.

The fair value of mortgages and loans is determined by discounting the expected future cash flows using a current market interest rate applicable to financial instruments with a similar yield, credit quality, and maturity characteristics. Valuation inputs typically include benchmark yields and risk-adjusted spreads from current lending activities or loan issuances. The risk-adjusted spreads are determined based on the borrower's credit and liquidity, as well as term and other loan-specific features. Long-term mortgages and loans are generally categorized in Level 3 of the fair value hierarchy. The significant unobservable input is a portion of these risk-adjusted spreads at or beyond the 20-year point for mortgages and at or beyond the 10-year point for loans.

The fair value of other financial liabilities is determined by using the discounted cash flow methodology at the incremental borrowing rate or the effective interest rate. Other financial liabilities categorized as Level 3 represent the present value of the estimated price we would pay to acquire any remaining outstanding shares upon exercise of a put option and any mandatory income distributions. The fair value of the liabilities is based on the average earnings before income tax, depreciation and amortization ("EBITDA") for the preceding years before the options' exercise dates and EBITDA multiples in accordance with the put agreements as well as the expected amount of any mandatory income distributions. A change in EBITDA would impact the fair value of other financial liabilities and our net income (loss).

The fair value of derivative financial instruments depends upon derivative types. The fair value of exchange-traded futures and options is determined using quoted prices in active markets, while the fair value of over-the-counter ("OTC") derivatives is determined using pricing models, such as discounted cash flow analysis or other market standard valuation techniques, with primarily observable market inputs. Valuation inputs used to price OTC derivatives may include swap interest rate curves, foreign exchange spot and forward rates, index prices, the value of underlying securities, projected dividends, volatility surfaces, and in limited circumstances, counterparty quotes. The fair value of OTC derivative financial instruments also includes credit valuation adjustments to reflect the credit risk of both the derivative counterparty and ourselves as well as the impact of contractual factors designed to reduce our credit exposure, such as collateral and legal rights of offset under master netting agreements. Inputs into determining the appropriate credit valuation adjustments are typically obtained from publicly available information and include credit default swap spreads when available, credit spreads derived from specific bond yields, or published cumulative default experience data adjusted for current trends when credit default swap spreads are not available.

The fair value of other invested assets is determined using quoted prices in active markets for identical securities or similar securities. When quoted prices in active markets are not available, fair value is determined using equity valuation models, which include discounted cash flow analysis and other techniques that involve benchmark comparison. Valuation inputs primarily include projected future operating cash flows and earnings, dividends, market discount rates, and earnings multiples of comparable companies.

The fair value of investment properties is generally determined using property valuation models that are based on expected capitalization rates and models that discount expected future net cash flows at current market interest rates reflective of the characteristics, location, and market of each property. Expected future net cash flows include contractual and projected cash flows and forecasted operating expenses, and take into account interest, rental, and occupancy rates derived from market surveys. The estimates of future cash inflows in addition to expected rental income from current leases, include projected income from future leases based on significant assumptions that are consistent with current market conditions. The future rental rates are estimated based on the location, type, and quality of the properties, and take into account market data and projections at the valuation date. The fair values are typically compared to market-based information for reasonability, including recent transactions involving comparable assets. The methodologies and inputs used in these models are in accordance with real estate industry valuation standards. Valuations are prepared externally or internally by professionally accredited real estate appraisers.

The fair value of short-term securities is approximated by their carrying amount, adjusted for credit risk where appropriate.

The fair value of investments for account of segregated fund holders is determined using quoted prices in active markets or independent valuation information provided by investment managers. The fair value of direct investments within investments for account of segregated fund holders, such as short-term securities and government and corporate debt securities, is determined according to valuation methodologies and inputs described above in the respective asset type sections.

The methodologies and assumptions for determining the fair values of investment contract liabilities are included in Note 10.B.

5.A.iii Fair Value Hierarchy

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

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

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

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

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

As at	December 31, 2020				December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Cash, cash equivalents and short-term securities	**$ 12,428**	**$ 1,099**	**$ —**	**$ 13,527**	$ 9,044	$ 531	$ —	$ 9,575
Debt securities - fair value through profit or loss	**1,537**	**76,072**	**225**	**77,834**	1,641	66,005	248	67,894
Debt securities - available-for-sale	**796**	**10,392**	**67**	**11,255**	1,363	12,299	50	13,712
Equity securities - fair value through profit or loss	**3,777**	**2,411**	**181**	**6,369**	1,868	2,418	188	4,474
Equity securities - available-for-sale	**144**	**71**	**47**	**262**	152	126	35	313
Derivative assets	**36**	**2,124**	**—**	**2,160**	20	1,528	—	1,548
Other invested assets	**1,094**	**428**	**2,645**	**4,167**	1,000	384	2,445	3,829
Investment properties	**—**	**—**	**7,516**	**7,516**	—	—	7,306	7,306
Total invested assets measured at fair value	**$ 19,812**	**$ 92,597**	**$ 10,681**	**$ 123,090**	$ 15,088	$ 83,291	$ 10,272	$ 108,651
Investments for account of segregated fund holders	**26,832**	**98,539**	**550**	**125,921**	26,380	90,044	549	116,973
Total assets measured at fair value	**$ 46,644**	**$ 191,136**	**$ 11,231**	**$ 249,011**	$ 41,468	$ 173,335	$ 10,821	$ 225,624
Liabilities								
Investment contract liabilities	**$ —**	**$ —**	**$ 2**	**$ 2**	$ —	$ —	$ 2	$ 2
Derivative liabilities	**13**	**1,731**	**—**	**1,744**	14	2,026	—	2,040
Total liabilities measured at fair value	**$ 13**	**$ 1,731**	**$ 2**	**$ 1,746**	$ 14	$ 2,026	$ 2	$ 2,042

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

As at	December 31, 2020				December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Canadian federal government	**$ —**	**$ 4,546**	**$ 14**	**$ 4,560**	$ —	$ 3,875	$ 15	$ 3,890
Canadian provincial and municipal government	**—**	**16,909**	**—**	**16,909**	—	13,811	15	13,826
U.S. government and agency	**1,537**	**141**	**—**	**1,678**	1,641	106	1	1,748
Other foreign government	**—**	**5,274**	**7**	**5,281**	—	5,172	9	5,181
Corporate	**—**	**42,507**	**157**	**42,664**	—	37,508	173	37,681
Asset-backed securities:								
Commercial mortgage-backed securities	**—**	**2,199**	**6**	**2,205**	—	1,753	6	1,759
Residential mortgage-backed securities	**—**	**2,459**	**—**	**2,459**	—	2,176	—	2,176
Collateralized debt obligations	**—**	**389**	**—**	**389**	—	157	—	157
Other	**—**	**1,648**	**41**	**1,689**	—	1,447	29	1,476
Total debt securities - fair value through profit or loss	**$ 1,537**	**$ 76,072**	**$ 225**	**$ 77,834**	$ 1,641	$ 66,005	$ 248	$ 67,894

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

As at	December 31, 2020				December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Canadian federal government	**$ —**	**$ 1,929**	**$ —**	**$ 1,929**	$ —	$ 2,556	$ —	$ 2,556
Canadian provincial and municipal government	**—**	**1,333**	**—**	**1,333**	—	1,139	—	1,139
U.S. government and agency	**796**	**1**	**—**	**797**	1,363	—	—	1,363
Other foreign government	**—**	**822**	**1**	**823**	—	735	1	736
Corporate	**—**	**4,258**	**52**	**4,310**	—	5,039	45	5,084
Asset-backed securities:								
Commercial mortgage-backed securities	**—**	**750**	**2**	**752**	—	777	—	777
Residential mortgage-backed securities	**—**	**292**	**—**	**292**	—	362	—	362
Collateralized debt obligations	**—**	**531**	**—**	**531**	—	730	—	730
Other	**—**	**476**	**12**	**488**	—	961	4	965
Total debt securities - available-for-sale	**$ 796**	**$ 10,392**	**$ 67**	**$ 11,255**	$ 1,363	$ 12,299	$ 50	$ 13,712

During 2020 and 2019, we did not have any significant transfers between Level 1 and Level 2.

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

For the year ended	Debt securities - fair value through profit or loss	Debt securities - available-for-sale	Equity securities - fair value through profit or loss	Equity securities - available-for-sale	Other invested assets	Investment properties	Total invested assets measured at fair value	Investments for account of segregated fund holders	Total assets measured at fair value
December 31, 2020									
Beginning balance	**$ 248**	**$ 50**	**$ 188**	**$ 35**	**$ 2,445**	**$ 7,306**	**$ 10,272**	**$ 549**	**$ 10,821**
Included in net income[1][2][3]	**11**	**—**	**—**	**—**	**(87)**	**(63)**	**(139)**	**(22)**	**(161)**
Included in OCI[2]	**—**	**2**	**—**	**—**	**19**	**—**	**21**	**—**	**21**
Purchases	**67**	**15**	**11**	**46**	**594**	**620**	**1,353**	**30**	**1,383**
Sales / Payments	**(10)**	**—**	**(2)**	**(33)**	**(304)**	**(325)**	**(674)**	**(14)**	**(688)**
Settlements	**(9)**	**(2)**	**(15)**	**—**	**—**	**—**	**(26)**	**(1)**	**(27)**
Transfers into Level 3[4]	**3**	**2**	**—**	**—**	**—**	**—**	**5**	**1**	**6**
Transfers (out) of Level 3[4]	**(88)**	**(1)**	**—**	**—**	**—**	**—**	**(89)**	**(1)**	**(90)**
Foreign currency translation[5]	**3**	**1**	**(1)**	**(1)**	**(22)**	**(22)**	**(42)**	**8**	**(34)**
Ending balance	**$ 225**	**$ 67**	**$ 181**	**$ 47**	**$ 2,645**	**$ 7,516**	**$ 10,681**	**$ 550**	**$ 11,231**
Gains (losses) included in earnings relating to instruments still held at the reporting date[1]	**$ 2**	**$ —**	**$ —**	**$ —**	**$ (68)**	**$ 13**	**$ (53)**	**$ (23)**	**$ (76)**
December 31, 2019									
Beginning balance	$ 373	$ 43	$ 202	$ 36	$ 2,241	$ 7,157	$ 10,052	$ 1,596	$ 11,648
Acquisitions	—	—	—	—	13	—	13	—	13
Included in net income[1][2][3]	28	—	(2)	(23)	(80)	238	161	45	206
Included in OCI[2]	—	4	—	2	13	—	19	—	19
Purchases	85	35	5	22	521	689	1,357	152	1,509
Sales / Payments	(49)	—	(9)	—	(122)	(701)	(881)	(59)	(940)
Settlements	(40)	—	—	—	—	—	(40)	(1)	(41)
Transfers into Level 3[4]	15	—	—	—	—	—	15	—	15
Transfers (out) of Level 3[4][6]	(159)	(31)	(4)	—	(110)	—	(304)	(1,178)	(1,482)
Foreign currency translation[5]	(5)	(1)	(4)	(2)	(31)	(77)	(120)	(6)	(126)
Ending balance	$ 248	$ 50	$ 188	$ 35	$ 2,445	$ 7,306	$ 10,272	$ 549	$ 10,821
Gains (losses) included in earnings relating to instruments still held at the reporting date[1]	$ 4	$ —	$ (3)	$ —	$ (78)	$ 272	$ 195	$ 25	$ 220

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

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

(3) Investment properties included in net income is comprised of fair value changes on investment properties of $19 ($305 in 2019), net of amortization of leasing commissions and tenant inducements of $82 ($67 in 2019). As at December 31, 2020, we have used assumptions that reflect known changes in the property values including changes in expected future cash flows.

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

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

(6) An update of certain specific criteria used to determine the leveling classification of the financial instruments was made in 2019 to align with industry practice. This resulted in transfers out of Level 3, including $1,178 for Investments for account of segregated fund holders as well as $110 for Other invested assets, and transferred into Level 2 based on the availability of observable inputs and other criteria.

Unobservable Inputs and Sensitivity for Level 3 Assets

Our assets categorized in Level 3 of the fair value hierarchy are primarily Investment properties, Debt securities and Other invested assets.

The fair value of Investment properties is determined by using the discounted cash flow methodology as described in Note 5.A.ii. The key unobservable inputs used in the valuation of investment properties as at December 31, 2020 include the following:

- Estimated rental value: The estimated rental value is based on contractual rent and other local market lease transactions, net of reimbursable operating expenses. An increase (decrease) in the estimated rental value would result in a higher (lower) fair value. The estimated rental value varies depending on the property types, which include retail, office, and industrial properties. The estimated rental value (in dollars, per square foot, per annum) ranges from $12.00 to $76.00 for retail and office properties and from $3.00 to $21.50 for industrial properties.
- Rental growth rate: The rental growth rate is typically estimated based on expected market behaviour, which is influenced by the type of property and geographic region of the property. An increase (decrease) in the rental growth rate would result in a higher (lower) fair value. The

rental growth rate (per annum) ranges from 0.00% to 3.00%, however the one- to two-year short-term rent curve is either below or above this range for select properties.
- Long-term vacancy rate: The long-term vacancy rate is typically estimated based on expected market behaviour, which is influenced by the type of property and geographic region of the property. An increase (decrease) in the long-term vacancy rate would result in a lower (higher) fair value. The long-term vacancy rate ranges from 2.00% to 10.00%.
- Discount rate: The discount rate is derived from market activity across various property types and geographic regions and is a reflection of the expected rate of return to be realized on the investment over the next 10 years. An increase (decrease) in the discount rate would result in a lower (higher) fair value. The discount rate ranges from 4.00% to 10.25%.
- Terminal capitalization rate: The terminal capitalization rate is derived from market activity across various property types and geographic regions and is a reflection of the expected rate of return to be realized on the investment over the remainder of its life after the 10-year period. An increase (decrease) in the terminal capitalization rate would result in a lower (higher) fair value. The terminal capitalization rate ranges from 4.25% to 8.75%.

Changes in the estimated rental value are positively correlated with changes in the rental growth rate. Changes in the estimated rental value are negatively correlated with changes in the long-term vacancy rate, the discount rate, and the terminal capitalization rate.

Our Debt securities categorized in Level 3, which are included in Debt securities - FVTPL and Debt securities - AFS in the Level 3 roll forward table, consist primarily of corporate bonds. The fair value of these corporate bonds is generally determined using broker quotes that cannot be corroborated with observable market transactions. Significant unobservable inputs for these corporate bonds would include issuer spreads, which are comprised of credit, liquidity, and other security-specific features of the bonds. An increase (decrease) in these issuer spreads would result in a lower (higher) fair value. Due to the unobservable nature of these broker quotes, we do not assess whether applying reasonably possible alternative assumptions would have an impact on the fair value of the Level 3 corporate bonds. The majority of our debt securities categorized in Level 3 are FVTPL assets supporting insurance contract liabilities. Changes in the fair value of these assets supporting insurance contract liabilities are largely offset by changes in the corresponding insurance contract liabilities under CALM. As a result, though using reasonably possible alternative assumptions may have an impact on the fair value of the Level 3 debt securities, it would not have a significant impact on our Consolidated Financial Statements.

The Other invested assets categorized in Level 3, which are included in Other invested assets - FVTPL and Other invested assets - AFS in the Level 3 roll forward table, consists primarily of limited partnership investments. The fair value of our limited partnership investments is based on net asset value ("NAV") provided by management of the limited partnership investments. Based on the unobservable nature of these NAVs, we do not assess whether applying reasonably possible alternative assumptions would have an impact on the fair value of the Level 3 limited partnership investments.

Valuation Process for Level 3 Assets

Our assets categorized in Level 3 of the fair value hierarchy are primarily Investment properties, Debt securities and limited partnership investments included in Other invested assets. Our valuation processes for these assets are as follows:

The fair value of investment properties are based on the results of appraisals performed annually and reviewed quarterly for material changes. The valuation methodology used to determine the fair value is in accordance with the standards of the Appraisal Institute of Canada, the U.S., and the UK. Investment properties are appraised externally at least once every three years. Investment properties not appraised externally in a given year are reviewed by qualified appraisers. A management committee, including investment professionals, reviews the fair value of investment properties for overall reasonability.

The fair value of Debt securities is generally obtained by external pricing services. We obtain an understanding of inputs and valuation methods used by external pricing services. When fair value cannot be obtained from external pricing services, broker quotes, or internal models subject to detailed review and validation processes are used. The fair value of debt securities is subject to price validation and review procedures to ensure overall reasonability.

The fair value of limited partnership investments, included in Other invested assets, is based on NAV. The financial statements used in calculating the NAV are generally audited annually. We review the NAV of the limited partnership investments and perform analytical and other procedures to ensure the fair value is reasonable.

5.B Interest and Other Investment Income

Interest and other investment income presented in our Consolidated Statements of Operations consist of the following:

For the years ended December 31,	2020	2019
Interest income:		
Cash, cash equivalents and short-term securities	**$ 71**	$ 164
Debt securities - fair value through profit or loss	**2,485**	2,395
Debt securities - available-for-sale	**317**	411
Mortgages and loans	**2,189**	2,208
Derivative investments	**46**	30
Policy loans	**188**	188
Total interest income	**5,296**	5,396
Equity securities - dividends on fair value through profit or loss	**165**	137
Equity securities - dividends on available-for-sale	**4**	8
Investment properties rental income[1]	**551**	575
Investment properties expenses	**(243)**	(252)
Other income	**(154)**	196
Investment expenses and taxes	**(212)**	(205)
Total interest and other investment income	**$ 5,407**	$ 5,855

[1] Includes operating lease rental income from investment properties.

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

Fair value and foreign currency changes on assets and liabilities presented in our Consolidated Statements of Operations consist of the following:

For the years ended December 31,	2020	2019
Fair value change:		
Cash, cash equivalents and short-term securities	**$ (10)**	$ (2)
Debt securities	**5,209**	5,686
Equity securities	**357**	629
Derivative investments	**1,306**	772
Other invested assets	**(3)**	77
Total change in fair value through profit or loss assets and liabilities	**6,859**	7,162
Fair value changes on investment properties	**19**	305
Foreign exchange gains (losses)[1]	**(18)**	(349)
Fair value and foreign currency changes on assets and liabilities	**$ 6,860**	$ 7,118

[1] Primarily arises from the translation of foreign currency denominated AFS monetary assets and mortgage and loans. Any offsetting amounts arising from foreign currency derivatives are included in the fair value change on derivative investments.

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

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

As at December 31,	2020	2019
Cash	**$ 2,498**	$ 1,656
Cash equivalents	**8,156**	5,059
Short-term securities	**2,873**	2,860
Cash, cash equivalents and short-term securities	**13,527**	9,575
Less: Bank overdraft, recorded in Other liabilities	**6**	30
Net cash, cash equivalents and short-term securities	**$ 13,521**	$ 9,545

5.E Derivative Financial Instruments and Hedging Activities

The fair values of derivative financial instruments by major class of derivatives are as follows:

As at December 31,	**2020**		2019	
	Fair value		Fair value	
	Assets	**Liabilities**	Assets	Liabilities
Interest rate contracts	**$ 1,409**	**$ (340)**	$ 1,198	$ (517)
Foreign exchange contracts	**659**	**(1,382)**	242	(1,516)
Other contracts	**92**	**(22)**	108	(7)
Total derivatives	**$ 2,160**	**$ (1,744)**	$ 1,548	$ (2,040)

The following table presents the fair values of derivative assets and liabilities categorized by type of hedge for accounting purposes and derivative investments:

As at December 31,	**2020**			2019		
	Total notional amount	**Fair value**		Total notional amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
Derivative investments[1]	**$ 61,680**	**$ 2,140**	**$ (1,722)**	$ 60,707	$ 1,517	$ (1,831)
Fair value hedges	**278**	**5**	**(2)**	616	—	(208)
Cash flow hedges	**834**	**15**	**(20)**	808	31	(1)
Total derivatives	**$ 62,792**	**$ 2,160**	**$ (1,744)**	$ 62,131	$ 1,548	$ (2,040)

[1] Derivative investments are derivatives that have not been designated as hedges for accounting purposes.

We did not have any net investment hedges in 2020 or 2019.

Hedge ineffectiveness recognized in Interest and other investment income consists of the following:

For the years ended December 31,	**2020**	2019
Fair value hedging ineffectiveness:		
Gains (losses) on the hedged items attributable to the hedged risk	**$ (209)**	$ 71
Gains (losses) on the hedging derivatives	**207**	(64)
Net ineffectiveness on fair value hedges	**$ (2)**	$ 7

For cash flow hedges, we had hedge ineffectiveness of $1 in 2020 ($1 in 2019). We expect to reclassify a gain of $6 from accumulated OCI to net income within the next 12 months that relates to cash flow hedges of anticipated award payments under certain share-based payment plans that are expected to occur in 2021, 2022 and 2023 and cash flow hedges which hedge against foreign exchange exposure. The reclassification of accumulated OCI to income relating to these foreign currency forwards occurs upon disposal or impairment of the foreign operation.

5.F Transfers of Financial Assets

We enter into transactions, including mortgage securitization, repurchase agreements and securities lending, where we transfer financial assets while retaining the risks and rewards of ownership of the assets. These transferred financial assets are not derecognized and remain on our Consolidated Statements of Financial Position. The carrying value of the transferred assets and the associated liabilities are described in the sections below.

5.F.i Mortgage Securitization

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

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

The carrying value and fair value of the securitized mortgages as at December 31, 2020 are $1,781 and $1,873, respectively ($1,587 and $1,592, respectively, as at December 31, 2019). The carrying value and fair value of the associated liabilities as at December 31, 2020 are $1,912 and $2,032,

respectively ($1,715 and $1,734, respectively, as at December 31, 2019). The carrying value of asset-backed securities in the PRA as at December 31, 2020 is $145 ($124 as at December 31, 2019). There are no cash and cash equivalents in the PRA as at December 31, 2020 and 2019.

The fair value of the secured borrowings from mortgage securitization is based on the methodologies and assumptions for asset-backed securities described in Note 5.A.ii. The fair value of these liabilities is categorized in Level 2 of the fair value hierarchy as at December 31, 2020 and 2019.

5.F.ii Repurchase Agreements

We enter into repurchase agreements for operational funding and liquidity purposes. Repurchase agreements have maturities ranging from 7 to 365 days, averaging 86 days, and bear interest at an average rate of 0.37% as at December 31, 2020 (1.81% as at December 31, 2019). The carrying values of the transferred assets and the obligations related to their repurchase, which approximate their fair values, are $2,208 as at December 31, 2020 ($1,850 as at December 31, 2019). These liabilities are categorized in Level 2 of the fair value hierarchy. Collateral primarily consists of cash and cash equivalents as well as government guaranteed securities. Details on the collateral pledged are included in Note 6.A.ii.

5.F.iii Securities Lending

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are lent to other institutions for short periods. Collateral exceeding the fair value of the securities lent is deposited by the borrower with a lending agent, usually a securities custodian, and maintained by the lending agent until the underlying security has been returned to us. The fair value of the securities lent is monitored on a daily basis with additional collateral obtained or refunded as the fair values fluctuate. Collateral primarily consists of Canadian federal and provincial government securities and cash and cash equivalents. Certain arrangements allow us to invest the cash collateral received for the securities lent. The carrying values of the securities lent approximate their fair values. The carrying values of the securities lent and the related collateral held are $1,974 and $2,063, respectively, as at December 31, 2020 ($2,006 and $2,128, respectively, as at December 31, 2019). Of the collateral held, we held cash collateral of $306 as at December 31, 2020 ($nil as at December 31, 2019), which is recognized on our Consolidated Statements of Financial Position.

6. Financial Instrument Risk Management

The significant risks related to financial instruments are credit risk, market risk (including equity risk, interest rate and spread risk, and foreign currency risk) and liquidity risk. The following sections describe how we manage these risks.

Some of our financial instruments risk management policies and procedures are described in our Annual Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2020. The shaded text and tables in the Risk Management section of the MD&A represent part of our disclosures on credit, market and liquidity risks and include a description of how we measure our risk and our objectives, policies and methodologies for managing these risks. Therefore, the shaded text and tables are an integral part of these Consolidated Financial Statements.

We use derivative instruments to manage market risks related to equity market, interest rate and currency fluctuations and in replication strategies for permissible investments. We do not engage in speculative investment in derivatives. The gap in market sensitivities or exposures between liabilities and supporting assets is monitored and managed within defined tolerance limits, by using derivative instruments, where appropriate. We use models and techniques to measure the effectiveness of our risk management strategies.

6.A Credit Risk

Risk Description

Credit risk is the possibility of loss from amounts owed by our borrowers or financial counterparties. We are subject to credit risk in connection with issuers of securities held in our investment portfolio, debtors, structured securities, reinsurers, counterparties (including derivative, repurchase agreement and securities lending counterparties), other financial institutions and other entities. Losses may occur when a counterparty fails to make timely payments pursuant to the terms of the underlying contractual arrangement or when the counterparty's credit rating or risk profile otherwise deteriorates. Credit risk can also arise in connection with deterioration in the value of, or ability to realize, any underlying security that may be used as collateral for the debt obligation. Credit risk can occur as a result of broad economic conditions, challenges within specific sectors of the economy, or from issues affecting individual companies. Events that result in defaults, impairments or downgrades of the securities in our investment portfolio would cause the Company to record realized or unrealized losses and may cause an increase in our provisions for asset default, adversely impacting earnings.

Credit Risk Management Governance and Control

We employ a wide range of credit risk management practices and controls, as outlined below:

- Credit risk governance practices are in place, including independent monitoring and review and reporting to senior management and the Risk Committee.
- Risk appetite limits have been established for credit risk.
- Income and regulatory capital sensitivities are monitored, managed and reported against pre-established risk limits.
- Comprehensive Investment and Credit Risk Management Policy, guidelines and practices are in place.
- Specific investment diversification requirements are in place, such as defined investment limits for asset class, geography, and industry.
- Risk-based credit portfolio, counterparty, and sector exposure limits have been established.
- Mandatory use of credit quality ratings for portfolio investments has been established and is reviewed regularly. These internal rating decisions for new fixed income investments and ongoing review of existing rating decisions are independently adjudicated by Corporate Risk Management.
- Comprehensive due diligence processes and ongoing credit analyses are conducted.
- Regulatory solvency requirements include risk-based capital requirements and are monitored regularly.
- Comprehensive compliance monitoring practices and procedures including reporting against pre-established investment limits are in place.

- Reinsurance exposures are monitored to ensure that no single reinsurer represents an undue level of credit risk.
- Stress-testing techniques, such as Financial Condition Testing ("FCT"), are used to measure the effects of large and sustained adverse credit developments.
- Insurance contract liabilities are established in accordance with Canadian actuarial standards of practice.
- Internal capital targets are established at an enterprise level to cover all risks and are above minimum regulatory and supervisory levels. Actual capital levels are monitored to ensure they exceed internal targets.

6.A.i Maximum Exposure to Credit Risk

Our maximum credit exposure related to financial instruments as at December 31 is the balance as presented in our Consolidated Statements of Financial Position as we believe that these carrying amounts best represent the maximum exposure to credit risk. The credit exposure for debt securities may be increased to the extent that the amounts recovered from default are insufficient to satisfy the actuarial liability cash flows that the assets are intended to support.

The positive fair value of derivative assets is used to determine the credit risk exposure if the counterparties were to default. The credit risk exposure is the cost of replacing, at current market rates, all derivative contracts with a positive fair value. Additionally, we have credit exposure to items not on the Consolidated Statements of Financial Position as follows:

As at December 31,	**2020**	2019
Off-balance sheet item:		
Loan commitments[1]	**$ 1,890**	$ 2,175

[1] Loan commitments include commitments to extend credit under commercial and multi-family residential mortgages and private debt securities not quoted in an active market. Commitments on debt securities contain provisions that allow for withdrawal of the commitment if there is deterioration in the credit quality of the borrower.

6.A.ii Right of Offset and Collateral

We invest in financial assets which may be secured by real estate properties, pools of financial assets, third-party financial guarantees, credit insurance, and other arrangements.

For OTC derivatives, collateral is collected from and pledged to counterparties to manage credit exposure according to the Credit Support Annex ("CSA"), which forms part of the International Swaps and Derivatives Association's ("ISDA") master agreements. It is common practice to execute a CSA in conjunction with an ISDA master agreement. Under the ISDA master agreements for OTC derivatives, we have a right of offset in the event of default, insolvency, bankruptcy, or other early termination. In the ordinary course of business, bilateral OTC exposures under these agreements are substantially mitigated through associated collateral agreements with a majority of our counterparties.

For exchange-traded derivatives subject to derivative clearing agreements with the exchanges and clearinghouses, there is no provision for set-off at default. Initial margin is excluded from the table below as it would become part of a pooled settlement process.

For repurchase agreements and reverse repurchase agreements, assets are sold or purchased with a commitment to resell or repurchase at a future date. Additional collateral may be pledged to or collected from counterparties to manage credit exposure according to bilateral repurchase or reverse repurchase agreements. In the event of default by a counterparty, we are entitled to liquidate the assets we hold as collateral to offset against obligations to the same counterparty.

In the case of securities lending, assets are lent with a commitment from the counterparty to return at a future date. Cash or securities are received as collateral from the counterparty. In the event of default by the counterparty, we are entitled to liquidate the assets we hold as collateral to offset against obligations to the same counterparty.

We do not offset financial instruments in our Consolidated Statements of Financial Position, as our rights of offset are conditional. The following tables present the effect of conditional netting and similar arrangements. Similar arrangements include global master repurchase agreements, security lending agreements, and any related rights to financial collateral.

As at December 31,	2020				2019			
		Related amounts not set off in the Consolidated Statements of Financial Position				Related amounts not set off in the Consolidated Statements of Financial Position		
	Financial instruments presented in the Consolidated Statements of Financial Position[1]	Financial instruments subject to master netting or similar agreements	Financial collateral (received) pledged[2]	Net amount	Financial instruments presented in the Consolidated Statements of Financial Position[1]	Financial instruments subject to master netting or similar agreements	Financial collateral (received) pledged[2]	Net amount
Financial assets:								
Derivative assets (Note 6.A.v)	$ 2,160	$ (883)	$ (1,139)	$ 138	$ 1,548	$ (737)	$ (730)	$ 81
Reverse repurchase agreements (Note 8)	4	(4)	—	—	3	(3)	—	—
Total financial assets	$ 2,164	$ (887)	$ (1,139)	$ 138	$ 1,551	$ (740)	$ (730)	$ 81
Financial liabilities:								
Derivative liabilities	$ (1,744)	$ 883	$ 736	$ (125)	$ (2,040)	$ 737	$ 937	$ (366)
Repurchase agreements (Note 5.F.ii)	(2,208)	4	2,204	—	(1,850)	3	1,847	—
Cash collateral on securities lent (Note 5.F.iii)	(306)	—	301	(5)	—	—	—	—
Total financial liabilities	$ (4,258)	$ 887	$ 3,241	$ (130)	$ (3,890)	$ 740	$ 2,784	$ (366)

(1) Net amounts of the financial instruments presented in our Consolidated Statements of Financial Position are the same as our gross recognized financial instruments, as we do not offset financial instruments in our Consolidated Statements of Financial Position.

(2) Financial collateral excludes overcollateralization and, for exchange-traded derivatives, initial margin. Total financial collateral, including initial margin and overcollateralization, received on derivative assets was $1,275 ($939 as at December 31, 2019), received on reverse repurchase agreements was $4 ($3 as at December 31, 2019), pledged on derivative liabilities was $1,830 ($1,706 as at December 31, 2019), and pledged on repurchase agreements was $2,208 ($1,850 as at December 31, 2019).

6.A.iii Concentration Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors, or groups of debtors that have similar credit risk characteristics, such as groups of debtors in the same economic or geographic regions or in similar industries. Related issuers may have similar economic characteristics so that their ability to meet contractual obligations may be impacted similarly by changes in the economic or political conditions. We manage this risk by appropriately diversifying our investment portfolio through the use of concentration limits. In particular, we maintain policies which set counterparty exposure limits to manage the credit exposure for investments in any single issuer or to the same underlying credit. Exceptions exist for investments in securities which are issued or guaranteed by the Government of Canada, U.S. or UK and issuers for which the Risk Committee have granted specific approval. Mortgages are collateralized by the related property, and generally do not exceed 75% of the value of the property at the time the original loan is made. Our mortgages and loans are diversified by type and location and, for mortgages, by borrower. Loans provide diversification benefits (name, industry and geography) and often provide stronger covenants and collateral than public debt securities, thereby providing both better credit protection and potentially higher recoveries in the event of default. The following tables provide details of the debt securities, mortgages and loans held by issuer country, geographic location and industry sector, where applicable.

The carrying value of debt securities by geographic location is shown in the following table. The geographic location is based on the country of the creditor's parent.

As at December 31,	2020			2019		
	Fair value through profit or loss	Available-for-sale	Total debt securities	Fair value through profit or loss	Available-for-sale	Total debt securities
Canada	$ 34,005	$ 4,685	$ 38,690	$ 28,221	$ 5,031	$ 33,252
United States	27,183	3,984	31,167	24,224	5,822	30,046
United Kingdom	4,592	487	5,079	4,874	528	5,402
Other	12,054	2,099	14,153	10,575	2,331	12,906
Balance	$ 77,834	$ 11,255	$ 89,089	$ 67,894	$ 13,712	$ 81,606

The carrying value of debt securities by issuer and industry sector is shown in the following table:

As at December 31,	2020			2019		
	Fair value through profit or loss	**Available-for-sale**	**Total debt securities**	Fair value through profit or loss	Available-for-sale	Total debt securities
Debt securities issued or guaranteed by:						
Canadian federal government	**$ 4,560**	**$ 1,929**	**$ 6,489**	$ 3,890	$ 2,556	$ 6,446
Canadian provincial and municipal government	**16,909**	**1,333**	**18,242**	13,826	1,139	14,965
U.S. government and agency	**1,678**	**797**	**2,475**	1,748	1,363	3,111
Other foreign government	**5,281**	**823**	**6,104**	5,181	736	5,917
Total government issued or guaranteed debt securities	**28,428**	**4,882**	**33,310**	24,645	5,794	30,439
Corporate debt securities by industry sector:						
Financials	**10,644**	**1,212**	**11,856**	9,341	1,585	10,926
Utilities	**7,561**	**682**	**8,243**	6,693	565	7,258
Industrials	**5,659**	**567**	**6,226**	4,800	629	5,429
Energy	**4,452**	**350**	**4,802**	3,867	365	4,232
Communication services	**3,644**	**322**	**3,966**	3,075	471	3,546
Real estate	**2,438**	**329**	**2,767**	2,595	368	2,963
Health care	**1,986**	**186**	**2,172**	1,886	236	2,122
Consumer staples	**1,893**	**158**	**2,051**	1,703	221	1,924
Consumer discretionary	**1,606**	**165**	**1,771**	1,268	219	1,487
Materials	**1,473**	**152**	**1,625**	1,331	212	1,543
Information technology	**1,308**	**187**	**1,495**	1,122	213	1,335
Total corporate debt securities	**42,664**	**4,310**	**46,974**	37,681	5,084	42,765
Asset-backed securities	**6,742**	**2,063**	**8,805**	5,568	2,834	8,402
Total debt securities	**$ 77,834**	**$ 11,255**	**$ 89,089**	$ 67,894	$ 13,712	$ 81,606

The carrying value of mortgages and loans by geographic location and type is shown in the following tables. The geographic location for mortgages is based on location of property, while for corporate loans it is based on the country of the creditor's parent.

As at December 31, 2020	**Canada**	**United States**	**United Kingdom**	**Other**	**Total**
Mortgages:					
Retail	**$ 1,963**	**$ 1,747**	**$ —**	**$ —**	**$ 3,710**
Office	**1,635**	**1,846**	**—**	**—**	**3,481**
Multi-family residential	**3,950**	**1,681**	**—**	**—**	**5,631**
Industrial and land	**996**	**949**	**—**	**—**	**1,945**
Other	**575**	**86**	**—**	**—**	**661**
Total mortgages[1]	**$ 9,119**	**$ 6,309**	**$ —**	**$ —**	**$ 15,428**
Loans	**$ 13,107**	**$ 13,773**	**$ 3,798**	**$ 3,840**	**$ 34,518**
Total mortgages and loans	**$ 22,226**	**$ 20,082**	**$ 3,798**	**$ 3,840**	**$ 49,946**

(1) $4,008 of mortgages in Canada are insured by the CMHC.

As at December 31, 2019	Canada	United States	United Kingdom	Other	Total
Mortgages:					
Retail	$ 1,981	$ 1,921	$ —	$ —	$ 3,902
Office	1,854	2,068	—	—	3,922
Multi-family residential	3,900	1,791	—	—	5,691
Industrial and land	861	1,037	—	—	1,898
Other	714	98	—	—	812
Total mortgages[1]	$ 9,310	$ 6,915	$ —	$ —	$ 16,225
Loans	$ 13,249	$ 11,994	$ 3,297	$ 3,457	$ 31,997
Total mortgages and loans	$ 22,559	$ 18,909	$ 3,297	$ 3,457	$ 48,222

(1) $3,966 of mortgages in Canada are insured by the CMHC.

6.A.iv Contractual Maturities

The contractual maturities of debt securities are shown in the following table. Actual maturities could differ from contractual maturities because of the borrower's right to call or extend or right to prepay obligations, with or without prepayment penalties.

As at December 31,	**2020**			2019		
	Fair value through profit or loss	**Available-for-sale**	**Total debt securities**	Fair value through profit or loss	Available-for-sale	Total debt securities
Due in 1 year or less	**$ 3,048**	**$ 721**	**$ 3,769**	$ 2,094	$ 2,025	$ 4,119
Due in years 2-5	**10,526**	**3,549**	**14,075**	9,692	3,954	13,646
Due in years 6-10	**10,459**	**3,540**	**13,999**	9,655	3,301	12,956
Due after 10 years	**53,801**	**3,445**	**57,246**	46,453	4,432	50,885
Total debt securities	**$ 77,834**	**$ 11,255**	**$ 89,089**	$ 67,894	$ 13,712	$ 81,606

The carrying value of mortgages by scheduled maturity, before allowances for losses, is as follows:

As at December 31,	**2020**	2019
Due in 1 year or less	**$ 1,230**	$ 1,099
Due in years 2-5	**5,465**	5,255
Due in years 6-10	**5,884**	6,787
Due after 10 years	**2,915**	3,154
Total mortgages	**$ 15,494**	$ 16,295

The carrying value of loans by scheduled maturity, before allowances for losses, is as follows:

As at December 31,	**2020**	2019
Due in 1 year or less	**$ 2,192**	$ 1,834
Due in years 2-5	**6,954**	6,872
Due in years 6-10	**6,670**	5,449
Due after 10 years	**18,751**	17,889
Total loans	**$ 34,567**	$ 32,044

Notional amounts of derivative financial instruments are the basis for calculating payments and are generally not the actual amounts exchanged. The following table provides the notional amounts of derivative instruments outstanding by type of derivative and term to maturity:

As at December 31,	2020				2019			
	Term to maturity				Term to maturity			
	Under 1 Year	**1 to 5 Years**	**Over 5 Years**	**Total**	Under 1 Year	1 to 5 Years	Over 5 Years	Total
Over-the-counter contracts:								
Interest rate contracts:								
Forward contracts	**$ —**	**$ 6**	**$ —**	**$ 6**	$ 50	$ —	$ —	$ 50
Swap contracts	**1,010**	**3,363**	**13,302**	**17,675**	1,906	3,052	14,649	19,607
Options purchased	**757**	**3,246**	**2,285**	**6,288**	617	3,279	2,850	6,746
Options written[1]	**—**	**465**	**—**	**465**	357	474	—	831
Foreign exchange contracts:								
Forward contracts	**12,205**	**31**	**—**	**12,236**	5,289	4,137	—	9,426
Swap contracts	**1,260**	**2,797**	**14,467**	**18,524**	867	3,723	12,366	16,956
Other contracts:								
Options purchased	**119**	**8**	**—**	**127**	1,164	—	—	1,164
Forward contracts	**132**	**175**	**—**	**307**	128	176	—	304
Swap contracts	**170**	**1**	**—**	**171**	178	1	—	179
Credit derivatives	**175**	**737**	**—**	**912**	343	878	6	1,227
Exchange-traded contracts:								
Interest rate contracts:								
Futures contracts	**3,389**	**—**	**—**	**3,389**	2,917	—	—	2,917
Equity contracts:								
Futures contracts	**2,553**	**—**	**—**	**2,553**	2,507	—	—	2,507
Options purchased	**127**	**—**	**—**	**127**	200	—	—	200
Options written	**12**	**—**	**—**	**12**	17	—	—	17
Total notional amount	**$ 21,909**	**$ 10,829**	**$ 30,054**	**$ 62,792**	$ 16,540	$ 15,720	$ 29,871	$ 62,131

[1] These are covered short derivative positions that may include interest rate options, swaptions, or floors.

The following table provides the fair value of derivative instruments outstanding by term to maturity:

As at December 31,	2020				2019			
	Term to maturity				Term to maturity			
	Under 1 Year	**1 to 5 Years**	**Over 5 Years**	**Total**	Under 1 Year	1 to 5 Years	Over 5 Years	Total
Derivative assets	**$ 329**	**$ 223**	**$ 1,608**	**$ 2,160**	$ 180	$ 231	$ 1,137	$ 1,548
Derivative liabilities	**$ (215)**	**$ (245)**	**$ (1,284)**	**$ (1,744)**	$ (73)	$ (377)	$ (1,590)	$ (2,040)

6.A.v Asset Quality

The following sections describe our assessment of the credit quality of our financial assets. We monitor credit quality based on internal risk ratings as well as ratings assigned by external rating agencies where available.

Debt Securities by Credit Rating

Investment grade debt securities are those rated BBB and above. Our debt security portfolio was 98% investment grade based on carrying value as at December 31, 2020 (99% as at December 31, 2019). The credit risk ratings were established in accordance with the internal rating process described in the Credit Risk Management Governance and Control section.

The following table summarizes our debt securities by credit quality:

As at December 31,	**2020**			2019		
	Fair value through profit or loss	**Available-for-sale**	**Total debt securities**	Fair value through profit or loss	Available-for-sale	Total debt securities
Debt securities by credit rating:						
AAA	**$ 12,794**	**$ 4,810**	**$ 17,604**	$ 11,097	$ 6,630	$ 17,727
AA	**11,870**	**1,586**	**13,456**	10,503	1,670	12,173
A	**30,812**	**2,600**	**33,412**	27,341	3,037	30,378
BBB	**21,203**	**2,091**	**23,294**	18,339	2,248	20,587
BB and lower	**1,155**	**168**	**1,323**	614	127	741
Total debt securities	**$ 77,834**	**$ 11,255**	**$ 89,089**	$ 67,894	$ 13,712	$ 81,606

Mortgages and Loans by Credit Rating

The credit quality of mortgages and loans is evaluated internally through regular monitoring of credit-related exposures. We use judgment and experience to determine what factors should be considered when assigning an internal credit rating, which is validated through the use of credit scoring models, to a particular mortgage or corporate loan. The internal credit ratings reflect the credit quality of the borrower as well as the value of any collateral held as security.

The following tables summarize our mortgages and loans by credit quality indicator:

As at December 31,	**2020**	2019
Mortgages by credit rating:		
Insured	**$ 4,008**	$ 3,966
AAA	**—**	1
AA	**1,435**	2,087
A	**4,031**	5,481
BBB	**4,524**	3,943
BB and lower	**1,404**	670
Impaired	**26**	77
Total mortgages	**$ 15,428**	$ 16,225

As at December 31,	**2020**	2019
Loans by credit rating:		
AAA	**$ 212**	$ 224
AA	**4,906**	5,044
A	**13,183**	12,516
BBB	**13,758**	12,920
BB and lower	**2,427**	1,207
Impaired	**32**	86
Total loans	**$ 34,518**	$ 31,997

Derivative Financial Instruments by Counterparty Credit Rating

Derivative instruments consist of bilateral OTC contracts negotiated directly between counterparties, OTC contracts cleared through central clearing houses or exchange-traded contracts. Since a counterparty failure in an OTC derivative transaction could render it ineffective for hedging purposes, we generally transact our derivative contracts with highly-rated counterparties. In limited circumstances, we enter into transactions with lower-rated counterparties if credit enhancement features are included.

We pledge and hold assets as collateral under CSAs for bilateral OTC derivative contracts. The collateral is realized in the event of early termination as defined in the agreements. The assets held and pledged are primarily cash and debt securities issued by the Canadian federal government and U.S. government and agencies. While we are generally permitted to sell or re-pledge the assets held as collateral, we have not sold or re-pledged

any assets. Exchange-traded and cleared OTC derivatives require the posting of initial margin, as well as daily cash settlement of variation margin. The terms and conditions related to the use of the collateral are consistent with industry practice.

Further details on collateral held and pledged as well as the impact of netting arrangements are included in Note 6.A.ii.

The following table shows the OTC derivative financial instruments with a positive fair value split by counterparty credit rating:

As at December 31,	2020			2019		
	Gross positive replacement cost[2]	**Impact of master netting agreements[3]**	**Net replacement cost[4]**	Gross positive replacement cost[2]	Impact of master netting agreements[3]	Net replacement cost[4]
Over-the-counter contracts:						
AA	**$ 596**	**$ (293)**	**$ 303**	$ 439	$ (210)	$ 229
A	**1,430**	**(575)**	**855**	1,008	(517)	491
BBB	**98**	**(15)**	**83**	82	(10)	72
Total over-the-counter derivatives[1]	**$ 2,124**	**$ (883)**	**$ 1,241**	$ 1,529	$ (737)	$ 792

(1) Exchange-traded derivatives with a positive fair value of $36 in 2020 ($19 in 2019) are excluded from the table above, as they are subject to daily margining requirements. Our credit exposure on these derivatives is with the exchanges and clearinghouses.
(2) Used to determine the credit risk exposure if the counterparties were to default. The credit risk exposure is the cost of replacing, at current market rates, all contracts with a positive fair value.
(3) The credit risk associated with derivative assets subject to master netting arrangements is reduced by derivative liabilities due to the same counterparty in the event of default or early termination. Our overall exposure to credit risk reduced through master netting arrangements may change substantially following the reporting date as the exposure is affected by each transaction subject to the arrangement.
(4) Net replacement cost is positive replacement cost less the impact of master netting agreements.

Credit Default Swaps by Underlying Financial Instrument Credit Rating

Credit default swaps ("CDS") are OTC contracts that transfer credit risk related to an underlying referenced financial instrument from one counterparty to another. The purchaser receives protection against the decline in the value of the referenced financial instrument as a result of specified credit events such as default or bankruptcy. The seller receives a periodic premium in return for payment contingent on a credit event affecting the referenced financial instrument. CDS index contracts are those where the underlying referenced financial instruments are a group of assets. The Company enters into credit derivatives to replicate credit exposure of an underlying reference security and enhance investment returns. The credit risk ratings of the underlying reference securities for single name contracts were established in accordance with the internal rating process described in the Credit Risk Management Governance and Control section.

The following table provides a summary of the credit default swap protection sold by credit rating of the underlying reference security:

As at December 31,	2020		2019	
	Notional amount	**Fair value**	Notional amount	Fair value
Single name credit default swap contracts:				
AA	**$ 38**	**$ 1**	$ 45	$ 1
A	**325**	**4**	574	9
BBB	**530**	**12**	608	19
BB	**19**	**—**	—	—
Total single name credit default swap contracts	**$ 912**	**$ 17**	$ 1,227	$ 29
Total credit default swap contracts sold	**$ 912**	**$ 17**	$ 1,227	$ 29

Reinsurance Assets by Credit Rating

The table below presents the distribution of Reinsurance assets by credit rating:

As at December 31,	2020			2019		
	Gross exposure	**Collateral**	**Net exposure**	Gross exposure	Collateral	Net exposure
Reinsurance assets by credit rating:						
AA	**$ 2,222**	**$ 8**	**$ 2,214**	$ 2,131	$ 5	$ 2,126
A	**1,156**	**73**	**1,083**	1,170	68	1,102
BBB	**213**	**127**	**86**	200	128	72
BB	**1,779**	**1,740**	**39**	1,707	1,663	44
CCC	**168**	**164**	**4**	181	168	13
Not rated	**90**	**75**	**15**	78	67	11
Total	**$ 5,628**	**$ 2,187**	**$ 3,441**	$ 5,467	$ 2,099	$ 3,368
Less: Negative reinsurance assets	**1,785**			1,443		
Total Reinsurance assets	**$ 3,843**			$ 4,024		

6.A.vi Impairment of Assets

Management assesses debt and equity securities, mortgages and loans, and other invested assets for objective evidence of impairment at each reporting date. We employ a portfolio monitoring process to identify assets or groups of assets that have objective evidence of impairment, having experienced a loss event or events that have an impact on the estimated future cash flows of the asset or group of assets. There are inherent risks and uncertainties in our evaluation of assets or groups of assets for objective evidence of impairment, including both internal and external factors such as general economic conditions, issuers' financial conditions and prospects for economic recovery, market interest rates, unforeseen events which affect one or more issuers or industry sectors, and portfolio management parameters, including asset mix, interest rate risk, portfolio diversification, duration matching, and greater than expected liquidity needs. All of these factors could impact our evaluation of an asset or group of assets for objective evidence of impairment.

Management exercises considerable judgment in assessing for objective evidence of impairment and, based on its assessment, classifies specific assets as either performing or into one of the following credit quality lists:

"Monitor List" - the timely collection of all contractually specified cash flows is reasonably assured, but changes in issuer-specific facts and circumstances require monitoring. No impairment charge is recorded for unrealized losses on assets related to these debtors.

"Watch List" - the timely collection of all contractually specified cash flows is reasonably assured, but changes in issuer-specific facts and circumstances require heightened monitoring. An asset is moved from the Monitor List to the Watch List when changes in issuer-specific facts and circumstances increase the possibility that a security may experience a loss event on an imminent basis. No impairment charge is recorded for unrealized losses on assets related to these debtors.

"Impaired List" - the timely collection of all contractually specified cash flows is no longer reasonably assured. For these investments that are classified as AFS or amortized cost, an impairment charge is recorded or the asset is sold and a realized loss is recorded as a charge to income. Impairment charges and realized losses are recorded on assets related to these debtors.

Our approach to determining whether there is objective evidence of impairment varies by asset type. However, we have a process to ensure that in all instances where a decision has been made to sell an asset at a loss, the asset is impaired.

Debt Securities

Objective evidence of impairment on debt securities involves an assessment of the issuer's ability to meet current and future contractual interest and principal payments. In determining whether debt securities have objective evidence of impairment, we employ a screening process. The process identifies securities in an unrealized loss position, with particular attention paid to those securities whose fair value to amortized cost percentages have been less than 80% for an extended period of time. Discrete credit events, such as a ratings downgrade, are also used to identify securities that may have objective evidence of impairment. The securities identified are then evaluated based on issuer-specific facts and circumstances, including an evaluation of the issuer's financial condition and prospects for economic recovery, evidence of difficulty being experienced by the issuer's parent or affiliate, and management's assessment of the outlook for the issuer's industry sector.

Management also assesses previously impaired debt securities whose fair value has recovered to determine whether the recovery is objectively related to an event occurring subsequent to the impairment loss that has an impact on the estimated future cash flows of the asset.

Asset-backed securities are assessed for objective evidence of impairment. Specifically, we periodically update our best estimate of cash flows over the life of the security. In the event that there is an adverse change in the expected cash flows, the asset is impaired. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third parties, along with assumptions and judgments about the future performance of the underlying collateral. Losses incurred on the respective mortgage-backed securities portfolios are based on loss models using assumptions about key systematic risks, such as unemployment rates and housing prices, and loan-specific information such as delinquency rates and loan-to-value ratios.

Equity Securities and Other Invested Assets

Objective evidence of impairment for equity securities and investments in limited partnerships, segregated funds, and mutual funds involves an assessment of the prospect of recovering the cost of our investment. Instruments in an unrealized loss position are reviewed to determine if objective evidence of impairment exists. Objective evidence of impairment for these instruments includes, but is not limited to, the financial condition and near-term prospects of the issuer, including information about significant changes with adverse effects that have taken place in the technological, market, economic, or legal environment in which the issuer operates, and a significant or prolonged decline in the fair value of the instruments below their cost.

We apply presumptive impairment tests to determine whether there has been a significant or prolonged decline in the fair value of an instrument below its cost, and unless extenuating circumstances exist, the instrument is considered to be impaired.

Mortgages and Loans

Objective evidence of impairment on mortgages and loans involves an assessment of the borrower's ability to meet current and future contractual interest and principal payments. In determining whether objective evidence of impairment exists, we consider a number of factors including, but not limited to, the financial condition of the borrower and, for collateral dependent mortgages and loans, the fair value of the collateral.

Mortgages and loans causing concern are monitored closely and evaluated for objective evidence of impairment. For these mortgages and loans, we review information that is appropriate to the circumstances, including recent operating developments, strategy review, timelines for remediation, financial position of the borrower and, for collateral-dependent mortgages and loans, the value of security as well as occupancy and cash flow considerations.

In addition to specific allowances, circumstances may warrant a collective allowance based on objective evidence of impairment for a group of mortgages and loans. We consider regional economic conditions, developments for various property types, and significant exposure to struggling tenants in determining whether there is objective evidence of impairment for certain collateral dependent mortgages and loans, even though it is not possible to identify specific mortgages and loans that are likely to become impaired on an individual basis.

Management also assesses previously impaired mortgages and loans to determine whether a recovery is objectively related to an event occurring subsequent to the impairment loss that has an impact on the estimated future cash flows of the asset.

Impairment of Fair Value Through Profit or Loss Assets

Since financial assets classified as FVTPL are carried at fair value with changes in fair value recorded to income, any reduction in value of the assets due to impairment is already reflected in income. However, the impairment of assets classified as FVTPL generally impacts the change in insurance contract liabilities due to the impact of asset impairment on estimates of future cash flows.

Impairment of Available-for-Sale Assets

We recognized net impairment losses on AFS assets of $19 for the year ended December 31, 2020 ($36 during 2019).

We did not reverse any impairment on AFS debt securities during 2020 and 2019.

Past Due and Impaired Mortgages and Loans

The distribution of mortgages and loans past due or impaired is shown in the following tables:

	Gross carrying value			**Allowance for losses**		
As at December 31, 2020	**Mortgages**	**Loans**	**Total**	**Mortgages**	**Loans**	**Total**
Not past due	**$ 15,402**	**$ 34,486**	**$ 49,888**	**$ —**	**$ —**	**$ —**
Impaired	**92**	**81**	**173**	**66**	**49**	**115**
Total	**$ 15,494**	**$ 34,567**	**$ 50,061**	**$ 66**	**$ 49**	**$ 115**

	Gross carrying value			Allowance for losses		
As at December 31, 2019	Mortgages	Loans	Total	Mortgages	Loans	Total
Not past due	$ 16,148	$ 31,911	$ 48,059	$ —	$ —	$ —
Impaired	147	133	280	70	47	117
Total	$ 16,295	$ 32,044	$ 48,339	$ 70	$ 47	$ 117

Changes in Allowances for Losses

The changes in the allowances for losses are as follows:

	Mortgages	**Loans**	**Total**
Balance, January 1, 2019	$ 25	$ 50	$ 75
Provision for (reversal of) losses	46	(1)	45
Foreign exchange rate movements	(1)	(2)	(3)
Balance, December 31, 2019	$ 70	$ 47	$ 117
Provision for (reversal of) losses	**6**	**17**	**23**
Write-offs, net of recoveries, and other adjustments	**(9)**	**(15)**	**(24)**
Foreign exchange rate movements	**(1)**	**—**	**(1)**
Balance, December 31, 2020	**$ 66**	**$ 49**	**$ 115**

6.B Market Risk

Risk Description

We are exposed to financial and capital market risk, which is defined as the risk that the fair value or future cash flows of an insurance contract or financial instrument will fluctuate because of changes or volatility in market prices. Market risk includes equity, interest rate and spread, real estate and foreign currency risks.

Market Risk Management Governance and Control

We employ a wide range of market risk management practices and controls as outlined below:

- Market risk governance practices are in place, including independent monitoring and review and reporting to senior management and the Risk Committee.
- Risk appetite limits have been established for equity, interest rate, real estate and foreign currency risks.
- Income and regulatory capital sensitivities are monitored, managed and reported against pre-established risk limits.
- Comprehensive asset-liability management and hedging policies, programs and practices are in place.
- Regulatory solvency requirements include risk-based capital requirements and are monitored regularly.
- Product Design and Pricing Policy requires a detailed risk assessment and pricing provisions for material risks.
- Stress-testing techniques, such as FCT, are used to measure the effects of large and sustained adverse market movements.

- Insurance contract liabilities are established in accordance with Canadian actuarial standards of practice.
- Internal capital targets are established at an enterprise level to cover all risks and are above minimum regulatory and supervisory levels. Actual capital levels are monitored to ensure they exceed internal targets.

Specific market risks and our risk management strategies are discussed below in further detail.

6.B.i 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. 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 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 our revenue and net income. 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 our net income and financial position.

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.

The carrying value of equities by issuer country is shown in the following table:

As at December 31,	**2020**			2019		
	Fair value through profit or loss	**Available-for-sale**	**Total equities**	Fair value through profit or loss	Available-for-sale	Total equities
Canada	**$ 3,064**	**$ 15**	**$ 3,079**	$ 2,813	$ 22	$ 2,835
United States	**1,046**	**148**	**1,194**	550	137	687
United Kingdom	**163**	**6**	**169**	132	5	137
Other	**2,096**	**93**	**2,189**	979	149	1,128
Total equities	**$ 6,369**	**$ 262**	**$ 6,631**	$ 4,474	$ 313	$ 4,787

6.B.ii Embedded Derivatives Risk

An embedded derivative is contained within a host insurance contract if it includes an identifiable condition to modify the cash flows that are otherwise payable. This section is applicable to those embedded derivatives where we are not required to, and have not measured (either separately or together with the host contract) the embedded derivative at fair value.

A significant market risk exposure from embedded derivatives arises in connection with the benefit guarantees on segregated fund contracts. These benefit guarantees are linked to underlying fund performance and may be triggered upon death, maturity, withdrawal, or annuitization. We have implemented hedging programs to mitigate a portion of this market risk exposure.

We are also exposed to significant interest rate risk from embedded derivatives in certain general account products and segregated fund contracts, which contain explicit or implicit investment guarantees in the form of minimum crediting rates, guaranteed premium rates, settlement options, and benefit guarantees. 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. These products are included in our asset-liability management program and the residual interest rate exposure is managed within our risk appetite limits.

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. Embedded options on unit-linked pension contracts give policyholders the right to convert their fund at retirement into pensions on a guaranteed basis, thereby exposing us to declining interest rates and increasing equity market returns (increasing the size of the fund which is eligible for the guaranteed conversion basis). Guaranteed annuity options are included in our asset-liability management program and most of the interest rate and equity exposure is mitigated through hedging.

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 spreads may increase the risk that policyholders will surrender their contracts, potentially forcing us to liquidate assets at a loss and accelerate recognition of certain acquisition expenses. 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 the underlying losses.

Certain annuity and long-term disability contracts contain embedded derivatives as benefits are linked to the Consumer Price Index; however most of this exposure is hedged through the Company’s ongoing asset-liability management program.

6.C Liquidity Risk

Risk Description

Liquidity risk is the possibility that we will not be able to fund all cash outflow commitments and collateral requirements as they fall due. This includes the risk of being forced to sell assets at depressed prices resulting in realized losses on sale. This risk also includes restrictions on our ability to efficiently allocate capital among our subsidiaries due to various market and regulatory constraints on the movement of funds. Our funding obligations arise in connection with the payment of policyholder benefits, expenses, reinsurance settlements, asset purchases, investment commitments, interest on debt, and dividends on common and preferred shares. Sources of available cash flow include general fund premiums and deposits, investment related inflows (such as maturities, principal repayments, investment income and proceeds of asset sales), proceeds generated from financing activities, and dividends and interest payments from subsidiaries. We have various financing transactions and derivative contracts under which we may be required to pledge collateral or to make payments to our counterparties for the decline in market value of specified assets. The amount of collateral or payments required may increase under certain circumstances (such as changes to interest rates, credit spreads, equity markets or foreign exchange rates), which could adversely affect our liquidity.

Liquidity Risk Management Governance and Control

We generally maintain a conservative liquidity position and employ a wide range of liquidity risk management practices and controls, which are described below:

- Liquidity risk governance practices are in place, including independent monitoring and review and reporting to senior management and the Risk Committee.
- Liquidity is managed in accordance with our Asset Liability Management Policy and operating guidelines.
- Liquidity contingency plans are maintained for the management of liquidity in a liquidity event.
- Stress testing is performed by comparing liquidity coverage risk metrics under a one-month stress scenario to our policy thresholds. These liquidity coverage risk metrics are measured and managed at the enterprise and legal entity levels.
- Stress testing of our collateral is performed by comparing collateral coverage ratios to our policy threshold.
- Cash Management and asset-liability management programs support our ability to maintain our financial position by ensuring that sufficient cash flow and liquid assets are available to cover potential funding requirements. We invest in various types of assets with a view of matching them to our liabilities of various durations.
- Internal capital targets are established at an enterprise level to cover all risks and are above minimum regulatory and supervisory levels. Actual capital levels are monitored to ensure they exceed internal targets.
- We actively manage and monitor our capital and asset levels, and the diversification and credit quality of our investments.
- Various credit facilities for general corporate purposes are maintained.

We are subject to various regulations in the jurisdictions in which we operate. The ability of SLF Inc.'s subsidiaries to pay dividends and transfer funds is regulated in certain jurisdictions and may require local regulatory approvals and the satisfaction of specific conditions in certain circumstances. Through effective cash management and capital planning, SLF Inc. ensures that its subsidiaries, as a whole and on a stand-alone basis, are properly funded and maintain adequate liquidity to meet obligations, both individually and in aggregate.
Based on our historical cash flows and liquidity management processes, we believe that the cash flows from our operating activities will continue to provide sufficient liquidity for us to satisfy debt service obligations and to pay other expenses as they fall due.

7. Insurance Risk Management

7.A Insurance Risk

Risk Description

Insurance risk is the uncertainty of product performance due to actual experience emerging differently than expected in the areas of policyholder behaviour, mortality, morbidity and longevity. In addition, product design and pricing, expense and reinsurance risks impact multiple risk categories, including insurance risk.

Insurance Risk Management Governance and Control

We employ a wide range of insurance risk management practices and controls, as outlined below:

- Insurance risk governance practices are in place, including independent monitoring and review and reporting to senior management and the Risk Committee.
- Income and regulatory capital sensitivities are monitored, managed and reported against pre-established risk appetite limits for policyholder behaviour, mortality, morbidity and longevity risks.
- Comprehensive Insurance Risk Policy, guidelines and practices are in place.
- The global underwriting manual aligns underwriting practices with our corporate risk management standards and ensures a consistent approach in insurance underwriting.
- Board-approved maximum retention limits are in place. Amounts issued in excess of these limits are reinsured.
- Detailed procedures, including criteria for approval of risks and for claims adjudication are established and monitored for each business segment.
- Underwriting and risk selection standards and procedures are established and overseen by the corporate underwriting and claims risk management function.
- Diversification and risk pooling is managed by aggregation of exposures across product lines, geography and distribution channels.
- The Insurance Risk Policy and Investment & Credit Risk Policy establish acceptance criteria and protocols to monitor the level of reinsurance ceded to any single reinsurer or group of reinsurers.
- Reinsurance counterparty risk is monitored, including annual reporting of reinsurance exposure to the Risk Committee.

- Concentration risk exposure is monitored on group policies in a single location to avoid a catastrophic event occurrence resulting in a significant impact.
- Various limits, restrictions and fee structures are introduced into plan designs in order to establish a more homogeneous policy risk profile and limit potential for anti-selection.
- Regulatory solvency requirements include risk-based capital requirements and are monitored regularly.
- The Product Design and Pricing Policy requires detailed risk assessment and pricing provision for material risks.
- Company specific and industry level experience studies and sources of earnings analysis are monitored and factored into valuation, renewal and new business pricing processes.
- Stress-testing techniques, such as FCT, are used to measure the effects of large and sustained adverse movements in insurance risk factors.
- Insurance contract liabilities are established in accordance with Canadian actuarial standards of practice.
- Internal capital targets are established at an enterprise level to cover all risks and are above minimum regulatory and supervisory levels. Actual capital levels are monitored to ensure they exceed internal targets.

Our Insurance Risk Policy sets maximum global retention limits and related management standards and practices that are applied to reduce our exposure to large claims. Amounts in excess of the Board-approved maximum retention limits are reinsured. On a single life or joint-first-to-die basis retention limit is $40 in Canada and US$40 outside of Canada. For survivorship life insurance, our maximum global retention limit is $50 in Canada and US$50 outside of Canada. In certain markets and jurisdictions, retention levels below the maximum are applied. Reinsurance is utilized for numerous products in most business segments, and placement is done on an automatic basis for defined insurance portfolios and on a facultative basis for individual risks with certain characteristics.

Our reinsurance coverage is well diversified and controls are in place to manage exposure to reinsurance counterparties. Reinsurance exposures are monitored to ensure that no single reinsurer represents an undue level of credit risk. This includes performing periodic due diligence on our reinsurance counterparties as well as internal credit assessments on counterparties with which we have material exposure. While reinsurance arrangements provide for the recovery of claims arising from the liabilities ceded, we retain primary responsibility to the policyholders.

Specific insurance risks and our risk management strategies are discussed below in further detail. The sensitivities provided below reflect the impact of any applicable ceded reinsurance arrangements.

7.A.i Policyholder Behaviour Risk

Risk Description

We can incur losses due to adverse policyholder behaviour relative to the assumptions used in the pricing and valuation of products with regard to lapse of policies or exercise of other embedded policy options.

Uncertainty in policyholder behaviour can arise from several sources including unexpected events in the policyholder's life circumstances, the general level of economic activity (whether higher or lower than expected), changes in the financial and capital markets, changes in pricing and availability of current products, the introduction of new products, changes in underwriting technology and standards, as well as changes in our financial strength or reputation. Uncertainty in future cash flows affected by policyholder behaviour can be further exacerbated by irrational behaviour during times of economic turbulence or at key option exercise points in the life of an insurance contract.

For individual life insurance products where fewer terminations would be financially adverse to us, shareholders' net income and equity would be decreased by about $295 ($265 in 2019) if the termination rate assumption were reduced by 10%. For products where more terminations would be financially adverse to us, shareholders' net income and equity would be decreased by about $200 ($195 in 2019) if the termination rate assumption were increased by 10%. These sensitivities reflect the impact of any applicable ceded reinsurance arrangements.

Policyholder Behaviour Risk Management Governance and Control

Various types of provisions are built into many of our products to reduce the impact of uncertain policyholder behaviour. These provisions include:
- Surrender charges that adjust the payout to the policyholder by taking into account prevailing market conditions.
- Limits on the amount that policyholders can surrender or borrow.
- Restrictions on the timing of policyholders' ability to exercise certain options.
- Restrictions on both the types of funds Clients can select and the frequency with which they can change funds.
- Policyholder behaviour risk is also mitigated through reinsurance on some insurance contracts.

Internal experience studies are used to monitor, review and update policyholder behaviour assumptions as needed, which could result in updates to policy liabilities.

7.A.ii Mortality and Morbidity Risk

Risk Description

Mortality and morbidity risk is the risk that future experience could be worse than the assumptions used in the pricing and valuation of products. Mortality and morbidity risk can arise in the normal course of business through random fluctuation in realized experience, through catastrophes, as a result of a pandemic, or in association with other risk factors such as product development and pricing or model risk. Adverse mortality and morbidity experience could also occur through systemic anti-selection, which could arise due to poor plan design, or underwriting process failure or the development of investor-owned and secondary markets for life insurance policies.

External factors could adversely affect our life insurance, health insurance, critical illness, disability, long-term care insurance and annuity businesses. Morbidity experience could be unfavourably impacted by external events, such as pandemics, increases in disability claims during economic slowdowns and increases in high medical treatment costs and growth in utilization of specialty drugs. This introduces the potential for adverse financial volatility in our financial results.

For life insurance products, a 2% increase in the best estimate assumption would decrease shareholders' net income and equity by about $25 ($35 in 2019). This sensitivity reflects the impact of any applicable ceded reinsurance arrangements.

For products where morbidity is a significant assumption, a 5% adverse change in the assumptions would reduce shareholders' net income and equity by about $250 ($205 in 2019). This sensitivity reflects the impact of any applicable ceded reinsurance arrangements.

Mortality and Morbidity Risk Management Governance and Control

Detailed uniform underwriting procedures have been established to determine the insurability of applicants and to manage exposure to large claims. These underwriting requirements are regularly scrutinized against industry guidelines and oversight is provided through a corporate underwriting and claim management function.

We do not have a high degree of concentration risk to single individuals or groups due to our well-diversified geographic and business mix. The largest portion of mortality risk within the Company is in North America. Individual and group insurance policies are underwritten prior to initial issue and renewals, based on risk selection, plan design, and rating techniques.

The Insurance Risk Policy approved by the Risk Committee includes limits on the maximum amount of insurance that may be issued under one policy and the maximum amount that may be retained. These limits vary by geographic region and amounts in excess of limits are reinsured to ensure there is no exposure to unreasonable concentration of risk.

7.A.iii Longevity Risk

Risk Description

Longevity risk is the potential for economic loss, accounting loss or volatility in earnings arising from adverse changes in rates of mortality improvement relative to the assumptions used in the pricing and valuation of products. This risk can manifest itself slowly over time as socioeconomic conditions improve and medical advances continue. It could also manifest itself more quickly, for example, due to medical breakthroughs that significantly extend life expectancy. Longevity risk affects contracts where benefits or costs are based upon the likelihood of survival and higher than expected improvements in policyholder life expectancy could therefore increase the ultimate cost of these benefits (for example, annuities, pensions, pure endowments, reinsurance, segregated funds, and specific types of health contracts). Additionally, our longevity risk exposure is increased for certain annuity products such as guaranteed annuity options by an increase in equity market levels.

For annuities products for which lower mortality would be financially adverse to us, a 2% decrease in the mortality assumption would decrease shareholders' net income and equity by about $150 ($135 in 2019). These sensitivities reflect the impact of any applicable ceded reinsurance arrangements.

Longevity Risk Management Governance and Control

To improve management of longevity risk, we monitor research in the fields that could result in a change in expected mortality improvement. Stress-testing techniques are used to measure and monitor the impact of extreme mortality improvement on the aggregate portfolio of insurance and annuity products as well as our own pension plans.

7.A.iv Product Design and Pricing Risk

Risk Description

Product design and pricing risk is the risk a product does not perform as expected, causing adverse financial consequences. This risk may arise from deviations in realized experience versus assumptions used in the pricing of products. Risk factors include uncertainty concerning future investment yields, policyholder behaviour, mortality and morbidity experience, sales levels, mix of business, expenses and taxes. Although some of our products permit us to increase premiums or adjust other charges and credits during the life of the policy or contract, the terms of these policies or contracts may not allow for sufficient adjustments to maintain expected profitability. This could have an adverse effect on our profitability and capital position.

Product Design and Pricing Governance and Control

Our Product Design and Pricing Policy, approved by the Risk Committee, establishes the framework governing our product design and pricing practices and is designed to align our product offerings with our strategic objectives and risk-taking philosophy. Consistent with this policy, product development, design and pricing processes have been implemented throughout the Company. New products follow a stage-gate process with defined management approvals based on the significance of the initiative. Each initiative is subject to a risk assessment process to identify key risks and risk mitigation requirements, and is reviewed by multiple stakeholders. Additional governance and control procedures are listed below:

- Pricing models, methods, and assumptions are subject to periodic internal peer reviews.
- Experience studies, sources of earnings analysis, and product dashboards are used to monitor actual experience against those assumed in pricing and valuation.
- On experience rated, participating, and adjustable products, emerging experience is reflected through changes in policyholder dividend scales as well as other policy adjustment mechanisms such as premium and benefit levels.
- Limits and restrictions may be introduced into the design of products to mitigate adverse policyholder behaviour or apply upper thresholds on certain benefits.

7.A.v Expense Risk

Risk Description

Expense risk is the risk that future expenses are higher than the assumptions used in the pricing and valuation of products. This risk can arise from general economic conditions, unexpected increases in inflation, slower than anticipated growth, or reduction in productivity leading to increases in unit expenses. Expense risk occurs in products where we cannot or will not pass increased costs onto the Client and will manifest itself in the form of a liability increase or a reduction in expected future profits.

The sensitivity of liabilities for insurance contracts to a 5% increase in unit expenses would result in a decrease in shareholders' net income and equity of about $175 ($170 in 2019). These sensitivities reflect the impact of any applicable ceded reinsurance arrangements.

Expenses Risk Management Governance and Control

We closely monitor expenses through an annual budgeting process and ongoing monitoring of any expense gaps between unit expenses assumed in pricing and actual expenses.

7.A.vi Reinsurance Risk

Risk Description

We purchase reinsurance for certain risks underwritten by our various insurance businesses. Reinsurance risk is the risk of financial loss due to adverse developments in reinsurance markets (for example, discontinuance or diminution of reinsurance capacity, or an increase in the cost of reinsurance), insolvency of a reinsurer or inadequate reinsurance coverage.

Changes in reinsurance market conditions, including actions taken by reinsurers to increase rates on existing and new coverage and our ability to obtain appropriate reinsurance, may adversely impact the availability or cost of maintaining existing or securing new reinsurance capacity, with adverse impacts on our business strategies, profitability and financial position. There is an increased possibility of rate increases or renegotiation of legacy reinsurance contracts by our reinsurers, as the global reinsurance industry continues to review and optimize their business models. In addition, changes to the regulatory treatment of reinsurance arrangements could have an adverse impact on our capital position.

Reinsurance Risk Management Governance and Control

We have an Insurance Risk Policy and an Investment & Credit Risk Policy approved by the Risk Committee, which set acceptance criteria and processes to monitor the level of reinsurance ceded to any single reinsurer. These policies also set minimum criteria for determining which reinsurance companies qualify as suitable reinsurance counterparties having the capability, expertise, governance practices and financial capacity to assume the risks being considered. Additionally, these policies require that all agreements include provisions to allow action to be taken, such as recapture of ceded risk (at a potential cost to the Company), in the event that the reinsurer loses its legal ability to carry on business through insolvency or regulatory action. Periodic due diligence is performed on the reinsurance counterparties with which we do business and internal credit assessments are performed on reinsurance counterparties with which we have material exposure. Reinsurance counterparty credit exposures are monitored closely and reported annually to the Risk Committee.

New sales of our products can be discontinued or changed to reflect developments in the reinsurance markets. Rates for our in-force reinsurance treaties can be either guaranteed or adjustable for the life of the ceded policy. In order to diversify reinsurance risk, there is generally more than one reinsurer supporting a reinsurance pool.

8. Other Assets

Other assets consist of the following:

As at December 31,		**2020**		2019
Accounts receivable	**$**	**1,191**	$	1,294
Investment income due and accrued		**1,127**		1,122
Property and equipment		**664**		630
Right-of-use assets		**730**		770
Deferred acquisition costs[(1)]		**150**		139
Prepaid expenses		**325**		319
Premium receivable		**621**		662
Accrued post-retirement benefit assets (Note 25)		**197**		187
Other		**147**		93
Total other assets	**$**	**5,152**	$	5,216

(1) Amortization of deferred acquisition cost charged to income during the year amounted to $21 in 2020 ($18 in 2019).

9. Goodwill and Intangible Assets

9.A Goodwill

Changes in the carrying amount of goodwill acquired through business combinations by reportable business segment are as follows:

	Canada	U.S.	Asia	Asset Management	Corporate	Total
Balance, January 1, 2019	$ 2,607	$ 1,138	$ 705	$ 775	$ 187	$ 5,412
Acquisitions	—	—	—	537	—	537
Foreign exchange rate movements	—	(55)	(29)	(31)	(2)	(117)
Balance, December 31, 2019	$ 2,607	$ 1,083	$ 676	$ 1,281	$ 185	$ 5,832
Acquisitions (Note 3)	**—**	**—**	**—**	**278**	**—**	**278**
Foreign exchange rate movements	**—**	**(21)**	**(11)**	**(8)**	**2**	**(38)**
Balance, December 31, 2020	**$ 2,607**	**$ 1,062**	**$ 665**	**$ 1,551**	**$ 187**	**$ 6,072**

Goodwill was not impaired in 2020 or 2019. The carrying amounts of goodwill allocated to our CGUs or groups of CGUs are as follows:

As at December 31,	2020	2019
Canada[1]	**$ 2,607**	$ 2,607
U.S. Employee benefits group	**1,062**	1,083
Asia	**665**	676
Asset Management		
MFS	**486**	494
SLC Management - excluding InfraRed	**777**	787
InfraRed	**288**	—
Corporate		
UK	**187**	185
Total	**$ 6,072**	$ 5,832

[1] Reflects a change in presentation to combine CGUs in Canada as one group effective January 1, 2020. We have updated the prior period to reflect this change in presentation.

Goodwill acquired in business combinations is allocated to the CGUs or groups of CGUs that are expected to benefit from the synergies of the particular acquisition.

Goodwill is assessed for impairment annually or more frequently if events or circumstances occur that may result in the recoverable amount of a CGU falling below its carrying value. The recoverable amount is the higher of fair value less costs of disposal and value in use. We use fair value less costs of disposal as the recoverable amount.

We use the best evidence of fair value less costs of disposal as the price obtainable for the sale of a CGU, or group of CGUs. Fair value less costs of disposal is initially assessed by looking at recently completed market comparable transactions. In the absence of such comparables, we use either an appraisal methodology (with market assumptions commonly used in the valuation of insurance companies or asset management companies) or a valuation multiples methodology. The fair value measurements are categorized in Level 3 of the fair value hierarchy.

The most recent calculations from 2018 for certain CGUs and groups of CGUs were carried forward and used in the impairment test in the current period as: (i) the recoverable amount for these CGUs and groups of CGUs exceeded the carrying amount by a substantial margin, (ii) the assets and liabilities making up the CGUs and groups of CGUs had not changed significantly, and (iii) the likelihood that the carrying value would exceed the recoverable amount was remote, based on an analysis of events that have occurred and circumstances that have changed. The key drivers impacting the recoverable amount from 2018 are consistent with the key assumptions below.

Under the appraisal methodology, fair value is assessed based on best estimates of future income, expenses, level and cost of capital over the lifetime of the policies and, where appropriate, adjusted for items such as transaction costs. The value ascribed to new business is based on sales anticipated in our business plans, sales projections for the valuation period based on reasonable growth assumptions, and anticipated levels of profitability of that new business. In calculating the value of new business, future sales are projected for 10 to 15 years. In some instances, market multiples are used to approximate the explicit projection of new business.

The discount rates applied reflect the nature of the environment for that CGU. The discount rates used range from9.25% to 12.50% (after tax). More established CGUs with a stronger brand and competitive market position use discount rates at the low end of the range and CGUs with a weaker competitive position use discount rates at the high end of the range. The capital levels used are aligned with our business objectives.

Under the valuation multiples methodology, fair value is assessed with reference to multiples or ratios of comparable businesses. For life insurers and asset managers, these valuation multiples and ratios may include price-to-earnings or price-to-assets-under-management measures. This assessment takes into consideration a variety of relevant factors and assumptions, including expected growth, risk, and market conditions among others. The price-to-earnings multiples used range from 10.5 to 11.5. The price-to-assets-under-management ratios used range from 0.8% to 2.0%.

Judgment is used in estimating the recoverable amounts of CGUs and the use of different assumptions and estimates could result in material adjustments to the valuation of CGUs and the size of any impairment. Any material change in the key assumptions including those for capital, discount rates, the value of new business, and expenses, as well as cash flow projections used in the determination of recoverable amounts, may result in impairment charges, which could be material.

In considering the sensitivity of the key assumptions above, management determined that there is no reasonably possible change in any of the above that would result in the recoverable amount of any of the CGUs to be less than its carrying amount.

9.B Intangible Assets

Changes in intangible assets are as follows:

	Finite life			
	Internally generated software	**Other**	**Indefinite life**	**Total**
Gross carrying amount				
Balance, January 1, 2019	$ 722	$ 1,266	$ 673	$ 2,661
Additions	151	115	—	266
Acquisitions	—	238	—	238
Foreign exchange rate movements	(16)	(28)	(27)	(71)
Balance, December 31, 2019	$ 857	$ 1,591	$ 646	$ 3,094
Additions	**230**	**—**	**—**	**230**
Acquisitions	**—**	**63**	**295**	**358**
Disposals	**(4)**	**(5)**	**—**	**(9)**
Foreign exchange rate movements	**(13)**	**(15)**	**(3)**	**(31)**
Balance, December 31, 2020	**$ 1,070**	**$ 1,634**	**$ 938**	**$ 3,642**
Accumulated amortization and impairment losses				
Balance, January 1, 2019	$ (417)	$ (461)	$ (4)	$ (882)
Amortization charge for the year	(73)	(64)	—	(137)
Impairment of intangible assets	(13)	—	(2)	(15)
Foreign exchange rate movements	15	8	—	23
Balance, December 31, 2019	$ (488)	$ (517)	$ (6)	$ (1,011)
Amortization charge for the year	**(78)**	**(78)**	**—**	**(156)**
Impairment of intangible assets	**(2)**	**—**	**(9)**	**(11)**
Foreign exchange rate movements	**7**	**5**	**1**	**13**
Balance, December 31, 2020	**$ (561)**	**$ (590)**	**$ (14)**	**$ (1,165)**
Net carrying amount, end of period:				
As at December 31, 2019	$ 369	$ 1,074	$ 640	$ 2,083
As at December 31, 2020	**$ 509**	**$ 1,044**	**$ 924**	**$ 2,477**

The components of the intangible assets are as follows:

As at December 31,	**2020**	2019
Finite life intangible assets:		
Distribution, sales potential of field force	**$ 316**	$ 339
Client relationships and asset administration contracts	**728**	735
Internally generated software	**509**	369
Total finite life intangible assets	**1,553**	1,443
Indefinite life intangible assets:		
Fund management contracts[1]	**924**	640
Total indefinite life intangible assets	**924**	640
Total intangible assets	**$ 2,477**	$ 2,083

[1] Fund management contracts are attributable to Asset Management, where its competitive position in, and the stability of, its markets support their classification as indefinite life intangible assets.

10. Insurance Contract Liabilities and Investment Contract Liabilities

10.A Insurance Contract Liabilities

10.A.i Description of Business

The majority of the products sold by the Company are insurance contracts. These contracts include all forms of life, health and critical illness insurance sold to individuals and groups, life contingent annuities, accumulation annuities, and segregated fund products with guarantees.

10.A.ii Methods and Assumptions

General

The liabilities for insurance contracts represent the estimated amounts which, together with estimated future premiums and net investment income, will provide for outstanding claims, estimated future benefits, policyholders' dividends, taxes (other than income taxes), and expenses on in-force insurance contracts.

In determining our liabilities for insurance contracts, assumptions must be made about mortality and morbidity rates, lapse and other policyholder behaviour ("policyholder behaviour"), interest rates, equity market performance, asset default, inflation, expenses, and other factors over the life of our products. Most 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.

We use best estimate assumptions for expected future experience and apply margins for adverse deviations to provide for uncertainty in the choice of the best estimate assumptions. The amount of insurance contract liabilities related to the application of margins for adverse deviations to best estimate assumptions is called a provision for adverse deviations.

Best Estimate Assumptions

Best estimate assumptions are intended to be current, neutral estimates of the expected outcome as guided by Canadian actuarial standards of practice. The choice of best estimate assumptions takes into account current circumstances, past experience data (Company and/or industry), the relationship of past to expected future experience, anti-selection, the relationship among assumptions, and other relevant factors. For assumptions on economic matters, the assets supporting the liabilities and the expected policy for asset-liability management are relevant factors.

Margins for Adverse Deviations

The appropriate level of margin for adverse deviations on an assumption is guided by Canadian actuarial standards of practice. For most assumptions, the standard range of margins for adverse deviations is 5% to 20% of the best estimate assumption, and the actuary chooses from within that range based on a number of considerations related to the uncertainty in the determination of the best estimate assumption. The level of uncertainty, and hence the margin chosen, will vary by assumption and by line of business and other factors. Considerations that would tend to indicate a choice of margin at the high end of the range include:

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

Provisions for adverse deviations in future interest rates are included by testing a number of scenarios of future interest rates, some of which are prescribed by Canadian actuarial standards of practice, and determining the liability based on the range of possible outcomes. A scenario of future interest rates includes, for each forecast period between the statement of financial position date and the last liability cash flow, interest rates for risk-free assets, premiums for asset default, rates of inflation, and an investment strategy consistent with the Company's investment policy. The starting point for all future interest rate scenarios is consistent with the current market environment. If few scenarios are tested, the liability would be at least as great as the largest of the outcomes. If many scenarios are tested, the liability would be within a range defined by the average of the outcomes that are above the 60th percentile of the range of outcomes and the corresponding average for the 80th percentile.

Provisions for adverse deviations in future equity returns are included by scenario testing or by applying margins for adverse deviations. In blocks of business where the valuation of liabilities uses scenario testing of future equity returns, the liability would be within a range defined by the average of the outcomes that are above the 60th percentile of the range of outcomes and the corresponding average for the 80th percentile. In blocks of business where the valuation of liabilities does not use scenario testing of future equity returns, the margin for adverse deviations on common share dividends is between 5% and 20%, and the margin for adverse deviations on capital gains would be 20% plus an assumption that those assets reduce in value by 20% to 50% at the time when the reduction is most adverse. A 30% reduction is appropriate for a diversified portfolio of North American common shares and, for other portfolios, the appropriate reduction depends on the volatility of the portfolio relative to a diversified portfolio of North American common shares.

In choosing margins, we ensure that, when taken one at a time, each margin is reasonable with respect to the underlying best estimate assumption and the extent of uncertainty present in making that assumption, and also that, in aggregate, the cumulative impact of the margins for adverse deviations is reasonable with respect to the total amount of our insurance contract liabilities. Our margins are generally stable over time and are generally only revised to reflect changes in the level of uncertainty in the best estimate assumptions. Our margins tend to be at the high end of the range for expenses and in the mid-range or higher for other assumptions. When considering the aggregate impact of margins, the actuary assesses the consistency of margins for each assumption across each block of business to ensure there is no double counting or omission and to avoid choosing margins that might be mutually exclusive. In particular, the actuary chooses similar margins for blocks of business with similar characteristics, and also chooses margins that are consistent with other assumptions, including assumptions about economic factors. The actuary is guided by Canadian actuarial standards of practice in making these professional judgments about the reasonableness of margins for adverse deviations.

The best estimate assumptions and margins for adverse deviations are reviewed at least annually and revisions are made when appropriate. The choice of assumptions underlying the valuation of insurance contract liabilities is subject to external actuarial peer review.

Mortality

Mortality refers to the rates at which death occurs for defined groups of people. Life insurance mortality assumptions are generally based on the past five to ten years of experience. Our experience is combined with industry experience 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 both the rates of accident or sickness 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 long-term care and critical illness insurance, 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 experience.

Policyholder Behaviour

Lapse

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 experience on life insurance are generally based on our five-year average experience. Lapse rates vary by plan, age at issue, method of premium payment, and policy duration.

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, and policy duration.

Expense

Future policy-related expenses include the costs of premium collection, claims adjudication and processing, actuarial calculations, preparation and mailing of policy statements, and related indirect expenses and overhead. Expense assumptions are mainly based on our recent experience using an internal expense allocation methodology. Inflationary increases assumed in future expenses are consistent with the future interest rates used in scenario testing.

Investment Returns

Interest Rates

We generally maintain distinct asset portfolios for each major line of business. In the valuation of insurance contract liabilities, the future cash flows from insurance contracts and the assets that support them are projected under a number of interest rate scenarios, some of which are prescribed by Canadian actuarial standards of practice. Reinvestments and disinvestments take place according to the specifications of each scenario, and the liability is set based on the range of possible outcomes.

Non-Fixed Income Rates of Return

We are exposed to equity markets through our segregated fund products (including variable annuities) that provide guarantees linked to underlying fund performance and through insurance products where the insurance contract liabilities are supported by non-fixed income assets.

For segregated fund products (including variable annuities), we have implemented hedging programs involving the use of derivative instruments to mitigate a large portion of the equity market risk associated with the guarantees. The cost of these hedging programs is reflected in the liabilities. The equity market risk associated with anticipated future fee income is not hedged.

The majority of non-fixed income assets that are designated as FVTPL support our participating and universal life products where investment returns are passed through to policyholders through routine changes in the amount of dividends declared or in the rate of interest credited. In these cases, changes in non-fixed income asset values are largely offset by changes in insurance contract liabilities.

Asset Default

As required by Canadian actuarial standards of practice, insurance contract liabilities include a provision for possible future default of the assets supporting those liabilities. The amount of the provision for asset default included in the insurance contract liabilities is based on possible reductions in future investment yield that vary by factors such as type of asset, asset credit quality (rating), duration, and country of origin. The asset default assumptions are comprised of a best estimate plus a margin for adverse deviations, and are intended to provide for loss of both principal and income. Best estimate asset default assumptions by asset category and geography are derived from long-term studies of industry experience and the Company's experience. Margins for adverse deviation are chosen from the standard range (of 25% to 100%) as recommended by Canadian actuarial standards of practice based on the amount of uncertainty in the choice of best estimate assumption. The credit quality of an asset is based on external ratings if available (public bonds) and internal ratings if not (mortgages and loans). Any assets without ratings are treated as if they are rated below investment grade.

In contrast to asset impairment provisions and changes in FVTPL assets arising from impairments, both of which arise from known credit events, the asset default provision in the insurance contract liabilities covers losses related to possible future (unknown) credit events. Canadian actuarial standards of practice require the asset default provision to be determined taking into account known impairments that are recognized elsewhere on the statement of financial position. The asset default provision included in the insurance contract liabilities is reassessed each reporting period in light of impairments, changes in asset quality ratings, and other events that occurred during the period.

10.A.iii Insurance Contract Liabilities

Insurance contract liabilities consist of the following:

As at December 31, 2020	Canada	U.S.	Asia	Corporate[1]	Total
Individual participating life	$ 25,839	$ 5,374	$ 11,981	$ 952	$ 44,146
Individual non-participating life and health	15,533	15,010	12,183	373	43,099
Group life and health	11,167	5,578	40	23	16,808
Individual annuities	10,497	22	5	5,382	15,906
Group annuities	17,670	7	97	—	17,774
Insurance contract liabilities before other policy liabilities	80,706	25,991	24,306	6,730	137,733
Add: Other policy liabilities[2]	3,521	1,807	2,499	213	8,040
Total insurance contract liabilities	$ 84,227	$ 27,798	$ 26,805	$ 6,943	$ 145,773

(1) Primarily business from the UK and run-off reinsurance operations. Includes UK business of $851 for Individual participating life, $237 for Individual non-participating life and health, $5,162 for Individual annuities, and $163 for Other policy liabilities.
(2) Consists of amounts on deposit, policy benefits payable, provisions for unreported claims, provisions for policyholder dividends, and provisions for experience rating refunds.

As at December 31, 2019	Canada	U.S.	Asia	Corporate[1]	Total
Individual participating life	$ 23,526	$ 5,611	$ 8,497	$ 987	$ 38,621
Individual non-participating life and health	13,527	13,832	12,188	386	39,933
Group life and health	10,493	5,541	39	14	16,087
Individual annuities	9,529	24	(17)	5,335	14,871
Group annuities	14,276	7	99	—	14,382
Insurance contract liabilities before other policy liabilities	71,351	25,015	20,806	6,722	123,894
Add: Other policy liabilities[2]	2,959	1,724	2,401	206	7,290
Total insurance contract liabilities	$ 74,310	$ 26,739	$ 23,207	$ 6,928	$ 131,184

(1) Primarily business from the UK and run-off reinsurance operations. Includes UK business of $893 for Individual participating life, $238 for Individual non-participating life and health, $5,107 for Individual annuities, and $156 for Other policy liabilities.
(2) Consists of amounts on deposit, policy benefits payable, provisions for unreported claims, provisions for policyholder dividends, and provisions for experience rating refunds.

10.A.iv Changes in Insurance Contract Liabilities and Reinsurance Assets

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

For the years ended December 31,	2020			2019		
	Insurance contract liabilities	Reinsurance assets	Net	Insurance contract liabilities	Reinsurance assets	Net
Balances, before Other policy liabilities and assets as at January 1,	$ 123,894	$ 3,395	$ 120,499	$ 114,902	$ 3,653	$ 111,249
Change in balances on in-force policies[1]	9,919	(107)	10,026	8,559	268	8,291
Balances arising from new policies[1]	5,004	82	4,922	3,171	136	3,035
Method and assumption changes	(63)	(179)	116	(363)	(376)	13
Increase (decrease) in Insurance contract liabilities and Reinsurance assets	14,860	(204)	15,064	11,367	28	11,339
Other[2]	—	—	—	(123)	(123)	—
Foreign exchange rate movements	(1,021)	(65)	(956)	(2,252)	(163)	(2,089)
Balances before Other policy liabilities and assets	137,733	3,126	134,607	123,894	3,395	120,499
Other policy liabilities and assets	8,040	717	7,323	7,290	629	6,661
Total Insurance contract liabilities and Reinsurance assets, December 31	$ 145,773	$ 3,843	$ 141,930	$ 131,184	$ 4,024	$ 127,160

(1) Comparative figures in 2019 have been amended to conform to the current year's methodology.
(2) Termination of reinsurance contracts.

10.A.v Impact of Method and Assumption Changes

Impacts of method and assumption changes on Insurance contract liabilities, net of Reinsurance assets, are as follows:

For the year ended December 31, 2020	Net increase (decrease) before income taxes	Description
Mortality / Morbidity	**$ 113**	Updates to reflect mortality/morbidity experience in all jurisdictions. The largest items were unfavourable mortality impacts in individual life and health in Canada and In-force Management in the U.S., partially offset by favourable group disability government pension plan offsets in Canada.
Policyholder behaviour	**207**	Updates to policyholder behaviour in all jurisdictions. The largest item was in In-force Management in the U.S.
Expenses	**(28)**	Updates to reflect expense experience in all jurisdictions.
Investment returns	**(10)**	Updates to various investment-related assumptions across the Company.
Model enhancements and other	**(166)**	Various enhancements and methodology changes across all jurisdictions.
Total impact of method and assumption changes	**$ 116**	

For the year ended December 31, 2019	Net increase (decrease) before income taxes	Description
Mortality / Morbidity	$ (347)	Updates to reflect mortality/morbidity experience in all jurisdictions. The largest items were favourable mortality impacts in the UK in Corporate and in Group Retirement Services in Canada.
Policyholder behaviour	102	Updates to policyholder behaviour in all jurisdictions. The largest item was an unfavourable lapse update in International in Asia.
Expenses	6	Updates to reflect expense experience in all jurisdictions.
Investment returns	6	Updates to various investment-related assumptions across the Company, partially offset by updates to promulgated ultimate reinvestment rates.
Model enhancements and other	246	Various enhancements and methodology changes across all jurisdictions. The largest item was an unfavourable strengthening of reinsurance provisions in In-force Management in the U.S., partially offset by a favourable change to participating accounts in the UK in Corporate and the Philippines in Asia.
Total impact of method and assumption changes	$ 13	

10.B Investment Contract Liabilities

10.B.i Description of Business

The following are the types of investment contracts in-force:

- Term certain payout annuities in Canada
- Guaranteed Investment Contracts in Canada
- Unit-linked products issued in the UK and Hong Kong
- Non-unit-linked pensions contracts issued in the UK and Hong Kong

10.B.ii Method and Assumption Changes

Investment Contracts with Discretionary Participation Features

Investment contracts with DPF are measured using the same approach as insurance contracts.

Investment Contracts without Discretionary Participation Features

Investment contracts without DPF are measured at FVTPL if by doing so, a potential accounting mismatch is eliminated or significantly reduced or if the contract is managed on a fair value basis. Other investment contracts without DPF are measured at amortized cost.

The fair value liability is measured through the use of prospective discounted cash-flow techniques. For unit-linked contracts, the fair value liability is equal to the current unit fund value, plus additional non-unit liability amounts on a fair value basis if required. For non-unit-linked contracts, the fair value liability is equal to the present value of cash flows.

Amortized cost is measured at the date of initial recognition as the fair value of consideration received, less the net effect of principal payments such as transaction costs and front-end fees. At each reporting date, the amortized cost liability is measured as the present value of future cash flows discounted at the effective interest rate where the effective interest rate is the rate that equates the discounted cash flows to the liability at the date of initial recognition.

10.B.iii Investment Contract Liabilities

Investment contract liabilities consist of the following:

As at December 31, 2020	**Canada**	**Asia**	**Corporate**	**Total**
Individual participating life	**$ —**	**$ —**	**$ 5**	**$ 5**
Individual non-participating life and health	**—**	**269**	**2**	**271**
Individual annuities	**2,690**	**—**	**35**	**2,725**
Group annuities	**—**	**188**	**—**	**188**
Total investment contract liabilities	**$ 2,690**	**$ 457**	**$ 42**	**$ 3,189**

For the year ended December 31, 2020, Investment contract liabilities of $3,189 are comprised of investment contracts with DPF of $497, investment contracts without DPF measured at amortized cost of $2,690, and for investment contracts without DPF measured at fair value of $2.

As at December 31, 2019	Canada	Asia	Corporate	Total
Individual participating life	$ —	$ —	$ 5	$ 5
Individual non-participating life and health	—	258	2	260
Individual annuities	2,612	—	39	2,651
Group annuities	—	200	—	200
Total investment contract liabilities	$ 2,612	$ 458	$ 46	$ 3,116

For the year ended December 31, 2019, Investment contract liabilities of $3,116 are comprised of investment contracts with DPF of $502, investment contracts without DPF measured at amortized cost of $2,612, and investment contracts without DPF measured at fair value of $2.

10.B.iv Changes in Investment Contract Liabilities

Changes in investment contract liabilities without DPF are as follows:

For the years ended December 31,	**2020**		2019	
	Measured at fair value	**Measured at amortized cost**	Measured at fair value	Measured at amortized cost
Balance as at January 1	**$ 2**	**$ 2,612**	$ 3	$ 2,646
Deposits	**—**	**467**	—	360
Interest	**—**	**59**	—	57
Withdrawals	**—**	**(457)**	—	(464)
Fees	**—**	**(7)**	—	(6)
Other	**—**	**16**	—	20
Foreign exchange rate movements	**—**	**—**	(1)	(1)
Balance as at December 31	**$ 2**	**$ 2,690**	$ 2	$ 2,612

Changes in investment contract liabilities with DPF are as follows:

For the years ended December 31,	**2020**	2019
Balance as at January 1	**$ 502**	$ 515
Change in liabilities on in-force	**2**	2
Changes in assumptions or methodology	**—**	6
Increase (decrease) in liabilities	**2**	8
Foreign exchange rate movements	**(7)**	(21)
Balance as at December 31	**$ 497**	$ 502

10.C Gross Claims and Benefits Paid

Gross claims and benefits paid consist of the following:

For the years ended December 31,	2020	2019
Maturities and surrenders	**$ 2,993**	$ 2,956
Annuity payments	**1,979**	1,909
Death and disability benefits	**4,594**	4,246
Health benefits	**6,913**	7,222
Policyholder dividends and interest on claims and deposits	**1,828**	1,088
Total gross claims and benefits paid	**$ 18,307**	$ 17,421

10.D Total Assets Supporting Liabilities and Equity

The following tables show the total assets supporting liabilities for the product lines shown (including insurance contract and investment contract liabilities) and assets supporting equity and other:

As at December 31, 2020	**Debt securities**	**Equity securities**	**Mortgages and loans**	**Investment properties**	**Other**	**Total**
Individual participating life	**$ 25,574**	**$ 4,601**	**$ 8,992**	**$ 4,950**	**$ 5,331**	**$ 49,448**
Individual non-participating life and health	**24,810**	**1,611**	**14,208**	**2,052**	**10,132**	**52,813**
Group life and health	**7,789**	**61**	**9,354**	**36**	**3,112**	**20,352**
Individual annuities	**11,979**	**47**	**6,219**	**—**	**1,185**	**19,430**
Group annuities	**9,598**	**48**	**8,142**	**—**	**909**	**18,697**
Equity and other	**9,339**	**263**	**3,031**	**478**	**23,239**	**36,350**
Total assets	**$ 89,089**	**$ 6,631**	**$ 49,946**	**$ 7,516**	**$ 43,908**	**$ 197,090**

As at December 31, 2019	Debt securities	Equity securities	Mortgages and loans	Investment properties	Other	Total
Individual participating life	$ 22,533	$ 2,899	$ 8,372	$ 4,941	$ 4,754	$ 43,499
Individual non-participating life and health	21,301	1,418	14,145	1,790	9,353	48,007
Group life and health	6,858	72	9,301	—	2,897	19,128
Individual annuities	11,711	48	6,065	—	793	18,617
Group annuities	7,323	37	7,261	—	697	15,318
Equity and other	11,880	313	3,078	575	19,814	35,660
Total assets	$ 81,606	$ 4,787	$ 48,222	$ 7,306	$ 38,308	$ 180,229

10.E Role of the Appointed Actuary

The Appointed Actuary is appointed by the Board and is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities and reinsurance recoverables are in accordance with accepted actuarial practice in Canada, applicable legislation, and associated regulations or directives.

The Appointed Actuary is required to provide an opinion regarding the appropriateness of the policy liabilities, net of reinsurance recoverables, at the statement dates to meet all policy obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of our assets for their ability to support the amount of policy liabilities, net of reinsurance recoverables, are important elements of the work required to form this opinion.

The Appointed Actuary is required each year to investigate the financial condition of the Company and prepare a report for the Board. The 2020 analysis tested our capital adequacy until December 31, 2024, under various adverse economic and business conditions. The Appointed Actuary reviews the calculation of our Life Insurance Capital Adequacy Test ("LICAT") Ratios.

11. Reinsurance

Reinsurance is used primarily to limit exposure to large losses. We have a retention policy that requires that such arrangements be placed with well-established, highly-rated reinsurers. Coverage is well-diversified and controls are in place to manage exposure to reinsurance counterparties. While reinsurance arrangements provide for the recovery of claims arising from the liabilities ceded, we retain primary responsibility to the policyholders.

11.A Reinsurance Assets

Reinsurance assets are measured using the amounts and assumptions associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance assets are comprised of the following:

As at December 31, 2020	**Canada**	**U.S.**	**Asia**	**Corporate[1]**	**Total**
Individual participating life	**$ 57**	**$ 9**	**$ 263**	**$ —**	**$ 329**
Individual non-participating life and health	**(636)**	**882**	**49**	**18**	**313**
Group life and health	**403**	**1,920**	**4**	**—**	**2,327**
Individual annuities	**—**	**—**	**—**	**17**	**17**
Group annuities	**140**	**—**	**—**	**—**	**140**
Reinsurance assets before other policy assets	**(36)**	**2,811**	**316**	**35**	**3,126**
Add: Other policy assets[2]	**104**	**508**	**65**	**40**	**717**
Total Reinsurance assets	**$ 68**	**$ 3,319**	**$ 381**	**$ 75**	**$ 3,843**

[1] Primarily business from the UK and run-off reinsurance operations. Includes UK business of $18 for Individual non-participating life and health, and $17 for Individual annuities.
[2] Consists of amounts on deposit, policy benefits payable, provisions for unreported claims, provisions for policyholder dividends, and provisions for experience rating refunds.

As at December 31, 2019	Canada	U.S.	Asia	Corporate[1]	Total
Individual participating life	$ 35	$ 10	$ 322	$ —	$ 367
Individual non-participating life and health	(377)	913	48	20	604
Group life and health	384	1,881	2	—	2,267
Individual annuities	—	—	—	26	26
Group annuities	131	—	—	—	131
Reinsurance assets before other policy assets	173	2,804	372	46	3,395
Add: Other policy assets[2]	73	456	57	43	629
Total Reinsurance assets	$ 246	$ 3,260	$ 429	$ 89	$ 4,024

[1] Primarily business from the UK and run-off reinsurance operations. Includes UK business of $20 for Individual non-participating life and health, and $26 for Individual annuities.
[2] Consists of amounts on deposit, policy benefits payable, provisions for unreported claims, provisions for policyholder dividends, and provisions for experience rating refunds.

There was no impairment of Reinsurance assets in 2020 or 2019. Changes in Reinsurance assets are included in Note 10.A.iv.

11.B Reinsurance (Expenses) Recoveries

Reinsurance (expenses) recoveries are comprised of the following:

For the years ended December 31,	**2020**	2019
Recovered claims and benefits	**$ 2,182**	$ 1,955
Commissions	**69**	70
Reserve adjustments	**22**	26
Operating expenses and other	**80**	80
Total reinsurance (expenses) recoveries	**$ 2,353**	$ 2,131

11.C Reinsurance Gains or Losses

In 2020, we entered into a new reinsurance agreement that resulted in a loss of $66 on inception. We did not enter into reinsurance arrangements that resulted in a gain or loss on inception in 2019.

12. Other Liabilities

12.A Composition of Other Liabilities

Other liabilities consist of the following:

As at December 31,	2020	2019
Accounts payable[1]	**$ 2,438**	$ 1,830
Bank overdrafts and cash pooling	**6**	30
Repurchase agreements (Note 5)	**2,208**	1,850
Accrued expenses and taxes	**3,723**	3,251
Credit facilities[1]	**338**	73
Borrowed funds[2]	**401**	320
Senior financing[3]	**—**	1,967
Accrued post-retirement benefit liability (Note 25)	**625**	675
Secured borrowings from mortgage securitization (Note 5)	**1,912**	1,715
Lease liabilities	**864**	902
Other financial liabilities (Note 5)[4]	**1,136**	956
Deferred payments liability	**382**	438
Other	**825**	930
Total other liabilities	**$ 14,858**	$ 14,937

(1) Reflects a change in presentation for our credit facility effective January 1, 2020. We have updated our prior period to reflect this change in presentation.
(2) The change in Borrowed funds relates to net cash flow changes of $81 in 2020 ($132 in 2019) and foreign exchange rate movements of $1 in 2020 ($nil in 2019).
(3) The Senior financing has been paid fully at the end of 2020. The change in Senior financing relates to foreign exchange rate movements of $(99) in 2019.
(4) Comprises financial liabilities related to acquisitions, including put option liabilities and financial liabilities due to non-controlling interest.

12.B Borrowed Funds

Borrowed funds include the following:

As at December 31,	Currency of borrowing	Maturity	2020	2019
Encumbrances on real estate	Cdn. dollars	Current - 2033	**$ 292**	$ 320
Encumbrances on real estate	U.S. dollars	Current - 2020	**109**	—
Total borrowed funds			**$ 401**	$ 320

Interest expense for the borrowed funds was $22 and $13 for 2020 and 2019, respectively. The aggregate maturities of borrowed funds are included in Note 6.

12.C Senior Financing

On November 8, 2007, a structured entity consolidated by us issued a US$1,000 variable principal floating rate certificate (the "Certificate") to a financial institution (the "Lender"). At the same time, Sun Life Assurance Company of Canada-U.S. Operations Holdings, Inc. ("U.S. Holdings"), a subsidiary of SLF Inc., entered into an agreement with the Lender, pursuant to which U.S. Holdings will bear the ultimate obligation to repay the outstanding principal amount of the Certificate and be obligated to make quarterly interest payments at three-month LIBOR plus a fixed spread. SLF Inc. has fully guaranteed the obligation of U.S. Holdings. The structured entity issued additional certificates after the initial issuance, totaling to US$515.

As at September 30, 2020, we repaid the $2,020 (US$1,515) variable principal floating rate certificates to the Lender, which were issued by a structured entity consolidated by us. Pursuant to the letter of understanding with the Lender, the Certificates have been repaid and all additional agreements have been terminated. The repayment was funded from sale of bonds, existing cash and other liquid assets, resulting in Net gains (losses) on available-for-sale assets of $282. As part of this transaction, we also unwound the fair value hedges related to the structure, which resulted in a loss of $342 in Interest and other investment income. For the year ended December 31, 2020, we recorded $28 of interest expense relating to this obligation ($64 in 2019). The fair value of the obligation is $nil ($1,874 in 2019). The fair value is determined by discounting the expected future cash flows using a current market interest rate adjusted by SLF Inc.'s credit spread and is categorized in Level 3 of the fair value hierarchy.

13. Senior Debentures and Innovative Capital Instruments

13.A Senior Debentures[1]

The following obligations are included in Senior debentures as at December 31:

	Interest rate	Earliest par call or redemption date	Maturity	2020	2019
SLF Inc. senior debentures:					
Series E issued August 23, 2011[2]	4.57 %	n/a	2021	**300**	300
Sun Life Assurance senior debentures:[3]					
Issued to Sun Life Capital Trust ("SLCT I")					
Series B issued June 25, 2002	7.09 %	June 30, 2032[4]	2052	**200**	200
Total senior debentures				**$ 500**	$ 500
Fair value				**$ 590**	$ 585

(1) All senior debentures are unsecured.
(2) Redeemable in whole or in part at any time prior to maturity at a price equal to the greater of par and a price based on the yield of a corresponding Government of Canada bond plus 0.53% for the Series E debentures.
(3) Redemption is subject to regulatory approval.
(4) Redeemable in whole or in part on any interest payment date or in whole upon the occurrence of a Regulatory Event or Tax Event, as described in the debenture. Prior to June 30, 2032, the redemption price is the greater of par and a price based on the yield of a corresponding Government of Canada bond plus 0.32%; from June 30, 2032, the redemption price is par.

Fair value is determined based on quoted market prices for identical or similar instruments. When quoted market prices are not available, fair value is determined from observable market data by dealers that are typically the market makers. The fair value is categorized in Level 2 of the fair value hierarchy.

Interest expense for senior debentures was $28 and $67 for 2020 and 2019, respectively.

The senior debentures issued by SLF Inc. are direct senior unsecured obligations and rank equally with other unsecured and unsubordinated indebtedness of SLF Inc.

13.B Innovative Capital Instruments

Innovative capital instruments consist of Sun Life ExchangEable Capital Securities ("SLEECS"), which were issued by SLCT I, established as a trust under the laws of Ontario. SLCT I issued Sun Life ExchangEable Capital Securities - Series B ("SLEECS B"), which are units representing an undivided beneficial ownership interest in the assets of that trust. SLEECS B are non-voting except in certain limited circumstances. Holders of the SLEECS B are eligible to receive semi-annual non-cumulative fixed cash distributions.

The proceeds of the issuance of the SLEECS B were used by SLCT I to purchase senior debentures of Sun Life Assurance. SLCT I is not consolidated by us. As a result, the innovative capital instruments are not reported on our Consolidated Financial Statements. However, the senior debentures issued by Sun Life Assurance to SLCT I are reported on our Consolidated Financial Statements.

The SLEECS B are structured to achieve Tier 1 regulatory capital treatment for SLF Inc. and Sun Life Assurance and, as such, have features of equity capital. No interest payments or distributions will be paid in cash by SLCT I on the SLEECS B if Sun Life Assurance fails to declare regular dividends (i) on its Class B Non-Cumulative Preferred Shares Series A, or (ii) on its public preferred shares, if any are outstanding (each, a "Missed Dividend Event"). If a Missed Dividend Event occurs, the net distributable funds of SLCT I will be distributed to Sun Life Assurance as the holder of Special Trust Securities of that trust.

If SLCT I fails to pay in cash the semi-annual interest payments or distributions on the SLEECS B in full for any reason other than a Missed Dividend Event, then, for a specified period of time, Sun Life Assurance will not declare dividends of any kind on any of its public preferred shares, and if no such public preferred shares are outstanding, SLF Inc. will not declare dividends of any kind on any of its preferred shares or common shares.

Each SLEECS B unit will be automatically exchanged for 40 non-cumulative perpetual preferred shares of Sun Life Assurance if any one of the following events occurs: (i) proceedings are commenced or an order is made for the winding-up of Sun Life Assurance; (ii) OSFI takes control of Sun Life Assurance or its assets; (iii) Sun Life Assurance's capital ratios fall below applicable thresholds; or (iv) OSFI directs Sun Life Assurance to increase its capital or provide additional liquidity and Sun Life Assurance either fails to comply with such direction or elects to have the SLEECS B automatically exchanged ("Automatic Exchange Event"). Upon an Automatic Exchange Event, former holders of the SLEECS B will cease to have any claim or entitlement to distributions, interest or principal against SLCT I and will rank as preferred shareholders of Sun Life Assurance in a liquidation of Sun Life Assurance.

The table below presents additional significant terms and conditions of the SLEECS:

Issuer	Issuance date	Distribution or interest payment dates	Annual yield	Redemption date at the issuer's option	Conversion date at the holder's option	Principal amount
Sun Life Capital Trust ("SLCT I") [1][2][3][4]						
SLEECS B	June 25, 2002	June 30, December 31	7.093 %	June 30, 2007	Any time	$ 200

[1] Subject to regulatory approval, SLCT I may (i) redeem any outstanding SLEECS, in whole or in part, on the redemption date specified above or on any distribution date thereafter and (ii) may redeem all, but not part of any class of SLEECS upon occurrence of a Regulatory Event or a Tax Event, prior to the redemption date specified above.

[2] The SLEECS B may be redeemed for cash equivalent to (i) the greater of the Early Redemption Price or the Redemption Price if the redemption occurs prior to June 30, 2032 or (ii) the Redemption Price if the redemption occurs on or after June 30, 2032. Redemption Price is equal to one thousand dollars plus the unpaid distributions, other than unpaid distributions resulting from a Missed Dividend Event, to the redemption date. Early Redemption Price for the SLEECS B is the price calculated to provide an annual yield, equal to the yield of a Government of Canada bond issued on the redemption date that has a maturity date of June 30, 2032, plus 32 basis points, plus the unpaid distributions, other than unpaid distributions resulting from a Missed Dividend Event, to the redemption date.

[3] The non-cumulative perpetual preferred shares of Sun Life Assurance issued upon an Automatic Exchange Event in respect of the SLEECS B will become convertible, at the option of the holder, into a variable number of common shares of SLF Inc. on distribution dates on or after December 31, 2032.

[4] Holders of SLEECS B may exchange, at any time, all or part of their SLEECS B units for non-cumulative perpetual preferred shares of Sun Life Assurance at an exchange rate for each SLEECS of 40 non-cumulative perpetual preferred shares of Sun Life Assurance. SLCT I will have the right, at any time before the exchange is completed, to arrange for a substituted purchaser to purchase SLEECS tendered for surrender to SLCT I so long as the holder of the SLEECS so tendered has not withheld consent to the purchase of its SLEECS. Any non-cumulative perpetual preferred shares issued in respect of an exchange by the holders of SLEECS B will become convertible, at the option of the holder, into a variable number of common shares of SLF Inc. on distribution dates on or after December 31, 2032.

14. Subordinated Debt

The following obligations are included in Subordinated debt as at December 31, and qualify as capital for Canadian regulatory purposes:

	Interest rate	Earliest par call or redemption date[1]	Maturity	2020	2019
Sun Life Assurance:					
Issued May 15, 1998[2]	6.30 %	n/a	2028	**$ 150**	$ 150
Sun Life Financial Inc.:					
Issued May 29, 2007[3]	5.40 %	May 29, 2037 [4]	2042	**398**	398
Issued September 25, 2015[5]	2.60 %	September 25, 2020	2025	**—**	500
Issued February 19, 2016[6]	3.10 %	February 19, 2021	2026	**350**	349
Issued September 19, 2016[7]	3.05 %	September 19, 2023	2028	**997**	996
Issued November 23, 2017[8]	2.75 %	November 23, 2022	2027	**399**	399
Issued August 13, 2019[9]	2.38 %	August 13, 2024	2029	**747**	746
Issued May 8, 2020[10]	2.58 %	May 10, 2027	2032	**995**	**—**
Issued October 1, 2020[11]	2.06 %	October 1, 2030	2035	**745**	**—**
Total subordinated debt				**$ 4,781**	$ 3,538
Fair value				**$ 5,190**	$ 3,727

(1) The debentures issued by SLF Inc. in 2007 are redeemable at any time, the debentures issued by SLF Inc. in September 2016, May 2020 and October 2020 are all redeemable 5-years after issuance and the debentures issued by SLF Inc. on February 2016, 2017 and 2019 are redeemable on or after the date specified. From the date noted, the redemption price is par and redemption may only occur on a scheduled interest payment date. Redemption of all subordinated debentures is subject to regulatory approval.

(2) 6.30% Debentures, Series 2, due 2028, issued by The Mutual Life Assurance Company of Canada, which subsequently changed its name to Clarica Life Insurance Company ("Clarica") and was amalgamated with Sun Life Assurance. These debentures are redeemable at any time. Prior to May 15, 2028, the redemption price is the greater of par and a price based on the yield of a corresponding Government of Canada bond plus 0.16%.

(3) Series 2007-1 Subordinated Unsecured 5.40% Fixed/Floating Debentures due 2042. From May 29, 2037, interest is payable at 1.00% over Canadian dollar offered rate for three-month bankers' acceptances ("CDOR").

(4) For redemption of the 2007 debentures prior to the date noted, the redemption price is the greater of par and a price based on the yield of a corresponding Government of Canada bond plus 0.25%.

(5) Series 2015-1 Subordinated Unsecured 2.60% Fixed/Floating Debentures due 2025. On September 25, 2020, SLF Inc. redeemed all of the outstanding $500 principal amount of these debentures in accordance with the redemption terms attached to such debentures.

(6) Series 2016-1 Subordinated Unsecured 3.10% Fixed/Floating Debentures due 2026. From February 19, 2021, interest is payable at 2.20% over CDOR.

(7) Series 2016-2 Subordinated Unsecured 3.05% Fixed/Floating Debentures due 2028. From September 19, 2023, interest is payable at 1.85% over CDOR. Between September 19, 2021 and September 19, 2023, the redemption price is the greater of par and a price based on the yield of a corresponding Government of Canada bond plus 0.52%.

(8) Series 2017-1 Subordinated Unsecured 2.75% Fixed/Floating Debentures due 2027. From November 23, 2022, interest is payable at 0.74% over CDOR.

(9) Series 2019-1 Subordinated Unsecured 2.38% Fixed/Floating Debentures due 2029. From August 13, 2024, interest is payable at 0.85% over CDOR.

(10) Series 2020-1 Subordinated Unsecured 2.58% Fixed/Floating Debentures due 2032. From May 10, 2027, interest is payable at 1.66% over CDOR. Between May 10, 2025 and May 10, 2027, the redemption price is the greater of par and a price based on the yield of a corresponding Government of Canada bond plus 0.52%.

(11) Series 2020-2 Subordinated Unsecured 2.06% Fixed/Floating Debentures due 2035. From October 1, 2030, interest is payable at 1.03% over CDOR. Between October 1, 2025 and October 1, 2030, the redemption price is the greater of par and a price based on the yield of a corresponding Government of Canada bond plus 0.38%.

Fair value is determined based on quoted market prices for identical or similar instruments. When quoted market prices are not available, fair value is determined from observable market data by dealers that are typically the market makers. The fair value is categorized in Level 2 of the fair value hierarchy.

Interest expense on subordinated debt was $131 and $105 for 2020 and 2019, respectively.

15. Share Capital

The authorized share capital of SLF Inc. consists of the following:

- An unlimited number of common shares without nominal or par value. Each common share is entitled to one vote at meetings of the shareholders of SLF Inc. There are no pre-emptive, redemption, purchase, or conversion rights attached to the common shares.
- An unlimited number of Class A and Class B non-voting shares, issuable in series. The Board is authorized before issuing the shares, to fix the number, the consideration per share, the designation of, and the rights and restrictions of the Class A and Class B shares of each series, subject to the special rights and restrictions attached to all the Class A and Class B shares. The Board has authorized 13 series of Class A non-voting preferred shares, 10 of which are outstanding.

The common and preferred shares of SLF Inc. qualify as capital for Canadian regulatory purposes. See Note 21.

Dividends and Restrictions on the Payment of Dividends

Under the *Insurance Companies Act* (Canada), SLF Inc. and Sun Life Assurance are each prohibited from declaring or paying a dividend on any of its shares if there are reasonable grounds for believing that it is, or by paying the dividend would be, in contravention of: (i) the requirement that it maintains adequate capital and adequate and appropriate forms of liquidity, (ii) any regulations under the *Insurance Companies Act* (Canada) in relation to capital and liquidity, and (iii) any order by which OSFI directs it to increase its capital or provide additional liquidity.

SLF Inc. and Sun Life Assurance have each covenanted that, if a distribution is not paid when due on any outstanding SLEECS issued by SLCT I, then (i) Sun Life Assurance will not pay dividends on its public preferred shares, if any are outstanding, and (ii) if Sun Life Assurance does not have any public preferred shares outstanding, then SLF Inc. will not pay dividends on its preferred shares or common shares, in each case, until the 12th month following the failure to pay the required distribution in full, unless the required distribution is paid to the holders of SLEECS. Public preferred shares means preferred shares issued by Sun Life Assurance which: (a) have been issued to the public (excluding any preferred shares held beneficially by affiliates of Sun Life Assurance); (b) are listed on a recognized stock exchange; and (c) have an aggregate liquidation entitlement of at least $200. As at December 31, 2020, Sun Life Assurance did not have outstanding any shares that qualify as public preferred shares.

The terms of SLF Inc.'s outstanding preferred shares provide that for so long as Sun Life Assurance is a subsidiary of SLF Inc., no dividends on such preferred shares are to be declared or paid if Sun Life Assurance's minimum regulatory capital ratio falls below the applicable threshold.

In addition, under the terms of SLF Inc.'s outstanding preferred shares, SLF Inc. cannot pay dividends on its common shares without the approval of the holders of those preferred shares unless all dividends on the preferred shares for the last completed period for which dividends are payable have been declared and paid or set apart for payment.

Currently, the above limitations do not restrict the payment of dividends on SLF Inc.'s preferred or common shares.

The declaration and payment of dividends on SLF Inc.'s shares are at the sole discretion of the Board of Directors and will be dependent upon our earnings, financial condition and capital requirements. Dividends may be adjusted or eliminated at the discretion of the Board on the basis of these or other considerations.

15.A Common Shares

The changes in common shares issued and outstanding for the years ended December 31 were as follows:

	2020		2019	
Common shares (in millions of shares)	**Number of shares**	**Amount**	Number of shares	Amount
Balance, January 1	**587.8**	**$ 8,289**	598.5	$ 8,419
Stock options exercised (Note 19)	**0.8**	**23**	0.8	28
Common shares purchased for cancellation	**(3.5)**	**(50)**	(11.5) [1]	(158)
Balance, December 31	**585.1**	**$ 8,262**	587.8	$ 8,289

[1] 1.1 million shares were purchased pursuant to a third-party share repurchase program under an issuer bid exemption order at a discount to the prevailing market price of the common shares on the Toronto Stock Exchange.

On August 14, 2019, SLF Inc. launched a normal course issuer bid to purchase and cancel up to 15 million common shares of SLF Inc. ("common shares") between August 14, 2019 and August 13, 2020 (the "2019 NCIB") and implemented an automatic repurchase plan with its designated broker in order to facilitate purchases of common shares under such bid. Under such automatic repurchase plan, SLF Inc.'s designated broker was able to purchase common shares pursuant to the 2019 NCIB at times when SLF Inc. ordinarily would not be active in the market due to regulatory restrictions or self-imposed blackout periods.

Pursuant to the 2019 NCIB, common shares purchased for cancellation were able to be purchased through the facilities of the Toronto Stock Exchange, other Canadian stock exchanges, and/or alternative Canadian trading platforms, at prevailing market rates, or by way of private agreements or share repurchase programs under issuer bid exemption orders issued by securities regulatory authorities at a discount to the prevailing market price.

In 2020, SLF Inc. purchased and cancelled approximately3.5 million common shares at an average price per share of $56.86 for a total amount of $200 under the 2019 NCIB. The total amount paid to purchase the shares is allocated to Common shares and Retained earnings in our Consolidated Statements of Changes in Equity. The amount allocated to Common shares is based on the average cost per common share and amounts paid above the average cost are allocated to Retained earnings.

On March 13, 2020, OSFI set the expectation for all federally regulated financial institutions that dividend increases and share buybacks should be halted for the time being. As such, SLF Inc. has not purchased and cancelled common shares since that date nor renewed the 2019 NCIB.

15.B Preferred Shares

On June 30, 2020, 0.1 million of the 5.2 million Class A Non-cumulative Rate Reset Preferred Shares Series 8R (the "Series 8R Shares") were converted into Class A Non-cumulative Floating Rate Preferred Shares Series 9QR (the "Series 9QR Shares") on a one-for-one basis and 1.1 million of the 6.0 million Series 9QR Shares were converted into Series 8R Shares on a one-for-one basis. As a result, as of June 30, 2020, SLF Inc. has approximately 6.2 million Series 8R Shares and 5.0 million Series 9QR Shares issued and outstanding. There were no other changes in preferred shares issued and outstanding for the years ended December 31, 2020 and December 31, 2019.

Further information on the preferred shares outstanding as at December 31, 2020, is as follows:

Class A Preferred shares (in millions of shares)	Issue date	Annual dividend rate	Annual dividend per share	Earliest par call or redemption date[1]	Number of shares	Face amount	Net amount[2]
Series 1	February 25, 2005	4.75 %	$ 1.19	Any time	**16.0**	**$ 400**	**$ 394**
Series 2	July 15, 2005	4.80 %	$ 1.20	Any time	**13.0**	**325**	**318**
Series 3	January 13, 2006	4.45 %	$ 1.11	Any time	**10.0**	**250**	**245**
Series 4	October 10, 2006	4.45 %	$ 1.11	Any time	**12.0**	**300**	**293**
Series 5	February 2, 2007	4.50 %	$ 1.13	Any time	**10.0**	**250**	**245**
Series 8R[3]	May 25, 2010	1.825 % [3]	$ 0.51	June 30, 2025[4]	**6.2**	**155**	**152**
Series 9QR[5]	June 30, 2015	Floating [6]	Floating	June 30, 2025[7]	**5.0**	**125**	**122**
Series 10R[3]	August 12, 2011	2.842 % [3]	$ 0.71 [8]	September 30, 2021[4]	**6.9**	**173**	**169**
Series 11QR[5]	September 30, 2016	Floating [6]	Floating	September 30, 2021[7]	**1.1**	**27**	**26**
Series 12R[3]	November 10, 2011	3.806 % [3]	$ 0.95 [8]	December 31, 2021[4]	**12.0**	**300**	**293**
Total preferred shares					**92.2**	**$ 2,305**	**$ 2,257**

(1) Redemption of all preferred shares is subject to regulatory approval.
(2) Net of after-tax issuance costs.
(3) On the earliest redemption date and every five years thereafter, the dividend rate will reset to an annual rate equal to the 5-year Government of Canada bond yield plus a spread specified for each series. The specified spread for Class A shares is: Series 8R - 1.41%, Series 10R - 2.17%, and Class A Non-Cumulative 5-Year Rate Reset Preferred Shares Series 12R ("Series 12R Shares") - 2.73%. On the earliest redemption date and every five years thereafter, holders will have the right, at their option, to convert their shares into the series that is one number higher than their existing series.
(4) Redeemable on the redemption date and every five years thereafter, in whole or in part, at $25.00 per share.
(5) On the earliest redemption date and every five years thereafter, holders will have the right, at their option, to convert those shares into the series that is one number lower than their existing series.
(6) Holders are entitled to receive quarterly floating rate non-cumulative dividends at an annual rate equal to the then 3-month Government of Canada treasury bill yield plus a spread specified for each series. The specified spread for Class A shares is: Series 9QR - 1.41% and Series 11QR - 2.17%.
(7) Redeemable on the redemption date and every five years thereafter, in whole or in part, at $25.00 per share, and on any other date at $25.50 per share.
(8) The annual dividend per share in the table above is the amount paid per share in 2020.

16. Interests in Other Entities

16.A Subsidiaries

Our principal subsidiaries are Sun Life Assurance and Sun Life Global Investments Inc. Sun Life Assurance is our principal operating insurance company and holds our insurance operations in Canada, the U.S., the UK, the Philippines, Hong Kong, Indonesia and Vietnam. These insurance operations are operated directly by Sun Life Assurance or through other subsidiaries. Sun Life Global Investments Inc. is a non-operating holding company that holds our asset management businesses, including Massachusetts Financial Services and the group of companies under SLC Management.

We are required to comply with various regulatory capital and solvency requirements in the jurisdictions in which we operate that may restrict our ability to access or use the assets of the group and to pay dividends. Further details on these restrictions are included in Notes 15 and 21.

16.B Joint Ventures and Associates

We have interests in various joint ventures and associates that principally operate in India, Malaysia, China, and the Philippines. We also have interests in joint ventures related to certain real estate investments in Canada. Our interests in these joint ventures and associates range from 24.99% to 50%. The following table summarizes, in aggregate, the financial information of these joint ventures and associates:

As at or for the years ended December 31,	2020	2019
Carrying amount of interests in joint ventures and associates	**$ 1,579**	$ 1,510
Our share of:		
Net income (loss)	**51**	86
Other comprehensive income (loss)	**(9)**	(9)
Total comprehensive income (loss)	**$ 42**	$ 77

In 2020, our investment in our joint ventures and associates changed by $(1) ($19 in 2019), primarily in Canada.

During 2020, we received dividends from our joint ventures and associates of $29 ($45 in 2019). We also incurred rental expenses of $17 ($17 in 2019) related to leases with our joint ventures and associates, with the remaining future rental payments payable to our joint ventures and associates totaling $197 over 12 years.

16.C Joint Operations

We invest jointly in investment properties and owner-occupied properties which are co-managed under contractual relationships with the other investors. We share in the revenues and expenses generated by these properties in proportion to our investment. The carrying amount of these jointly controlled assets, which is included in Investment properties and in Other Assets for owner-occupied properties, is $1,802 as at December 31, 2020 ($1,503 as at December 31, 2019). The fair value of these jointly controlled assets is $1,892 as at December 31, 2020 ($1,595 as at December 31, 2019).

16.D Unconsolidated Structured Entities

SLF Inc. and its subsidiaries have interests in various structured entities that are not consolidated by us. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. We have an interest in a structured entity when we have a contractual or non-contractual involvement that exposes us to variable returns from the performance of the entity. Our interest includes investments held in securities or units issued by these entities and fees earned from management of the assets within these entities.

Information on our interests in unconsolidated structured entities is as follows:

As at December 31,			**2020**		2019	
Type of structured entity	**Type of investment held**	**Consolidated Statements of Financial Position line item**	**Carrying amount**	**Maximum exposure to loss[1]**	Carrying amount	Maximum exposure to loss[1]
Securitization entities - third-party managed	Debt securities	Debt securities	**$ 8,805**	**$ 8,805**	$ 8,402	$ 8,402
Securitization entities - third-party managed	Short-term securities	Cash, cash equivalents and short-term securities	**$ 1,115**	**$ 1,115**	$ 498	$ 498
Investment funds - third-party managed	Investment fund units	Equity securities	**$ 5,102**	**$ 5,102**	$ 3,453	$ 3,453
Investment funds - company managed[2]	Investment fund units and Limited partnership units	Equity securities and Other invested assets	**$ 2,299**	**$ 2,299**	$ 2,293	$ 2,293
Limited partnerships - third-party managed	Limited partnership units	Other invested assets	**$ 1,842**	**$ 1,842**	$ 1,682	$ 1,682

[1] The maximum exposure to loss is the maximum loss that we could record through comprehensive income as a result of our involvement with these entities.
[2] Includes investments in funds managed by our joint ventures with a carrying amount of $155 ($204 in 2019).

16.D.i Securitization Entities

Securitization entities are structured entities that are generally financed primarily through the issuance of debt securities that are backed by a pool of assets, such as mortgages or loans.

Third-Party Managed

Our investments in third-party managed securitization entities consist of asset-backed securities, such as commercial mortgage-backed securities, residential mortgage-backed securities, collateralized debt obligations ("CDOs"), and commercial paper. These securities are generally large-issue debt securities designed to transform the cash flows from a specific pool of underlying assets into tranches providing various risk exposures for investment purposes. We do not provide financial or other support to these entities other than our original investment and therefore our maximum exposure to loss on these investments is limited to the carrying amount of our investment. We do not have control over these investments since we do not have power to direct the relevant activities of these entities, regardless of the level of our investment.

Company Managed

We provide collateral management services to various securitization entities, primarily CDOs, from which we earn a fee for our services. The financial support provided to these entities is limited to the carrying amount of our investment in these entities. We provide no guarantees or other contingent support to these entities. We have not consolidated these entities since we do not have significant variability from our interests in these entities and we do not have any investment in these entities.

16.D.ii Investment Funds and Limited Partnerships

Investment funds and limited partnerships are investment vehicles that consist of a pool of funds collected from a group of investors for the purpose of investing in assets such as money market instruments, debt securities, equity securities, real estate, and other similar assets. The preceding table includes our investments in all investment funds, including mutual funds, exchange-traded funds, and segregated funds, and our investments in certain limited partnerships. Some of these investment funds and limited partnerships are structured entities. For all investment funds and limited partnerships, our maximum exposure to loss is equivalent to the carrying amount of our investment in the fund or partnership. Investment funds and limited partnerships are generally financed through the issuance of investment fund units or limited partnership units.

Third-Party Managed

We hold units in investment funds and limited partnerships managed by third-party asset managers. Our investments in fund units and limited partnership units generally give us an undivided interest in the investment performance of a portfolio of underlying assets managed or tracked to a specific investment mandate for investment purposes. We do not have control over investment funds or limited partnerships that are structured entities since we do not have power to direct their relevant activities.

Company Managed

We hold units in Company managed investment funds and limited partnerships. We generally have power over Company managed investment funds and limited partnerships that are structured entities since we have power to direct the relevant activities of the funds and limited partnerships. However, we have not consolidated these funds and limited partnerships since we do not have significant variability from our interests in these funds and limited partnerships. We earn management fees from the management of these investment funds and limited partnerships that are commensurate with the services provided and are reported in Fee income. Management fees are generally based on the value of the assets under management. Therefore, the fees earned are impacted by the composition of the assets under management and fluctuations in financial markets. The fee income earned is included in Fund management and other asset based fees in Note 17. We also hold units in investment funds and limited partnerships managed by our joint ventures. Our share of the management fees earned is included as part of the Net income (loss) reported in Note 16.B.

16.E Consolidated Structured Entities

We control and consolidate the entity that issued the senior financing that is described in more detail in Note 12.C. We also control and consolidate certain investment funds managed by SLC Management that invest primarily in public fixed income and investment properties.

17. Fee Income

Fee income for the years ended December 31 consists of the following:

		2020		2019
Fee income from insurance contracts	**$**	**1,059**	$	1,017
Fee income from service contracts:				
Distribution fees		**858**		820
Fund management and other asset-based fees		**4,180**		3,662
Administrative service and other fees		**784**		752
Total fee income	**$**	**6,881**	$	6,251

Distribution fees and Fund management and other asset-based fees are primarily earned in the Asset Management segment. Administrative service and other fees are primarily earned in the Canada segment. The fee income by business segment is presented in Note 4.

18. Operating Expenses

Operating expenses for the years ended December 31 consist of the following:

		2020		2019
Employee expenses[1]	**$**	**4,445**	$	4,090
Premises and equipment		**158**		163
Capital asset depreciation		**250**		241
Service fees		**946**		919
Amortization of intangible assets (Note 9)		**156**		137
Impairment of intangible assets (Note 9)		**11**		15
Other expenses		**1,435**		1,468
Total operating expenses	**$**	**7,401**	$	7,033

[1] See table below for further details.

Employee expenses for the years ended December 31 consist of the following:

		2020		2019
Salaries, bonus, employee benefits	**$**	**3,879**	$	3,497
Share-based payments (Note 19)		**540**		549
Other personnel costs		**26**		44
Total employee expenses	**$**	**4,445**	$	4,090

19. Share-Based Payments

19.A Stock Option Plans

SLF Inc. has granted stock options to eligible employees under the Executive Stock Option Plan. These options are granted at the closing price of the common shares on the Toronto Stock Exchange ("TSX") on the grant date. The options granted under the stock option plans vest over a four-year period. All options have a maximum exercise period of 10 years. The maximum number of common shares that may be issued under the Executive Stock Option Plan is 29,525,000 shares.

The activities in the stock option plans for the years ended December 31 are as follows:

	2020		2019	
	Number of stock options (thousands)	**Weighted average exercise price**	Number of stock options (thousands)	Weighted average exercise price
Balance, January 1,	**3,074**	**$ 42.36**	3,101	$ 37.06
Granted	**730**	**$ 61.88**	745	$ 50.58
Exercised	**(631)**	**$ 28.29**	(772)	$ 29.01
Balance, December 31,	**3,173**	**$ 49.65**	3,074	$ 42.36
Exercisable, December 31,	**1,537**	**$ 42.87**	1,670	$ 35.51

The average share price at the date of exercise of stock options for the year ended December 31, 2020 was $57.21 ($53.22 for 2019).

Compensation expense for stock options was $4 for the year ended December 31, 2020 ($4 for 2019).

The stock options outstanding as at December 31, 2020, by exercise price, are as follows:

Range of exercise prices	**Number of stock options (thousands)**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**
$18.00 to $24.00	**48**	**1.16**	**$ 21.53**
$24.01 to $30.00	**168**	**2.15**	**$ 28.20**
$30.01 to $35.00	**23**	**0.17**	**$ 31.65**
$35.01 to $45.00	**589**	**4.37**	**$ 39.53**
$45.01 to $62.12	**2,345**	**7.96**	**$ 54.48**
Total stock options	**3,173**	**6.83**	**$ 49.65**

The weighted average fair values of the stock options, calculated using the Black-Scholes option pricing model, granted during the year ended December 31, 2020 was $5.99 ($5.56 for 2019). The Black-Scholes option pricing model used the following assumptions to determine the fair value of options granted during the years ending December 31:

Weighted average assumptions	**2020**	2019
Risk-free interest rate	**1.2 %**	1.8 %
Expected volatility	**19.2 %**	19.5 %
Expected dividend yield	**4.0 %**	4.0 %
Expected life of the option (in years)	**6.3**	6.3
Exercise price	**$ 61.88**	$ 50.58

Expected volatility is based on historical volatility of the common shares, implied volatilities from traded options on the common shares, and other factors. The expected term of options granted is derived based on historical employee exercise behaviour and employee termination experience. The risk-free rate for periods within the expected term of the option is based on the Canadian government bond yield curve in effect at the time of grant.

19.B Employee Share Ownership Plan

In Canada, we match eligible employees' contributions to the Sun Life Financial Employee Stock Plan. Employees may elect to contribute from 1% to 20% of their target annual compensation to the Sun Life Financial Employee Stock Plan. Under this plan the match is provided for employees who have met one year of employment eligibility and is equal to 50% of the employee's contributions up to 5% of an employee's annual compensation. The match is further capped by a one thousand five hundred dollar annual maximum. Our contributions vest immediately and are expensed.

In 2019, we introduced the Sun Life Financial U.S. Employee Stock Purchase Plan which allows eligible employees to buy shares of SLF Inc. at a 10% discount at the end of six-month offering periods. Under this plan, employees who enroll can contribute from 1% to 10% of their base salary. At the end of each period, accumulated employee amounts are used to purchase stock, with the Company financing the 10% discount. The total annual contribution, including the company discount, is limited to U.S. twenty-five thousand dollars based on its fair market value on the offering date.

We recorded an expense of $9 for the year ended December 31, 2020 ($8 for 2019).

19.C Other Share-Based Payment Plans

All other share-based payment plans use notional units that are valued based on the common share price on the TSX. Any fluctuation in the common share price changes the value of the units, which affects our share-based payment compensation expense. Upon redemption of these units, payments are made to the employees with a corresponding reduction in the accrued liability. We use equity swaps and forwards to hedge our exposure to variations in cash flows due to changes in the common share price for all of these plans.

Details of these plans are as follows:

Senior Executives' Deferred Share Unit ("DSU") Plan: Under the DSU plan, designated executives may elect to receive all or a portion of their annual incentive award in the form of DSUs. Each DSU is equivalent in value to one common share and earns dividend equivalents in the form of additional DSUs at the same rate as the dividends on common shares. The designated executives must elect to participate in the plan prior to the beginning of the plan year and this election is irrevocable. Awards generally vest immediately; however, participants are not permitted to redeem the DSUs until after termination, death, or retirement. The value at the time of redemption will be based on the fair value of the common shares immediately before their redemption.

Sun Share Unit ("Sun Share") Plan: Under the Sun Share plan, participants are granted units that are equivalent in value to one common share and have a grant price equal to the average of the closing price of a common share on the TSX on the five trading days immediately prior to the date of grant. Participants generally hold units for up to 36 months from the date of grant. The units earn dividend equivalents in the form of additional units at the same rate as the dividends on common shares. Under this plan, some units are performance-based that may vest or become payable if we meet specified threshold performance targets. The plan provides for performance factors to motivate participants to achieve a higher return for shareholders (performance factors are determined through a multiplier that can be as low as zero or as high as two times the number of units that vest). Payments to participants are based on the number of units vested multiplied by the average closing price of a common share on the TSX on the five trading days immediately prior to the vesting date.

Additional information for other share-based payment plans: The units outstanding under these plans and the liabilities recognized for these units in our Consolidated Statements of Financial Position are summarized in the following table:

Number of units (in thousands)	**Sun Shares**	**DSUs**	**Total**
Units outstanding December 31, 2020	**4,971**	**860**	**5,831**
Units outstanding December 31, 2019	5,521	930	6,451
Liability accrued as at December 31, 2020	**$ 258**	**$ 48**	**$ 306**
Liability accrued as at December 31, 2019	$ 257	$ 51	$ 308

Compensation expense and the Income tax expense (benefit) for other share-based payment plans for the years ended December 31 are shown in the following table. Since expenses for the DSUs are accrued as part of incentive compensation in the year awarded, the expenses below do not include these accruals. The expenses presented in the following table include increases in the liabilities for Sun Shares and DSUs due to changes in the fair value of the common shares and the accruals of the Sun Shares liabilities over the vesting period, and exclude any adjustment in expenses due to the impact of hedging.

For the years ended December 31,	**2020**	2019
Compensation expense	**$ 140**	$ 205
Income tax expense (benefit)	**$ (34)**	$ (53)

19.D Share-Based Payment Plans of MFS

Share-based payment awards within MFS are based on their own shares. Restricted share awards and stock option awards are settled in MFS shares and restricted stock unit awards are settled in cash. Restricted share awards, restricted stock unit awards, and stock option awards generally vest over a four-year period and continued employment is generally the only service requirement for these awards. Holders of restricted share awards and restricted stock unit awards are entitled to receive non-forfeitable dividend equivalent payments during the vesting period at the same rate as the dividends on MFS's shares.

Although restricted share awards and stock option awards are settled in shares, all of the MFS share-based awards, including outstanding MFS shares, are accounted for as cash-settled share-based payment awards due to the fact that MFS has a practice of repurchasing its outstanding shares after a specified holding period. The fair value of stock option awards is determined using the Black-Scholes option pricing model, while the fair value of restricted share awards, restricted stock unit awards, and outstanding MFS shares are estimated using a market consistent share valuation model. The amount of periodic compensation expense recognized is impacted by grants of new awards, vesting, exercise, and forfeiture of unvested awards, share repurchases, changes in fair value of awards, and outstanding MFS shares. The total liability accrued attributable to all MFS share-based payment plans as at December 31, 2020 was $902 ($810 as at December 31, 2019) which includes a liability of $713 ($644 as at December 31, 2019) for the stock options, restricted shares, and outstanding MFS shares.

Compensation expense and the Income tax expense (benefit) for these awards for the years ended December 31 are shown in the following table:

For the years ended December 31,	**2020**	2019
Compensation expense	**$ 387**	$ 332
Income tax expense (benefit)	**$ (64)**	$ (58)

20. Income Taxes

20.A Deferred Income Taxes

The following represents the deferred tax assets and liabilities in the Consolidated Statements of Financial Position:

As at December 31,	2020	2019
Deferred tax assets[1]	**$ 1,634**	$ 1,455
Deferred tax liabilities[1]	**383**	406
Net deferred tax asset	**$ 1,251**	$ 1,049

[1] Our deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity and the same taxation authority.

The movement in net deferred tax assets for the years ended December 31, are as follows:

	Investments	Policy liabilities[1]	Deferred acquisition costs	Losses available for carry forward	Pension and other employee benefits	Other[2]	Total
As at December 31, 2019	**$ (1,040)**	**$ 1,121**	**$ 83**	**$ 697**	**$ 338**	**$ (150)**	**$ 1,049**
Acquisitions (disposals) through business combinations	**—**	**—**	**—**	**—**	**—**	**(67)**	**(67)**
Charged to statement of operations	**(149)**	**494**	**—**	**62**	**(5)**	**(31)**	**371**
Charged to other comprehensive income	**(54)**	**—**	**—**	**(50)**	**(8)**	**—**	**(112)**
Charged to equity, other than other comprehensive income	**—**	**—**	**—**	**(1)**	**—**	**—**	**(1)**
Foreign exchange rate movements and Other	**3**	**6**	**(1)**	**—**	**(3)**	**6**	**11**
As at December 31, 2020	**$ (1,240)**	**$ 1,621**	**$ 82**	**$ 708**	**$ 322**	**$ (242)**	**$ 1,251**

[1] Consists of Insurance contract liabilities and Investment contract liabilities, net of Reinsurance assets.
[2] Includes unused tax credits.

	Investments	Policy liabilities[1]	Deferred acquisition costs	Losses available for carry forward	Pension and other employee benefits	Other[2]	Total
As at December 31, 2018	$ (746)	$ 737	$ 96	$ 648	$ 319	$ (167)	$ 887
Acquisitions (disposals) through business combinations	—	—	—	—	—	(48)	(48)
Charged to statement of operations	(263)	406	(9)	63	7	50	254
Charged to other comprehensive income	(52)	(9)	—	(10)	21	(1)	(51)
Charged to equity, other than other comprehensive income	—	—	—	—	—	9	9
Foreign exchange rate movements and Other	21	(13)	(4)	(4)	(9)	7	(2)
As at December 31, 2019	$ (1,040)	$ 1,121	$ 83	$ 697	$ 338	$ (150)	$ 1,049

[1] Consists of Insurance contract liabilities and Investment contract liabilities, net of Reinsurance assets.
[2] Includes unused tax credits.

We have accumulated non-capital tax losses, primarily in Canada, the Philippines, the UK and Indonesia, totaling $3,382 ($3,317 in 2019). The benefit of these tax losses has been recognized to the extent that it is probable that the benefit will be realized. In addition, in the U.S., we have net capital losses of $19 ($1 in 2019) for which a deferred tax asset of $4 ($1 in 2019) has been recognized. Unused tax losses for which a deferred tax asset has not been recognized amount to $587 as of December 31, 2020 ($553 in 2019) primarily in the Philippines and Indonesia. We also have capital losses of $460 in the UK ($455 in 2019) and $169 in Canada ($178 in 2019) for which a deferred tax asset of $110 ($101 in 2019) has not been recognized.

We will realize the benefit of tax losses carried forward in future years through a reduction in current income taxes as and when the losses are utilized. These tax losses are subject to examination by various tax authorities and could be reduced as a result of the adjustments to tax returns. Furthermore, legislative, business or other changes may limit our ability to utilize these losses.

Included in the deferred tax asset related to losses available for carry forward are tax benefits that have been recognized on losses incurred in either the current or the preceding year. In determining if it is appropriate to recognize these tax benefits, we rely on projections of future taxable profits, and we also consider tax planning opportunities that will create taxable income in the period in which the unused tax losses can be utilized.

The non-capital losses carried forward in Canada expire beginning in 2030 and the capital losses can be carried forward indefinitely. The operating and capital losses in the UK can be carried forward indefinitely. The non-capital losses in the Philippines can be carried forward three years, and the

non-capital losses in Indonesia can be carried forward five years. The capital losses in the U.S. can be carried forward five years and expire beginning in 2024.

We recognize a deferred tax liability on all temporary differences associated with investments in subsidiaries, branches, joint ventures and associates unless we are able to control the timing of the reversal of these differences and it is probable that these differences will not reverse in the foreseeable future. As at December 31, 2020, temporary differences associated with investments in subsidiaries, branches, joint ventures and associates for which a deferred tax liability has not been recognized amount to $5,299 ($5,489 in 2019).

20.B Income Tax Expense (Benefit)

20.B.i In our Consolidated Statements of Operations, Income tax expense (benefit) for the years ended December 31 has the following components:

		2020		2019
Current income tax expense (benefit):				
Current year	**$**	**859**	$	620
Adjustments in respect of prior years, including resolution of tax disputes		**7**		(80)
Total current income tax expense (benefit)		**866**		540
Deferred income tax expense (benefit):				
Origination and reversal of temporary differences		**(435)**		(240)
Adjustments in respect of prior years, including resolution of tax disputes		**48**		(24)
Tax expense (benefit) arising from unrecognized tax losses		**15**		8
Tax rate and other legislative changes		**1**		2
Total deferred income tax expense (benefit)		**(371)**		(254)
Total income tax expense (benefit)	**$**	**495**	$	286

20.B.ii Income tax benefit (expense) recognized directly in equity for the years ended December 31:

		2020		2019
Recognized in other comprehensive income:				
Current income tax benefit (expense)	**$**	**(2)**	$	(12)
Deferred income tax benefit (expense)		**(112)**		(51)
Total recognized in other comprehensive income		**(114)**		(63)
Recognized in equity, other than other comprehensive income:				
Deferred income tax benefit (expense)		**(1)**		9
Total income tax benefit (expense) recorded in equity, including tax benefit (expense) recorded in Other comprehensive income	**$**	**(115)**	$	(54)

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

For the years ended December 31,		**2020**			2019	
			%			%
Total net income (loss)	**$**	**2,792**		$	2,947	
Add: Income tax expense (benefit)		**495**			286	
Total net income (loss) before income taxes	**$**	**3,287**		$	3,233	
Taxes at the combined Canadian federal and provincial statutory income tax rate	**$**	**871**	**26.5**	$	857	26.5
Increase (decrease) in rate resulting from:						
Tax-exempt investment (income) loss		**(253)**	**(7.7)**		(260)	(8.0)
Higher (lower) effective rates on income subject to taxation in foreign jurisdictions		**(218)**	**(6.6)**		(194)	(6.0)
Adjustments in respect of prior years, including resolution of tax disputes		**55**	**1.7**		(104)	(3.2)
Tax (benefit) cost of unrecognized tax losses and tax credits		**15**	**0.5**		8	0.2
Tax rate and other legislative changes		**1**	**—**		2	0.1
Other		**24**	**0.7**		(23)	(0.8)
Total tax expense (benefit) and effective income tax rate	**$**	**495**	**15.1**	$	286	8.8

Tax-exempt investment (income) loss includes tax rate differences related to various types of investment income or losses that are taxed at rates lower than our statutory income tax rate. Examples include, but are not limited to, dividend income capital gains arising in Canada and changes in market values including those resulting from fluctuations in foreign exchange rates.

Statutory income tax rates in other jurisdictions in which we conduct business range from 0% to 30%, which creates a tax rate differential and corresponding tax provision difference compared to the Canadian federal and provincial statutory rate when applied to foreign income not subject to tax in Canada. Generally, higher earnings in jurisdictions with higher statutory tax rates result in an increase of our tax expense, while earnings

arising in tax jurisdictions with statutory rates lower than 26.5% reduce our tax expense. These differences are reported in Higher (lower) effective rates on income subject to taxation in foreign jurisdictions. The benefit reported in 2020 included higher income in jurisdictions with low statutory income tax rates compared to 2019.

Adjustments in respect of prior periods, including the resolution of tax disputes, relates mainly to the finalization of the prior year's Canadian and U.S. tax filings in 2020. In 2019, it related to the resolution of Canadian tax matters and the finalization of the prior year's Canadian and U.S. tax filings.

Tax (benefit) cost of unrecognized tax losses and tax credits reflects unrecognized losses in Asia.

Tax rate and other legislative changes includes a remeasurement of our deferred tax balances in the UK due to the reversal of an enacted future corporate tax rate reduction, which has been partially offset by the remeasurement of our deferred tax balances in Canada due to an enacted corporate tax rate reduction in the province of Alberta. The Alberta tax rate reduction will decrease our statutory tax rate to 26.25% in 2021 and future years.

Other primarily reflects withholding taxes on distributions from our foreign subsidiaries and the benefit relating to investments in joint ventures in Asia. In 2019, Other also reflects the reversal of withholding taxes no longer expected to be paid.

21. Capital Management

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

The Board of Directors of SLF Inc. is responsible for the annual review and approval of the Company's capital plan and capital risk policy. Management oversight of our capital programs and position is provided by the Company's Executive Risk Committee, the membership of which includes senior management from the finance, actuarial, and risk management functions.

We engage in a capital planning process annually in which capital deployment options, fundraising, and dividend recommendations are presented to the Risk Committee of the Board of Directors. Capital reviews are regularly conducted which consider the potential impacts under various business, interest rate, and equity market scenarios. Relevant components of these capital reviews, including dividend recommendations, are presented to the Risk Committee on a quarterly basis. The Board of Directors is responsible for the approval of the dividend recommendations.

The capital risk policy is designed to ensure that adequate capital is maintained to provide the flexibility necessary to take advantage of growth opportunities, to support the risks associated with our businesses and to optimize return to our shareholders. This policy is also intended to provide an appropriate level of risk management over capital adequacy risk, which is defined as the risk that capital is not or will not be sufficient to withstand adverse economic conditions, to maintain financial strength or to allow us and our subsidiaries to support ongoing operations and to take advantage of opportunities for expansion. SLF Inc. manages its capital in a manner commensurate with its risk profile and control environment.

SLF Inc. is a non-operating insurance company and is subject to the LICAT guideline. As at December 31, 2020, SLF Inc.'s LICAT ratio exceeds the regulatory minimum ratio as set out by OSFI.

Sun Life Assurance, SLF's principal operating life insurance subsidiary in Canada, is also subject to the LICAT guideline. With a LICAT Ratio of 127% as at December 31, 2020, Sun Life Assurance's LICAT Ratio is above OSFI's Supervisory Target Total Ratio of 100% and minimum Total Ratio of 90%.

OSFI may intervene and assume control of a Canadian life insurance company if it deems the amount of available capital insufficient. Capital requirements may be adjusted by OSFI in the future, as experience develops or the risk profile of Canadian life insurers changes or to reflect other risks. Sun Life Assurance exceeded levels that would require regulatory or corrective action as at December 31, 2020 and December 31, 2019.

The Company's regulated subsidiaries must comply with the capital adequacy requirements imposed in the jurisdictions in which they operate. In certain jurisdictions, the payment of dividends from our subsidiaries is subject to maintaining capital levels exceeding regulatory targets and/or receiving regulatory approval. We maintained capital levels above minimum local requirements as at December 31, 2020 and December 31, 2019.

In the U.S., Sun Life Assurance operates through a branch which is subject to U.S. regulatory supervision and it exceeded the levels under which regulatory action would be required as at December 31, 2020 and December 31, 2019. In the U.S., we use captive reinsurance arrangements to provide efficient financing of U.S. statutory reserve requirements in excess of those required under IFRS. Under two such arrangements, the funding of these reserve requirements is supported by a guarantee from SLF Inc.

Our capital base consists mainly of common shareholders' equity, preferred shareholders' equity, participating policyholders' equity, non-controlling interests' equity and certain other capital securities that qualify as regulatory capital. For regulatory reporting purposes under the LICAT framework, there were further adjustments, including goodwill, non-life investments, and others as was prescribed by OSFI, to the total capital figure presented in the table below:

As at December 31,	**2020**	2019
Subordinated debt	**$ 4,781**	$ 3,538
Innovative capital instruments[1]	**200**	200
Equity:		
Preferred shareholders' equity	**2,257**	2,257
Common shareholders' equity	**22,212**	21,141
Participating policyholders' equity	**1,368**	1,091
Non-controlling interests' equity	**25**	19
Total capital	**$ 30,843**	$ 28,246

(1) Innovative capital instruments are SLEECS issued by SLCT I (Note 13). SLCT I is not consolidated by us.

22. Segregated Funds

We have segregated fund products, including variable annuities, unit-linked products and universal life insurance policies, in Canada, the U.S., the UK, and Asia. Under these contracts, the benefit amount is contractually linked to the fair value of the investments in the particular segregated fund. Policyholders can select from a variety of categories of segregated fund investments. Although the underlying assets are registered in our name and the segregated fund contract holder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the funds' investment performance. Therefore, net realized gains and losses, other net investment income earned, and expenses incurred on the segregated funds are attributable to policyholders and not to us. However, certain contracts include guarantees from us. We are exposed to equity market risk and interest rate risk as a result of these guarantees. Further details on these guarantees and our risk management activities related to these guarantees are included in the Risk Management section of the MD&A.

We derive fee income from segregated funds. Market value movements in the investments held for segregated fund holders impact the management fees earned on these funds.

The segregated fund types offered, by percentage of total investments for account of segregated fund holders, were within the following ranges as at December 31, 2020 and 2019:

Type of fund	**%**
Money market	1 to 5
Fixed income	10 to 15
Balanced	40 to 45
Equity	40 to 45

Money market funds include investments that have a term to maturity of less than one year. Fixed income funds are funds that invest primarily in investment grade fixed income securities and where less than 25% can be invested in diversified equities or high-yield bonds. Balanced funds are a combination of fixed income securities with a larger equity component. The fixed income component is greater than 25% of the portfolio. Equity consists primarily of broad-based diversified funds that invest in a well-diversified mix of Canadian, U.S. or global equities. Other funds in this category include low volatility funds, intermediate volatility funds, and high volatility funds.

22.A Investments for Account of Segregated Fund Holders

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

As at December 31,	**2020**	2019
Segregated and mutual fund units	**$ 111,789**	$ 102,071
Equity securities	**9,733**	10,565
Debt securities	**3,874**	3,825
Cash, cash equivalents and short-term securities	**693**	589
Investment properties	**387**	403
Mortgages	**19**	21
Other assets	**140**	146
Total assets	**$ 126,635**	$ 117,620
Less: Liabilities arising from investing activities	**714**	647
Total investments for account of segregated fund holders	**$ 125,921**	$ 116,973

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

Effective December 31, 2020, we combined our Insurance contracts for account of segregated fund holders and Investment contracts for account of segregated fund holders. We have updated the prior period to reflect this change in presentation.

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

For the years ended December 31,	**2020**	2019
Balance as at January 1	**$ 116,973**	$ 103,062
Additions to segregated funds:		
Deposits	**12,880**	11,958
Net transfer (to) from general funds	**(1,825)**	(437)
Net realized and unrealized gains (losses)	**5,643**	11,544
Other investment income	**4,275**	4,665
Total additions	**$ 20,973**	$ 27,730
Deductions from segregated funds:		
Payments to policyholders and their beneficiaries	**10,618**	12,024
Management fees	**1,126**	1,109
Taxes and other expenses	**396**	385
Foreign exchange rate movements	**(115)**	301
Total deductions	**$ 12,025**	$ 13,819
Net additions (deductions)	**$ 8,948**	$ 13,911
Balance as at December 31	**$ 125,921**	$ 116,973

23. Commitments, Guarantees and Contingencies

23.A Lease Commitments

We lease offices and certain equipment. These are operating leases with rents charged to operations in the year to which they relate. Total future rental payments for the remainder of these leases total $1,082 ($1,114 as at December 31, 2019). The future rental payments by year of payment are included in the MD&A as described in Note 6.

23.B Contractual Commitments

In the normal course of business, various contractual commitments are outstanding, which are not reflected in our Consolidated Financial Statements. In addition to loan commitments for debt securities and mortgages included in Note 6.A.i, we have equity, investment property, and property and equipment commitments. As at December 31, 2020, we had a total of $3,583 of contractual commitments outstanding ($3,583 as at December 31, 2019). The expected maturities of these commitments are included in the MD&A as described in Note 6.

23.C Letters of Credit

We issue commercial letters of credit in the normal course of business. As at December 31, 2020, we had credit facilities of $846 available for the issuance of letters of credit ($859 as at December 31, 2019), from which a total of $122 in letters of credit were outstanding ($214 as at December 31, 2019).

23.D Commission on Release

Commissions on Release ("CORe") is a program designed to facilitate the transfer of blocks of business between advisors in order to provide ongoing service and advice to our Clients. We facilitate and administer these transactions including payment and collection streams. Under the CORe program, when an eligible advisor releases Clients they are servicing, we are contractually obligated to pay them the associated CORe value, based on a specified formula as stipulated in the advisor contract. The value of the CORe commitment will vary for blocks of business which have not been released by an active advisor. The occurrence of future events that will trigger an advisor to release their block of business and the value of the related CORe commitment at that future release date is difficult to predict. As a result of uncertainty in the timing of the triggering event, we cannot reliably estimate our commitment under the CORe program. Due to the nature of the program, in the normal course of business, the commitment related to the future payment to advisors on release of a block of business would be expected to be matched or partially matched by a corresponding amount related to the receivable on the assignment of blocks of business to new advisors, resulting in an immaterial impact to earnings and liquidity in any reporting period.

23.E Indemnities and Guarantees

In the normal course of our business, we have entered into agreements that include indemnities in favour of third parties, such as confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, trade-mark licensing agreements, underwriting and agency agreements, information technology agreements, distribution agreements, financing agreements, the sale of equity

interests, and service agreements. These agreements may require us to compensate the counterparties for damages, losses or costs incurred by the counterparties as a result of breaches in representation, changes in regulations (including tax matters), or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. We have also agreed to indemnify our directors and certain of our officers and employees in accordance with our by-laws. These indemnification provisions will vary based upon the nature and terms of the agreements. In many cases, these indemnification provisions do not contain limits on our liability, and the occurrence of contingent events that will trigger payment under these indemnities is difficult to predict. As a result, we cannot estimate our potential liability under these indemnities. We believe that the likelihood of conditions arising that would trigger these indemnities is remote and, historically, we have not made any significant payment under such indemnification provisions. In certain cases, we have recourse against third parties with respect to the aforesaid indemnities, and we also maintain insurance policies that may provide coverage against certain of these claims.

In the normal course of our business, we have entered into purchase and sale agreements that include indemnities in favour of third parties. These agreements may require us to compensate the counterparties for damages, losses, or costs incurred by the counterparties as a result of breaches in representation. As at December 31, 2020, we are not aware of any breaches in representations that would result in any payment required under these indemnities that would have a material impact on our Consolidated Financial Statements.

Guarantees made by us that can be quantified are included in Note 6.A.i.

23.F Guarantees of Sun Life Assurance Preferred Shares and Subordinated Debentures

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

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

Results for the years ended	SLF Inc. (unconsolidated)	Sun Life Assurance (consolidated)	Other subsidiaries of SLF Inc. (combined)	Consolidation adjustments	SLF Inc. (consolidated)
December 31, 2020					
Revenue	**$ 266**	**$ 35,801**	**$ 9,430**	**$ (2,160)**	**$ 43,337**
Shareholders' net income (loss)	**$ 2,498**	**$ 1,349**	**$ 1,030**	**$ (2,379)**	**$ 2,498**
December 31, 2019					
Revenue	$ 213	$ 33,693	$ 7,516	$ (1,743)	$ 39,679
Shareholders' net income (loss)	$ 2,713	$ 1,750	$ 881	$ (2,631)	$ 2,713

Assets and liabilities as at	SLF Inc. (unconsolidated)	Sun Life Assurance (consolidated)	Other subsidiaries of SLF Inc. (combined)	Consolidation adjustments	SLF Inc. (consolidated)
December 31, 2020					
Invested assets	**$ 26,019**	**$ 172,439**	**$ 9,974**	**$ (30,520)**	**$ 177,912**
Total other general fund assets	**$ 7,800**	**$ 24,327**	**$ 20,691**	**$ (33,640)**	**$ 19,178**
Investments for account of segregated fund holders	**$ —**	**$ 125,859**	**$ 62**	**$ —**	**$ 125,921**
Insurance contract liabilities	**$ —**	**$ 145,949**	**$ 10,637**	**$ (10,813)**	**$ 145,773**
Investment contract liabilities	**$ —**	**$ 3,189**	**$ —**	**$ —**	**$ 3,189**
Total other general fund liabilities	**$ 9,350**	**$ 25,920**	**$ 13,741**	**$ (26,745)**	**$ 22,266**
December 31, 2019					
Invested assets	$ 23,639	$ 152,512	$ 8,552	$ (23,084)	$ 161,619
Total other general fund assets	$ 4,135	$ 24,000	$ 11,955	$ (21,480)	$ 18,610
Investments for account of segregated fund holders	$ —	$ 116,918	$ 55	$ —	$ 116,973
Insurance contract liabilities	$ —	$ 131,428	$ 9,644	$ (9,888)	$ 131,184
Investment contract liabilities	$ —	$ 3,116	$ —	$ —	$ 3,116
Total other general fund liabilities	$ 4,376	$ 23,780	$ 8,053	$ (14,788)	$ 21,421

23.G Legal and Regulatory Proceedings

We are regularly involved in legal actions, both as a defendant and as a plaintiff. Legal actions naming us as a defendant ordinarily involve our activities as a provider of insurance protection and wealth management products, as an investor and investment advisor, and as an employer. In addition, government and regulatory bodies in Canada, the U.S., the UK, and Asia, including federal, provincial, and state securities and insurance regulators and government authorities, from time to time, make inquiries and require the production of information or conduct examinations or investigations concerning our compliance with insurance, securities, and other laws.

Provisions for legal proceedings related to insurance contracts, such as for disability and life insurance claims and the cost of litigation, are included in Insurance contract liabilities in our Consolidated Statements of Financial Position. Other provisions are established outside of the Insurance contract liabilities if, in the opinion of management, it is both probable that a payment will be required and a reliable estimate can be made of the amount of the obligation. Management reviews the status of all proceedings on an ongoing basis and exercises judgment in resolving them in such manner as management believes to be in our best interest.

Two class action lawsuits have been filed against Sun Life Assurance in connection with sales practices relating to, and the administration of, individual policies issued by the Metropolitan Life Insurance Company ("MLIC"). These policies were assumed by Clarica when Clarica acquired the bulk of MLIC's Canadian operations in 1998 and subsequently assumed by Sun Life Assurance as a result of its amalgamation with Clarica. One of the lawsuits (*Fehr et al v Sun Life Assurance Company of Canada*) is issued in Ontario and the other (*Alamwala v Sun Life Assurance Company of Canada*) is in British Columbia. The *Fehr* action has been certified as a class action and notice will be made to class members during the first half of 2021. Sun Life Assurance has brought a motion scheduled for mid-February 2022 for summary judgment seeking to dismiss all of the claims. The other action (*Alamwala v Sun Life Assurance Company of Canada*) has remained largely dormant since it was commenced in 2011 and has not been certified. We will continue to vigorously defend against the claims in these actions. In connection with the acquisition of the Canadian operations of MLIC, MLIC agreed to indemnify Clarica for certain losses, including those incurred relating to the sales of its policies. Should either of the *Fehr* or the *Alamwala* lawsuits result in a loss, Sun Life Assurance will seek recourse against MLIC under that indemnity through arbitration.

Management does not believe that the probable conclusion of any current legal or regulatory matter, either individually or in the aggregate, will have a material adverse effect on the Consolidated Statements of Financial Position or the Consolidated Statements of Operations.

24. Related Party Transactions

SLF Inc. and its subsidiaries, joint ventures and associates transact business worldwide. All transactions between SLF Inc. and its subsidiaries have been eliminated on consolidation. Transactions with joint ventures and associates, which are also related parties, are disclosed in Note 16. Transactions between the Company and related parties are executed and priced on an arm's-length basis in a manner similar to transactions with third parties.

24.A Transactions with Key Management Personnel, Remuneration and Other Compensation

Key management personnel refers to the executive team and Board of Directors of SLF Inc. These individuals have the authority and responsibility for planning, directing, and controlling the activities of the Company. The aggregate compensation to the executive team and directors are as follows:

For the years ended December 31,	**2020**		2019	
	Executive team	**Directors**	Executive team	Directors
Number of individuals	**12**	**10**	12	10
Base salary and annual incentive compensation	**$ 18**	**$ —**	$ 17	$ —
Additional short-term benefits and other	**$ 1**	**$ 1**	$ 1	$ 1
Share-based long-term incentive compensation	**$ 23**	**$ 2**	$ 22	$ 2
Value of pension and post-retirement benefits	**$ 2**	**$ —**	$ 2	$ —

24.B Other Related Party Transactions

We provide investment management services for our pension plans. The services are provided on substantially the same terms as for comparable transactions with third parties. We also hold units of investment funds managed by certain of our joint ventures. The carrying amount of our investment in these funds is included in Note 16.D.

25. Pension Plans and Other Post-Retirement Benefits

We sponsor defined benefit pension plans and defined contribution plans for eligible employees. All of our material defined benefit plans worldwide are closed to new entrants with new hires participating in defined contribution plans. Material defined benefit plans are located in Canada, the U.S., and the UK. The defined benefit pension plans offer benefits based on length of service and final average earnings and certain plans offer some indexation of benefits. The specific features of these plans vary in accordance with the employee group and countries in which employees are located. In addition, we maintain supplementary non-contributory defined benefit pension arrangements for eligible employees, which are primarily for benefits which are in excess of local tax limits. As at December 31, 2014, there are no active members in the UK and the U.S. defined benefit plans continuing to accrue future service benefits. On January 1, 2009, the Canadian defined benefit plans were closed to new employees. Canadian employees hired before January 1, 2009 continue to earn future service benefits in the previous plans, which includes both defined benefit and defined contribution components, while new hires since then are eligible to join a defined contribution plan. In addition, one small defined benefit plan in the Philippines remains open to new hires.

Our funding policy for defined benefit pension plans is to make at least the minimum annual contributions required by regulations in the countries in which the plans are offered. Our UK defined benefit pension scheme is governed by pension trustees. In other countries in which we operate, the defined benefit pension arrangements are governed by local pension committees. Significant plan changes require the approval of the Board of Directors of the sponsoring subsidiary of SLF Inc.

We also established defined contribution plans for eligible employees. Our contributions to these defined contribution pension plans may be subject to certain vesting requirements. Generally, our contributions are a set percentage of employees' annual income and may be a set percentage of employee contributions, up to specified levels.

In addition to our pension plans, in Canada and the U.S., we provide certain post-retirement health care and life insurance benefits to eligible employees and to their dependents upon meeting certain requirements. Eligible retirees may be required to pay a portion of the premiums for these benefits and, in general, deductible amounts and co-insurance percentages apply to benefit payments. These post-retirement benefits are not pre-funded. In Canada, certain post-retirement health care and life insurance benefits are provided for eligible employees who retired before December 31, 2015. Eligible employees in Canada who retire after December 31, 2015 will have access to voluntary retiree-paid health care coverage. In the U.S., certain post-retirement health care and life insurance benefits are provided to eligible retirees. In the U.S., employees who were not age 50 with 10 years of service as of December 31, 2015 only have access to subsidized retiree health care coverage until eligible for Medicare. Eligible existing and future retirees and covered dependents eligible for Medicare receive an annual contribution to a health reimbursement account to be applied against individual coverage and other eligible expenses.

25.A Risks Associated with Employee Defined Benefit Plans

With the closure of the material defined benefit pension and retiree benefit plans to new entrants, the volatility associated with future service accruals for active members has been limited and will decline over time.

The major risks remaining in relation to past service obligations are increases in liabilities due to a decline in discount rates, greater life expectancy than assumed and adverse asset returns. We have significantly de-risked the investments of our material defined benefit pension plans Company-wide by shifting the pension asset mix away from equities and into more fixed income and liability-matching investments. In 2018, the risk in our UK pension plan was reduced through a buy-in insurance contract protecting the majority of pensioner benefits. The target for our material funded defined benefit plans is to minimize volatility in funded status arising from changes in discount rates and exposure to equity markets.

25.B Defined Benefit Pension and Other Post-Retirement Benefit Plans

The following tables set forth the status of the defined benefit pension and other post-retirement benefit plans:

	2020			2019		
	Pension	**Other post-retirement**	**Total**	Pension	Other post-retirement	Total
Change in defined benefit obligations:						
Defined benefit obligation, January 1	**$ 3,805**	**$ 279**	**$ 4,084**	$ 3,458	$ 262	$ 3,720
Current service cost	**58**	**6**	**64**	52	5	57
Interest cost	**110**	**9**	**119**	123	10	133
Actuarial losses (gains)	**278**	**(1)**	**277**	360	20	380
Benefits paid	**(184)**	**(14)**	**(198)**	(158)	(14)	(172)
Curtailment losses (gains)	**—**	**—**	**—**	1	—	1
Settlements	**(5)**	**—**	**(5)**	—	—	—
Foreign exchange rate movement	**(2)**	**(2)**	**(4)**	(31)	(4)	(35)
Defined benefit obligation, December 31	**$ 4,060**	**$ 277**	**$ 4,337**	$ 3,805	$ 279	$ 4,084
Change in plan assets:						
Fair value of plan assets, January 1	**$ 3,596**	**$ —**	**$ 3,596**	$ 3,253	$ —	$ 3,253
Administrative expense	**(1)**	**—**	**(1)**	(1)	—	(1)
Interest income on plan assets	**102**	**—**	**102**	115	—	115
Return on plan assets (excluding amounts included in net interest expense)	**305**	**—**	**305**	306	—	306
Employer contributions	**97**	**14**	**111**	111	14	125
Benefits paid	**(184)**	**(14)**	**(198)**	(158)	(14)	(172)
Settlements	**(7)**	**—**	**(7)**	—	—	—
Foreign exchange rate movement	**1**	**—**	**1**	(30)	—	(30)
Fair value of plan assets, December 31	**$ 3,909**	**$ —**	**$ 3,909**	$ 3,596	$ —	$ 3,596
Amounts recognized on Statement of Financial Position:						
Fair value of plan assets	**$ 3,909**	**$ —**	**$ 3,909**	$ 3,596	$ —	$ 3,596
Defined benefit (obligation)	**(4,060)**	**(277)**	**(4,337)**	(3,805)	(279)	(4,084)
Net recognized (liability) asset, December 31	**$ (151)**	**$ (277)**	**$ (428)**	$ (209)	$ (279)	$ (488)
Components of net benefit expense recognized:						
Current service cost	**$ 58**	**$ 6**	**$ 64**	$ 52	$ 5	$ 57
Administrative expense	**1**	**—**	**1**	1	—	1
Net interest expense (income)	**8**	**9**	**17**	8	10	18
Curtailment losses (gains)	**—**	**—**	**—**	1	—	1
Settlements	**2**	**—**	**2**	—	—	—
Other long-term employee benefit losses (gains)	**—**	**—**	**—**	—	5	5
Net benefit expense	**$ 69**	**$ 15**	**$ 84**	$ 62	$ 20	$ 82
Remeasurement of net recognized (liability) asset:						
Return on plan assets (excluding amounts included in net interest expense)	**$ 305**	**$ —**	**$ 305**	$ 306	$ —	$ 306
Actuarial gains (losses) arising from changes in demographic assumptions	**(3)**	**2**	**(1)**	28	1	29
Actuarial gains (losses) arising from changes in financial assumptions	**(278)**	**(19)**	**(297)**	(393)	(18)	(411)
Actuarial gains (losses) arising from experience adjustments	**3**	**18**	**21**	5	2	7
Foreign exchange rate movement	**—**	**2**	**2**	2	4	6
Components of defined benefit costs recognized in Other comprehensive income (loss)	**$ 27**	**$ 3**	**$ 30**	$ (52)	$ (11)	$ (63)

25.C Principal Assumptions for Significant Plans

	2020			2019		
	Canada %	**UK %**	**U.S. %**	Canada %	UK %	U.S. %
To determine defined benefit obligation at end of year:						
Discount rate for pension plans	**2.70**	**1.30**	**2.65**	3.00	2.00	3.45
Rate of compensation increase	**2.80**	**n/a**	**n/a**	3.00	n/a	n/a
Pension increases	**0.00-0.05**	**2.95**	**n/a**	0.00-0.15	2.95	n/a
To determine net benefit expense for year:						
Discount rate for pension plans	**3.00**	**2.00**	**3.45**	3.60	2.85	4.40
Rate of compensation increase	**3.00**	**n/a**	**n/a**	3.00	n/a	n/a
Pension increases	**0.00-0.015**	**2.95**	**n/a**	0.00-0.15	3.15	n/a
Health care trend rates:						
Initial health care trend rate	**5.30**	**n/a**	**6.50**	5.36	n/a	6.50
Ultimate health care trend rate	**4.00**	**n/a**	**5.00**	4.50	n/a	5.00
Year ultimate health care trend rate reached	**2040**	**n/a**	**2025**	2030	n/a	2025

	2020			2019		
	Canada	**UK**	**U.S.**	Canada	UK	U.S.
Mortality rates:						
Life expectancy (in years) for individuals currently at age 65:						
Male	**23**	**23**	**22**	23	23	22
Female	**25**	**25**	**23**	25	24	24
Life expectancy (in years) at 65 for individuals currently at age 45:						
Male	**24**	**25**	**23**	24	25	24
Female	**26**	**27**	**25**	26	27	25
Average duration (in years) of pension obligation	**17.2**	**17.7**	**12.7**	16.7	16.6	13.4

Discount Rate, Rate of Compensation Increase and Health Care Cost

The major economic assumptions which are used in determining the actuarial present value of the accrued benefit obligations vary by country.

The discount rate assumption used for material plans is determined by reference to the market yields, as of December 31, of high-quality corporate bonds that have terms to maturity approximating the terms of the related obligation. In countries where a deep corporate market does not exist, government bonds are used. Compensation and health care trend assumptions are based on expected long-term trend assumptions which may differ from actual results.

25.D Sensitivity of Key Assumptions

The following table provides the potential impact of changes in key assumptions on the defined benefit obligation for pension and other post-retirement benefit plans as at December 31, 2020. These sensitivities are hypothetical and should be used with caution. The impact of changes in each key assumption may result in greater than proportional changes in sensitivities.

	Pension	**Post-retirement benefits**
Interest/discount rate sensitivity:[1]		
1% decrease	**$ 754**	**$ 34**
1% increase	**$ (586)**	**$ (29)**
Rate of compensation increase assumption:		
1% decrease	**$ (82)**	**n/a**
1% increase	**$ 86**	**n/a**
Health care trend rate assumption:		
1% decrease	**n/a**	**$ (13)**
1% increase	**n/a**	**$ 15**
Mortality rates:[2]		
10% decrease	**$ 98**	**$ 6**

(1) Represents a parallel shift in interest rates across the entire yield curve, resulting in a change in the discount rate assumption.
(2) Represents 10% decrease in mortality rates at each age.

25.E Fair Value of Plan Assets

Composition of fair value of plan assets, December 31:

	2020	2019
Equity investments	**3 %**	3 %
Fixed income investments	**73 %**	77 %
Real estate investments	**7 %**	7 %
Qualifying insurance contract	**8 %**	8 %
Other	**9 %**	5 %
Total composition of fair value of plan assets	**100 %**	100 %

The fair value of our equity investments in 2020 and 2019 are consistent with Level 1 or Level 2 fair value hierarchy. In 2020,2% of our fixed income investments (3% in 2019) are determined based on valuation techniques consistent with Level 1 of the fair value hierarchy.

The assets of the defined benefit pension plans are primarily held in trust for plan members, and are managed within the provisions of each plan's investment policies and procedures. Diversification of the investments is used to limit credit, market, and foreign currency risks. We have significantly de-risked the investments of our material defined benefit pension plans by shifting the pension asset mix away from equities and into more fixed income and liability-matching investments. In 2018, the risk in our UK pension plan was reduced through a buy-in insurance contract, protecting the majority of pensioner benefits. The long-term investment objectives of the defined benefit pension plans are to equal or exceed the rate of growth of the liabilities. Over shorter periods, the objective of the defined benefit pension plan investment strategy is to minimize volatility in the funded status. Liquidity is managed with consideration to the cash flow requirements of the liabilities.

25.F Future Cash Flows

The following tables set forth the expected contributions and expected future benefit payments of the defined benefit pension and other post-retirement benefit plans:

	Pension	Post-retirement	Total
Expected contributions for the next 12 months	$ 84	$ 16	$ 100

Expected Future Benefit Payments

	2021	2022	2023	2024	2025	2026 to 2030
Pension	$ 153	$ 149	$ 159	$ 161	$ 167	$ 899
Post-retirement	16	16	17	17	18	93
Total	$ 169	$ 165	$ 176	$ 178	$ 185	$ 992

25.G Defined Contribution Plans

We expensed $144 in 2020 ($131 for 2019) with respect to defined contribution plans.

26. Earnings (Loss) Per Share

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

For the years ended December 31,	**2020**	2019
Common shareholders' net income (loss) for basic earnings per share	**$ 2,404**	$ 2,618
Add: Increase in income due to convertible instruments[1]	**10**	10
Common shareholders' net income (loss) on a diluted basis	**$ 2,414**	$ 2,628
Weighted average number of common shares outstanding for basic earnings per share (in millions)	**585**	592
Add: Dilutive impact of stock options[2] (in millions)	**—**	1
Dilutive impact of convertible instruments[1] (in millions)	**4**	4
Weighted average number of common shares outstanding on a diluted basis (in millions)	**589**	597
Basic earnings (loss) per share	**$ 4.11**	$ 4.42
Diluted earnings (loss) per share	**$ 4.10**	$ 4.40

(1) The convertible instruments are the SLEECS B issued by SLCT I.
(2) Excludes the impact of 1 million stock options for the year ended December 31, 2020 (1 million for the year ended December 31, 2019) because these stock options were anti-dilutive for the period.

27. Accumulated Other Comprehensive Income (Loss)

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

	2020			2019		
For the years ended December 31,	**Balance, beginning of period**	**Other comprehensive income (loss)**	**Balance, end of period**	Balance, beginning of period	Other comprehensive income (loss)	Balance, end of period
Items that may be reclassified subsequently to income:						
Unrealized foreign currency translation gains (losses), net of hedging activities	**$ 1,359**	**$ (204)**	**$ 1,155**	$ 1,923	$ (564)	$ 1,359
Unrealized gains (losses) on available-for-sale assets	**313**	**319**	**632**	(56)	369	313
Unrealized gains (losses) on cash flow hedges	**(7)**	**(6)**	**(13)**	(21)	14	(7)
Share of other comprehensive income (loss) in joint ventures and associates	**(33)**	**(9)**	**(42)**	(24)	(9)	(33)
Items that will not be reclassified subsequently to income:						
Remeasurement of defined benefit plans	**(305)**	**22**	**(283)**	(263)	(42)	(305)
Revaluation surplus on transfers to investment properties	**145**	**—**	**145**	145	—	145
Total	**$ 1,472**	**$ 122**	**$ 1,594**	$ 1,704	$ (232)	$ 1,472
Total attributable to:						
Participating policyholders	**$ 11**	**$ (6)**	**$ 5**	$ 14	$ (3)	$ 11
Shareholders	**1,461**	**128**	**1,589**	1,690	(229)	1,461
Total	**$ 1,472**	**$ 122**	**$ 1,594**	$ 1,704	$ (232)	$ 1,472

28. Subsequent Events

On November 18, 2020, we entered into a 15-year exclusive bancassurance partnership with Asia Commercial Joint Stock Bank ("ACB") effective January 1, 2021. The partnership significantly expands our distribution capabilities and supports our ambition to be a leader in Asia through distribution excellence in higher growth markets. An initial payment of approximately $472 was made in January 2021, based on the contractual terms of the agreement. The initial payment will be capitalized as an intangible asset and will be amortized over the life of the contract based on a units-of-production method.

On December 21, 2020, SLF Inc. announced its intention to redeem all of the outstanding $350 principal amount of Series 2016-1 Subordinated Unsecured 3.10% Fixed/Floating Debentures (the "Debentures") in accordance with the redemption terms attached to the Debentures. The redemption will be funded from existing cash and liquid assets. The Debentures are redeemable at SLF Inc.'s option on or after February 19, 2021 at a redemption price per Debenture equal to the principal amount together with accrued and unpaid interest to the date of the redemption. SLF Inc. intends to redeem the Debentures on February 19, 2021.

On January 5, 2021, we purchased 51% of Crescent Capital Group LP ("Crescent"), a U.S. based global alternative credit investment manager. Crescent will form part of our Asset Management business segment. On January 5, 2021, total cash consideration of $308 cash was paid. The acquisition will extend SLC Management's solutions in alternative credit, which will benefit existing and prospective clients. Crescent minority shareholders also have the option to require us to purchase their shares ("put option") in 2026. We have a call option to acquire the remaining outstanding shares held by these minority shareholders commencing in 2026. The fair value of the put option liability will be accounted for as “other financial liabilities” and any excess over the carrying amounts arising from transactions relating to non-controlling shareholders recorded as a reduction to retained earnings. The agreement also includes contingent payment based on the achievement of certain milestones. Due to the recent close of this transaction, the fair value determination and purchase accounting have not been completed.

Annual Information Form

Sun Life Financial Inc.
For the Year Ended December 31, 2020

February 10, 2021

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[1] As indicated, parts of the Company's MD&A, consolidated financial statements and accompanying notes for the year ended December 31, 2020 are incorporated by reference in this AIF. The 2020 MD&A (as defined below) and the 2020 Consolidated Financial Statements (as defined below) may be accessed at www.sedar.com and www.sec.gov, respectively.

The following defined terms are used in this document.

Abbreviation	Description	Abbreviation	Description
AIF	Annual Information Form	**OSFI**	Office of the Superintendent of Financial Institutions, Canada
Board	The Board of Directors of SLF Inc.	**SEC**	United States Securities and Exchange Commission
IFRS	International Financial Reporting Standards	**Sun Life Assurance**	Sun Life Assurance Company of Canada
LICAT	Life Insurance Capital Adequacy Test	**SLF Inc.**	Sun Life Financial Inc.
MD&A	Management's Discussion & Analysis	**Superintendent**	The Superintendent under the Office of the Superintendent of Financial Institutions Act
NAIC	National Association of Insurance Commissioners, United States		

Presentation of Information

In this AIF, SLF Inc. and its consolidated subsidiaries are collectively referred to as “Sun Life”, the “Company”, “we”, “us” or “our” and also includes, where applicable, our joint ventures and associates.

Unless otherwise indicated, all information in this AIF is presented as at and for the year ended December 31, 2020, and amounts are expressed in Canadian dollars. Financial information is presented in accordance with IFRS and the accounting requirements of OSFI.

Documents Incorporated by Reference

The following documents are incorporated by reference in and form part of this AIF:
(i) SLF Inc.'s MD&A for the year ended December 31, 2020 (our “2020 MD&A”), and
(ii) SLF Inc.'s Consolidated Financial Statements and accompanying notes for the year ended December 31, 2020 (our “2020 Consolidated Financial Statements”).

These documents have been filed with securities regulators in Canada and with the SEC and may be accessed at www.sedar.com and www.sec.gov, respectively.

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. Certain statements in this AIF and the documents incorporated by reference herein including, (i) statements relating to our strategies, (ii) statements that are predictive in nature, (iii) statements that depend upon or refer to future events or conditions, and (iv) statements that include words such as “achieve”, “aim”, “ambition”, “anticipate”, “aspiration”, “assumption”, “believe”, "continue", “could”, “estimate”, “expect”, “goal”, "initiatives", “intend”, “may”, “objective”, “outlook”, “plan”, "potential", “project”, “seek”, “should”, “strategy”, “strive”, “target”, “will” and similar expressions are forward-looking statements. Forward-looking statements include 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, particularly in light of the ongoing and developing COVID-19 pandemic and its impact on the global economy and its uncertain impact on our business. 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 impact of the COVID-19 pandemic and related economic conditions on our operations, liquidity, financial conditions or results and the matters set out in this AIF under the heading Risk Factors and in our annual MD&A under the heading Forward-Looking Statements, and the factors detailed in our annual and interim financial statements and other filings with Canadian and U.S. securities regulators, which are available for review at www.sedar.com and www.sec.gov, respectively.

Important risk factors that could cause our assumptions and estimates, and expectations and projections to be inaccurate and our actual results or events to differ materially from those expressed in or implied by the forward-looking statements contained in this document, are set out below. The realization of our forward-looking statements, essentially depends on our business performance which, in turn, is subject to many risks, which have been further heightened with the current COVID-19 pandemic given the uncertainty of its duration and impact. 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; and fluctuations in foreign currency exchange rates; **insurance risks** - related to policyholder behaviour; mortality experience, morbidity experience and longevity; product design and pricing; the impact of higher-than-expected future expenses; and the availability, cost and effectiveness of reinsurance; **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 mergers, acquisitions, strategic investments and divestitures; the impact of competition; the performance of our investments and investment portfolios managed for Clients; changes in the legal or regulatory environment, including capital requirements; the environment and social, 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; 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** - COVID-19 matters, including the severity, duration and spread of COVID-19, actions by governments, monetary authorities and regulators in response to the COVID-19 pandemic, its impact on the global economy and its impact on Sun Life's business, financial condition and/or results; risks associated with IFRS 17 and 9; 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 judgments 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.

Corporate Structure

SLF Inc. was incorporated under the Insurance Companies Act, Canada (the “Insurance Act”) on August 5, 1999, to become the holding company of Sun Life Assurance in connection with the demutualization of Sun Life Assurance.

Sun Life Assurance was incorporated in 1865 as a stock insurance company and was converted into a mutual insurance company in 1962. On March 22, 2000, Sun Life Assurance implemented a plan of demutualization under which it converted back to a stock company pursuant to Letters Patent of Conversion issued under the Insurance Act. Under this plan of demutualization, Sun Life Assurance became a wholly-owned subsidiary of SLF Inc.

The head and registered office of SLF Inc. is located at 1 York Street, Toronto, Ontario, M5J 0B6.

SLF Inc. conducts its business worldwide through direct and indirect operating subsidiaries, joint ventures and associates. SLF Inc.’s principal subsidiaries are included in the subsidiaries listed in SLF Inc.’s annual report and that list of subsidiaries is incorporated herein by reference. That list includes the percentage of voting shares owned by SLF Inc., directly or indirectly, and where those companies are incorporated, continued, formed or organized. SLF Inc.’s current annual report is accessible on www.sedar.com, www.sec.gov and www.sunlife.com.

We manage our operations and report our financial results in five business segments: Canada, United States (“U.S.”), Asset Management, Asia and Corporate.

Development of the Business

Sun Life is a leading international financial services organization providing insurance, wealth and asset management solutions to individual and corporate Clients. Sun Life has operations in a number of markets worldwide, including Canada, the United States, the United Kingdom (“UK”), Ireland, Hong Kong, the Philippines, Japan, Indonesia, India, China, Australia, Singapore, Vietnam, Malaysia and Bermuda. As of December 31, 2020, Sun Life had total assets under management of $1.2 trillion.

Three Year History: Acquisitions, Disposals, and Other Developments

We assess our businesses and corporate strategies on an ongoing basis to ensure that we make optimal use of our capital and provide maximum shareholder value. The following summary outlines our major acquisitions, dispositions and other developments in the past three years in our business segments. Additional information is provided in Note 3 to SLF Inc.'s 2020 Consolidated Financial Statements.

On December 2, 2020, we announced that our President and Chief Executive Officer, Dean Connor, intends to retire on August 6, 2021. Kevin Strain, Executive Vice-President and Chief Financial Officer, will be appointed as President and a member of the Board effective February 15, 2021. Mr. Strain will assume the Chief Executive Officer role upon Mr. Connor's retirement in August. Mr. Connor will also retire from the Board in accordance with company policy in August 2021.

In early 2020, the world was impacted by COVID-19, which was declared a pandemic by the World Health Organization. The COVID-19 pandemic has affected all areas of our business and we are there for our Clients, advisors, employees, communities and shareholders. The path and implications of the COVID-19 pandemic are still uncertain and dependent on the progression of the virus, including any variant strains, potential treatments and therapies, the availability of vaccines and on actions taken by governments, businesses and individuals, which could vary by country and result in differing outcomes. Given the extent of the circumstances, it is difficult to reliably measure or predict the potential impact of this uncertainty on our future financial results. Additional information can be found in our 2020 MD&A under the heading "COVID 19", which section is incorporated by reference herein.

Canada

In 2020, we continued to make strategic investments and collaborations, including with Dialogue, a Canadian telemedicine provider supporting our Lumino Health virtual health care platform, and with GoRendezvous, an online booking software company that allows Clients to connect with paramedical service providers digitally and schedule appointments.

In January 2018, we acquired Excel Funds Management Inc. and Excel Investment Counsel Inc., a Canadian firm specializing in the emerging markets asset class.

U.S.

In June 2018, we acquired Maxwell Health, a Boston based start-up with a comprehensive employee benefits platform.

Effective January 1, 2018, our International business unit was transferred from the U.S. to Asia.

Asset Management

On January 5, 2021, we completed the acquisition of a majority stake in Crescent Capital Group LP ("Crescent"), a global alternative credit investment manager, forming the alternative credit investing pillar of SLC Management. For additional information, refer to Note 28 of our 2020 Consolidated Financial Statements.

On July 1, 2020, we acquired 80% of InfraRed Capital Partners ("InfraRed"), a UK-based global infrastructure and real estate investment manager, as well as the ability to acquire the remaining interest in the future. For additional information, refer to Note 3 of our 2020 Consolidated Financial Statements.

In July 2019, we completed the acquisition of a majority stake in BentallGreenOak ("BGO"), forming the real estate pillar of SLC Management. For additional information, refer to Note 3 of our 2020 Consolidated Financial Statements.

Asia

In January 2020, we combined our International business and Hong Kong business into a new management structure called "International Hubs", to leverage the high-net-worth opportunities in Asia and offer our Clients and distribution partners best-in-class product and service offerings across all geographies. "Local Markets" is comprised of the Philippines, Indonesia, India, China, Malaysia and Vietnam. "International Hubs" is comprised of International and Hong Kong.

Effective January 1, 2018, our International business unit was transferred from the U.S. to Asia.

Vietnam

Effective January 1, 2021, we launched an exclusive 15-year bancassurance partnership with Asia Commercial Joint Stock Bank for the exclusive distribution of life insurance products of Sun Life Vietnam Insurance Company Limited ("Sun Life Vietnam").

In February 2020, we sold our ownership interest in Crescent Asia Limited, the holding company of Global Online Financial Solutions Limited, which operates TIMO, Vietnam's first digital bank. The previously disclosed arrangement with TIMO to offer life and health insurance products of Sun Life Vietnam to TIMO's membership base is still in effect.

In October 2019, we entered into a 15-year bancassurance partnership with Tien Phong Commercial Joint Stock Bank, a digital leader in Vietnamese banking, for the exclusive distribution of life insurance products of Sun Life Vietnam.

International Hubs

In December 2018, we completed a strategic investment in Bowtie Life Insurance Company Limited ("Bowtie"). Bowtie offers insurance products in or from Hong Kong through its digital distribution channels without the use of any conventional channels involving insurance agents, banks or insurance brokers.

Business of Sun Life

Information about our business and operating segments, our strategy, products and methods of distribution, risk management policies and investment activities, is included in the 2020 MD&A, which is incorporated by reference in this AIF.

The global financial services industry continues to evolve in response to demographic, economic, and technological trends. Specific trends that have an impact on our businesses include:

Demographic

- Major demographic shifts in developed markets include the aging of baby boomers and the growth of millennials as a client segment. Aging baby boomers are generating greater demand for retirement solutions and health solutions as they retire, while millennials seek holistic financial advice and solutions, including protection and wealth accumulation products in preparation for major life events.
- The number of High Net Worth Individuals ("HNWI") and their pool of wealth continues to expand. Within this segment, Asia has witnessed the fastest growth, surpassing North America as the region with the largest share of wealth held by HNWIs. As this segment continues to grow, opportunities will exist for financial service providers, with individuals seeking solutions that enable them to optimally transfer wealth to future generations.
- The trend of governments and employers downloading responsibility to individuals continues. This has created demand for protection, group benefits and group retirement solutions as individuals seek to fill the gaps. To help them make some of these decisions, consumers are seeking financial advice and assistance with financial planning. However, it is worth noting that the current COVID-19 pandemic may cause governments in some jurisdictions to reverse this trend.
- Growing prosperity in Asia is resulting in the rise of the young middle class in many Asian countries, which is increasing the demand for a wide variety of financial products, including insurance, savings and investment vehicles. Low financial literacy has also increased the importance of financial education and advice in this region. These markets have low penetration rates and are expected to grow much faster than industrialized countries. In certain Asian markets, such as Hong Kong and China, the aging population is creating a growing opportunity for retirement and health solutions.
- Changes in the nature of work and the rise of the gig economy, where work is temporary, contractual or project-based, has created an opportunity to provide solutions to workers who are left unsupported across key life needs (e.g. savings, benefits, and protection).
- Consumers are more proactively managing both physical and mental health and wellness, leading to an increased demand for solutions in this area. Additionally, the current COVID-19 pandemic is having a negative impact on the mental health and well-being of people around the world. This may lead to increased demand for tools and products to support mental health and well-being.
- Desire for greater transparency has caused consumers to question the value exchange with organizations. This has resulted in an increase in demand for low-cost asset management products, such as index funds.

Economic

- Prior to the COVID-19 pandemic, we had seen an improvement in economic conditions in recent years across many of our main markets (including Canada, U.S. and Asia). However, the current COVID-19 pandemic has led to a global economic downturn affecting many of our markets. We believe this period of increased economic, market, and geo-political volatility will continue. Additionally, we are aware there will be long-term effects from the fiscal and monetary support governments enacted during the COVID-19 pandemic, which may include elevated government debt to GDP ratios and a prolonged period of low interest rates. We are monitoring the situation continuously and are ready to take actions as needed to minimize impact.
- The COVID-19 pandemic has caused increased unemployment and led to an acceleration of income and wealth inequality. This may lead to a slow-down of growth for the middle class in some markets.
- Low interest rates are increasing the difficulty for investors to achieve higher yield with relatively lower risk investments. In search for greater returns investors are seeking alternatives, which offer greater yield in exchange for illiquidity in order to meet their target returns.
- The COVID-19 pandemic has accelerated the use of digital technology to allow for remote work. Companies may rely more heavily on these digital tools and shift more of their workforce to remote work. This, in turn, may have an impact on the commercial real estate market.

Technological

- Digital adoption continues to grow rapidly as consumers spend an increasing amount of time online for everyday needs (e.g., social, shopping, and banking). An increase in mobile usage is an especially important part of this shift. The COVID-19 pandemic has also accelerated this shift to digital in many industries, including financial services. Omni-channel capabilities will become more important to create a consistent Client experience across channels and to serve Clients in their channel of choice.
- The trend of increasing personalization using data and analytics is allowing companies to create a frictionless digital user experience as they are able to better engage with Clients and meet their needs.
- Consumers continue to transfer expectations from technology companies to financial services. A seamless digital experience and personalization of advice and services will be increasingly important in creating better experiences and outcomes for Clients.

- Consumers are becoming more concerned about the protection and use of their data in an environment of increasing collection and use of their data, and data breaches. Meeting those Client concerns and expectations will be key to maintaining their trust.
- The COVID-19 pandemic has also accelerated the adoption of digital health technologies, including telehealth and remote care.

Competition

The markets in which Sun Life participates are highly competitive. We compete against other insurance companies, banks, asset managers, mutual fund companies, financial planners and other financial services providers. Frequently, competition is based on factors including price, the ability to provide value-added products and services, financial strength and consistent delivery of an excellent experience to distributors and Clients through both traditional and more innovative digital channels.

Sustained low investment yields (and tightening investment spreads) and evolving regulatory requirements continue to be challenges for our industry and have forced insurers and financial services providers to review their businesses, re-focus their operations and, in some cases, discontinue or divest non-core lines of business, as well as acquire businesses with higher growth potential.

We also face increasing competition from new market entrants, including non-traditional service providers such as insurtech and fintech companies. The acceleration of the shift to digital interactions brought by the COVID-19 pandemic may lead to an increase in this trend, and a further rise of new market entrants with disruptive digital business models. In addition, incumbents are increasingly partnering with start-ups to compete in new and innovative ways. Both of these trends could challenge existing insurance, asset management and wealth management business models. In addition, big technology companies are entering the financial services and healthcare markets by leveraging their large customer base, strong user experience capabilities, deep pools of data and digital ecosystems offering interconnected services. In response to these trends, Sun Life continues to explore new business models and seek strategic partnerships that will drive our businesses forward.

In Canada, the federal government is examining the merits of open banking, which is an example of data portability for banking transactions under which clients of banks can ask their financial institution to securely transfer or provide access to their personal data to an authorized third-party service provider, such as a fintech. A number of countries have introduced, or are moving to introduce, open banking or data portability rights with the aim of increasing competition and innovation in the financial services sector. We are continuing to monitor how data portability and any privacy and security issues will affect the financial services industry.

In addition to closely monitoring potential business disruptors, we also continuously adapt by making investments in technology and advanced analytics, building digital services and tools, and through the extension of our product offerings. Below are some examples of how we are adapting in these key areas:

- Digitizing current interactions and processes: Web and mobile functionality (e.g., e-Applications, e-claims); facilitating virtual interactions (e.g., video meetings, e-signatures); digital benefits enrollment in the U.S. and for small businesses in Canada.
- Using data & analytics to be personal, predictive and proactive: Digital Benefits Assistant and Ella in Canada; Maxwell Health, a digital benefits marketplace in the U.S.
- Building new business models: Lumino Health, which allows all Canadians to access provider search and discover innovative health solutions; working with bancassurance partners in Asia to offer digital sales.
- Building a partnership ecosystem: Making strategic investments and collaborations (e.g. Dialogue, a leading virtual healthcare provider in Canada); investing in key technologies to connect with partners and drive global growth.
- Extending our alternative asset management offerings, such as the acquisition of a majority stake in each of InfraRed, a global infrastructure and real estate investment manager, and Crescent, a global alternative credit investment manager.

The markets in which we compete are diverse and at different stages of development:

- In Canada, the financial services industry is relatively mature and the three largest life insurance companies serve more than two-thirds of the Canadian life insurance and group benefits markets. In the wealth space, we also face competition from Canadian retail banks and investment dealers, and also from emerging disruptors such as “robo-advisors”.
- In the United States, the largest insurance market in the world, the market is more fragmented and characterized by a large number of competitors. We face strong competition from established players in the group life and disability, dental, vision, stop-loss, and voluntary markets, all of which are markets with a number of competitors. In the turnkey disability market, there are two other primary competitors and competition is expected to remain stable.
- In Asia, the life insurance market in countries where we participate are still evolving. The growth potential for insurance in Asian markets has created strong competition from both domestic and international insurers. We are observing the larger pan-Asian insurers grow at the fastest rate, with consolidation occurring in many markets. Additionally, some of the Asian markets that we operate in have foreign ownership restrictions, and this may place constraints on our ability to operate or grow in these markets. In the international high net worth life insurance market (which for Sun Life operates out of our Asia business group), competition is increasing from the main competitors who operate in this business.
- In Asset Management, despite some consolidation, we face strong competition from a variety of players including large global asset managers, small local managers specializing in niche markets/products, multi-national and local banks as well as other insurance companies. In addition, there has been a trend among retail and institutional investors towards lower-cost passive

investment products, including index and other types of exchange-traded funds, which has led to a decreased allocation of investor assets to active investment strategies. At the same time, there has been an increased demand for fixed-income, liability-driven investing and yield-oriented alternative products among institutional and high net worth investors. This trend may accelerate, given the prolonged period of low interest rates exacerbated by the COVID-19 pandemic.

Seasonality

Some of our businesses are subject to seasonal factors. In Canada, sales of investment products spike during the first quarter of the year due to a contribution deadline for Registered Retirement Savings Plans. Timing of sales campaigns also influences sales of individual products in Canada and Asia. In the U.S., the sales pattern of our group life and health business largely reflects the renewal timing of employee benefit plans of our corporate Clients, many of which begin on January 1 each year. This often results in higher sales in the fourth quarter. In India, the sales of individual insurance products usually peak in the first quarter of each year due to tax planning by Clients. Overall, the impact of seasonal trends is not material to Sun Life.

Number of Employees

As at December 31, 2020, we had 23,816 full-time equivalent employees across our operations excluding joint ventures and associates.

Business Segment	Employees[1][2]
Canada	7,254
U.S.	3,642
Asset Management	3,882
Asia	4,434
Corporate[3]	4,604

[1] As at December 31, 2020, we had approximately 42,100 employees across our operations, including our Asia joint ventures.
[2] Excludes temporary staff.
[3] Corporate includes the operations of our UK business unit and enterprise services.

Sustainability Commitment

Sustainability is a core strategic priority that supports our Purpose. We aspire to lead the global financial industry in helping to create a cleaner, more inclusive and more sustainable future. Our commitment to lead responds to global challenges and an increasing public desire for corporations to support sustainability. Strong sustainability initiatives and practices support our Purpose of helping our Clients achieve lifetime financial security and live healthier lives.

Building from a long-standing foundation as a trusted and responsible business, our Sustainability Plan focuses on our areas of expertise where we can have the most positive social and environmental impact, while creating competitive advantage for our business:

- Increasing financial security,
- Fostering healthier lives, and
- Advancing sustainable investing.

We're advancing financial security by helping Clients take positive financial actions, increasing access to affordable insurance and increasing financial education and engagement. In 2020, we launched a podcast examining the emotional impact of money and how it affects our lives. We introduced hospital indemnity insurance in the U.S. to help offset the high out-of-pocket costs for long hospital stays, and we expanded low-cost insurance options for Clients in the Philippines and Indonesia through strategic partnerships with MediCard and LinkAja.

We aspire to improve health and wellness outcomes for Clients, employees and communities. In Canada, we launched Lumino Health Virtual Care powered by Dialogue. 523,000 Clients and their family members used the service in 2020. We maintained our long-standing focus on community health and wellness, investing in initiatives that encourage healthy and active living in our communities. Since 2012, we have been committed to the fight against diabetes. We focus on corporate giving on diabetes awareness, prevention and care. In 2020 we also boosted our charitable funding for communities hit hard by the pandemic and funded community groups that support under-represented communities, with an emphasis on Black/African American coalitions and social justice reform.

Sun Life built on its position as a leader in sustainable investing in 2020. MFS Investment Management ("MFS") continued to receive top environmental, social and governance ("ESG") assessments from rating entities, and BGO's global real estate investment platform received top rankings in the 2020 GRESB Real Estate Benchmark. SLC Management completed its majority acquisition of InfraRed, which broadens SLC Management's investment solutions for institutional Clients to include sustainable infrastructure equity. Sun Life Canada's Group Retirement Services ("GRS") launched an ESG evaluation framework to help Clients understand the level of ESG integration for the funds offered in their plans. Sun Life Assurance was the first major Canadian life insurer to sign on to the United Nations-supported Principles for Responsible Investment ("PRI"). In addition, all companies in our Asset Management pillar are also signatories and receive top grades in PRI assessments.

Sun Life remains committed to greenhouse gas ("GHG") emissions reduction targets across our corporate real estate and real estate investment portfolios. In 2019, one year ahead of schedule, we achieved our targeted 20% per square foot cumulative year-over-year GHG emissions reduction, relative to a 2014 baseline. We are continuing to target a reduction of 30% per square foot by 2030, on the same basis.

Sun Life is a supporter of the Task Force on Climate-related Financial Disclosures, and a member of the United Nations Environment Programme Finance Initiative and the Canadian Council for Clean Capitalism. We also support and participate in several other sustainability-related forums, meetings and discussions with a range of external stakeholders. Sun Life ranked among the 2020 Global 100 Most Sustainable Corporations in the World. This was the 11th consecutive year Sun Life was named to the ranking, and we were the only North American insurance company to appear on the list. Sun Life was also included on the Dow Jones Sustainability Index - North America, and continues to be a constituent in the FTSE4Good Index.

To have a resilient, sustainable business, diversity and inclusion must serve as a catalyst. In 2020, Sun Life reinforced its commitment to diversity, equity and inclusion by taking a firm stance for equality, social change and justice to support under-represented communities. In addition to setting new goals for representation of Black, Indigenous and People of Colour in executive roles, and a training and dialogue program on racial equity, we signed the Black North initiative, an organization dedicated to the removal of anti-Black systemic barriers negatively affecting Black Canadians. We also invested an additional $1 million to drive meaningful social change both within our organization and in the wider community.

Our commitment to sustainability is set out in our Sustainability Policy and in our Code of Conduct which applies to all employees and directors. The Governance, Investment & Conduct Review Committee of the Board provides oversight of sustainability, including reviewing and approving our enterprise sustainability policy and annual sustainability report. At the management level, our International Sustainability Council is composed of senior representatives from a diverse range of geographic regions, business groups and functions. This Council supports the implementation of our Sustainability Plan and is responsible for advocacy and awareness of sustainability across the enterprise. The Council works closely with the Sustainability team on strategy and policy development and monitoring, and risk escalation. The Council meets regularly and reports progress to our senior executive management and to the Governance, Investment and Conduct Review Committee.

Additional details on our Sustainability Plan, and our most recent Sustainability Report, can be found on our website at www.sunlife.com/Sustainability. Additional climate-related disclosures, in line with the TCFD's recommendations, can be found under the heading "Environmental and Social Risk" in our 2020 MD&A, which is incorporated by reference herein. For more information on our commitment to promote diversity and inclusion, please visit www.sunlife.com/en/sustainability/diversity-and-inclusion.

Capital Structure

General

SLF Inc.'s authorized capital consists of unlimited numbers of Common Shares, Class A Shares and Class B Shares, each without nominal or par value.

The Class A Shares and Class B Shares may be issued in series as determined by SLF Inc.'s Board. The Board is authorized to fix the number, consideration per share, designation and rights and restrictions attached to each series of shares. The holders of Class A Shares and Class B Shares are not entitled to any voting rights except as described below or as otherwise provided by law. Additional information concerning our capital structure is included in SLF Inc.'s 2020 MD&A under the heading Capital and Liquidity Management and in Notes 13-15 and 21 to the 2020 Consolidated Financial Statements.

Common Shares

SLF Inc.'s Common Shares are listed on the Toronto, New York and Philippines stock exchanges, under the ticker symbol "SLF". Each Common Share is entitled to one vote at meetings of the shareholders of SLF Inc., except for meetings at which only holders of another specified class or series of shares are entitled to vote separately as a class or series.

Common Shares are entitled to receive dividends if and when declared by the Board. Dividends must be declared and paid in equal amounts per share on all Common Shares, subject to the rights of holders of the Class A Shares and Class B Shares. Holders of Common Shares will participate in any distribution of the net assets of SLF Inc. upon its liquidation, dissolution or winding-up on an equal basis per share, subject to the rights of the holders of the Class A Shares and Class B Shares. There are no pre-emptive, redemption, purchase or conversion rights attaching to the Common Shares.

Class A Shares

The Class A Shares of each series rank on parity with the Class A Shares of each other series with respect to the payment of dividends and the return of capital on the liquidation, dissolution or winding-up of SLF Inc. The Class A Shares are entitled to preference over the Class B Shares, the Common Shares and any other shares ranking junior to the Class A Shares with respect to the payment of dividends and the return of capital. The special rights and restrictions attaching to the Class A Shares as a class may not be amended without such approval as may then be required by law, subject to a minimum requirement of approval by the affirmative vote of at least two-thirds of the votes cast at a meeting of the holders of Class A Shares held for that purpose.

The following table provides information on SLF Inc.'s issued and outstanding Class A Shares (the “Class A Preferred Shares”). These Class A Preferred Shares are listed on the Toronto Stock Exchange (“TSX”).

Class A Preferred Shares

Series	Number of Shares Issued	TSX Ticker Symbol	Quarterly Dividend ($)	Redemption Date	Prospectus Date
Series 1	16,000,000	SLF.PR.A	0.296875	Any time	February 17, 2005
Series 2	13,000,000	SLF.PR.B	0.3	Any time	July 8, 2005
Series 3	10,000,000	SLF.PR.C	0.278125	Any time	January 6, 2006
Series 4	12,000,000	SLF.PR.D	0.278125	Any time	October 2, 2006
Series 5	10,000,000	SLF.PR.E	0.28125	Any time	January 25, 2007
Series 8R	6,217,331	SLF.PR.G	0.114063	June 30, 2025	May 13, 2010
Series 9QR	4,982,669	SLF.PR.J	Floating	June 30, 2025	May 13, 2010
Series 10R	6,919,928	SLF.PR.H	0.177625	September 30, 2021	August 5, 2011
Series 11QR	1,080,072	SLF.PR.K	Floating	September 30, 2021	August 5, 2011
Series 12R	12,000,000	SLF.PR.I	0.237875	December 31, 2021	November 3, 2011

The shares in each series of Class A Preferred Shares were issued for $25 per share and holders are entitled to receive the non-cumulative quarterly dividends outlined in the preceding table. Subject to regulatory approval, SLF Inc. may redeem: (i) the Series 1, 2, 3, 4 or 5 shares at any time; (ii) the Series 8R, 9QR, 10R, 11QR and 12R on the redemption date noted above and every five years thereafter for $25 per share; and (iii) the Series 9QR and 11QR at any other time for $25.50 per share, in each case in whole or in part. Additional information concerning these shares is contained in the Investor Relations section of www.sunlife.com and in the prospectus and prospectus supplement under which the shares were issued, which may be accessed at www.sedar.com.

Class B Shares

The Class B Shares of each series rank on a parity with the Class B Shares of each other series with respect to the payment of dividends and the return of capital on the liquidation, dissolution or winding-up of SLF Inc. The Class B Shares are entitled to preference over the Common Shares and any other shares ranking junior to the Class B Shares with respect to the payment of dividends and the return of capital, but are subordinate to the Class A Shares and any other shares ranking senior to the Class B Shares with respect to the payment of dividends and return of capital. The special rights and restrictions attaching to the Class B Shares as a class may not be amended without such approval as may then be required by law, subject to a minimum requirement of approval by the affirmative vote of at least two-thirds of the votes cast at a meeting of the holders of Class B Shares held for that purpose. No Class B Shares have been issued.

Constraints on Shares

The Insurance Act contains restrictions on the purchase or other acquisition, issue, transfer and voting of the shares of SLF Inc. and Sun Life Assurance. Information on those restrictions can be found in this AIF under the heading Regulatory Matters - Canada - Restrictions on Ownership.

Market for Securities

The following tables set out the price range and trading volumes of SLF Inc.'s Common Shares and Class A Preferred Shares on the TSX during 2020:

Common Shares

	Price ($)			Trading volume
	High	Low	Close	(thousands)
January	63.95	58.85	62.22	20,486
February	66.44	56.87	57.99	33,379
March	59.87	35.43	45.27	73,574
April	49.57	42.01	47.71	31,705
May	49.98	44.06	47.23	95,398
June	53.32	47.28	49.89	45,163
July	53.66	48.29	52.21	23,163
August	57.56	51.66	54.44	60,715
September	56.24	52.72	54.26	29,300
October	56.78	51.59	53.01	19,861
November	60.34	52.89	57.67	60,157
December	58.43	54.71	56.60	35,392

Class A Preferred Shares

	Series 1				Series 2			
	Price ($)			Trading volume	Price ($)			Trading volume
	High	Low	Close	(thousands)	High	Low	Close	(thousands)
January	22.97	22.50	22.87	349	23.26	22.75	23.10	109
February	23.45	21.83	21.99	138	23.55	22.22	22.22	87
March	22.80	15.50	18.50	1,056	22.87	15.75	19.00	788
April	21.39	18.00	21.31	135	21.55	18.40	21.55	95
May	22.19	20.50	21.82	122	22.66	20.86	22.10	80
June	22.80	21.71	22.42	474	23.33	22.10	23.00	122
July	22.80	22.31	22.78	146	23.24	22.63	23.06	217
August	23.42	22.58	23.34	102	23.77	22.96	23.77	245
September	24.25	23.39	24.23	461	24.90	23.85	24.90	456
October	24.99	23.51	24.56	529	25.20	24.26	24.89	122
November	25.00	24.41	24.98	367	25.20	24.70	25.00	170
December	25.00	24.51	24.76	499	25.44	24.53	24.85	131

	Series 3				Series 4			
	Price ($)			Trading volume	Price ($)			Trading volume
	High	Low	Close	(thousands)	High	Low	Close	(thousands)
January	21.69	21.21	21.63	89	21.74	21.22	21.66	102
February	22.19	20.73	20.80	93	22.09	20.91	20.92	61
March	21.40	14.25	17.24	159	21.40	14.20	17.51	248
April	19.95	16.75	19.85	106	20.28	17.20	20.00	372
May	20.90	19.31	20.54	74	21.00	19.61	20.52	77
June	21.45	20.32	21.24	173	21.48	20.40	21.39	213
July	21.47	21.14	21.28	307	21.50	21.27	21.33	173
August	21.78	21.10	21.70	723	21.91	21.08	21.83	564
September	23.07	21.86	23.02	246	23.11	21.85	23.00	382
October	24.10	22.91	23.09	242	24.05	22.81	23.04	200
November	24.41	23.06	24.34	327	24.50	23.05	24.25	174
December	24.91	23.96	24.22	231	24.86	23.81	24.20	397

Series 5					Series 8R			
	Price ($)			Trading volume		Price ($)		Trading volume
	High	Low	Close	(thousands)	High	Low	Close	(thousands)
January	21.75	21.36	21.65	108	14.01	12.92	13.08	135
February	22.10	20.99	21.02	96	13.45	11.81	11.82	126
March	21.34	14.49	17.46	184	12.00	6.64	8.79	240
April	20.11	17.00	19.95	159	9.74	8.29	9.31	506
May	20.91	19.63	20.70	119	9.44	8.44	9.15	152
June	21.67	20.65	21.34	206	9.55	8.85	9.00	67
July	21.63	21.22	21.46	97	10.99	8.92	10.60	114
August	22.09	21.39	22.03	126	10.92	9.87	10.65	84
September	23.46	22.00	23.46	110	11.05	9.76	10.35	78
October	24.17	23.12	23.58	176	11.06	10.22	10.81	116
November	24.92	23.58	24.65	355	12.00	10.76	11.96	111
December	24.94	23.79	24.05	108	12.28	11.55	11.81	119

Series 9QR					Series 10R			
	Price ($)			Trading volume		Price ($)		Trading volume
	High	Low	Close	(thousands)	High	Low	Close	(thousands)
January	14.00	13.03	13.15	86	17.15	16.32	16.41	189
February	13.55	11.70	12.00	111	16.70	14.51	15.00	174
March	12.00	6.50	8.31	238	15.00	8.53	11.50	509
April	9.30	8.05	9.26	270	12.66	10.72	12.62	515
May	9.41	8.65	9.05	150	12.71	11.88	12.15	63
June	9.50	8.54	8.83	102	12.99	11.78	11.78	157
July	10.00	8.50	9.35	53	14.66	11.91	14.09	100
August	9.82	9.03	9.80	50	14.98	13.91	14.40	91
September	10.00	9.30	9.50	130	15.15	14.51	15.04	72
October	10.62	9.42	10.00	51	15.55	15.06	15.49	79
November	11.15	8.50	11.15	47	16.51	15.20	16.51	272
December	11.50	10.80	10.83	72	18.20	16.40	18.05	499

Series 11QR					Series 12R			
	Price ($)			Trading volume		Price ($)		Trading volume
	High	Low	Close	(thousands)	High	Low	Close	(thousands)
January	16.91	16.31	16.45	24	19.74	18.90	19.10	130
February	16.60	14.45	14.70	26	19.35	17.50	17.78	89
March	14.91	8.74	10.69	64	17.45	10.26	13.52	332
April	12.31	10.50	12.31	57	15.43	12.87	15.15	169
May	13.00	11.48	12.03	38	15.42	14.42	15.04	138
June	12.84	11.95	11.95	29	16.50	14.91	15.39	225
July	13.70	11.80	13.40	23	18.12	15.41	18.12	109
August	14.54	13.41	14.05	12	18.91	17.27	18.43	245
September	14.25	13.92	14.15	21	19.46	18.10	19.46	196
October	14.79	14.40	14.66	14	19.25	18.37	19.10	86
November	16.00	14.66	16.00	52	20.27	19.00	20.00	288
December	17.47	16.00	17.47	37	21.30	19.82	21.08	95

Sales of Unlisted Securities

SLF Inc. has issued the following unlisted securities since January 1, 2020:

On May 8, 2020, SLF Inc. issued $1,000 million principal amount of Series 2020-1 Subordinated Unsecured 2.58% Fixed/Floating Debentures due 2032.

On October 1, 2020, SLF Inc. issued $750 million principal amount of Series 2020-2 Subordinated Unsecured 2.06% Fixed/Floating Debentures due 2035.

Dividends

The declaration, amount and payment of dividends by SLF Inc. is subject to the approval of its Board and is dependent on our results of operations, financial condition, cash requirements, regulatory and contractual restrictions and other factors considered by the Board.

The dividends declared by SLF Inc. in the three years ended December 31, 2020 are set out in the 2020 MD&A under the heading Capital and Liquidity Management - Shareholder Dividends, which is incorporated by reference in this AIF.

The Insurance Act prohibits the declaration or payment of dividends on shares of an insurance company if there are reasonable grounds for believing a company does not have, or the payment of the dividend would cause the company not to have, adequate capital or liquidity, or upon any direction made by the Superintendent. The Insurance Act also requires that an insurance company notify the Superintendent of the declaration of a dividend at least fifteen days before the dividend payment date. On March 13, 2020, OSFI set the expectation for all federally regulated financial institutions that dividend increases should be halted for the time being.

As a holding company, SLF Inc. depends primarily on the receipt of funds from its subsidiaries to pay shareholder dividends, interest payments and operating expenses. The source of these funds is primarily dividends and capital repayments that SLF Inc. receives from its subsidiaries. The inability of its subsidiaries to pay dividends or return capital in the future may materially impair SLF Inc.'s ability to pay dividends to shareholders or to meet its cash obligations. Additional information concerning legislation regulating the ability of SLF Inc.'s subsidiaries in Canada, the U.S., the UK and Asia to pay dividends or return capital can be found in this AIF under the heading Regulatory Matters.

SLF Inc. and Sun Life Assurance have each covenanted that, if a distribution is not paid when due on any outstanding Sun Life ExchangEable Capital Securities (“SLEECS”) issued by Sun Life Capital Trust, Sun Life Assurance will not pay dividends on its Public Preferred Shares, if any are outstanding. If Sun Life Assurance does not have any Public Preferred Shares, then SLF Inc. will not pay dividends on its preferred shares or Common Shares until the twelfth month following the failure to pay the required distribution in full, unless the required distribution is paid to the holders of the SLEECS. Public Preferred Shares means preferred shares issued by Sun Life Assurance which: (a) have been issued to the public (excluding any preferred shares held beneficially by affiliates of Sun Life Assurance); (b) are listed on a recognized stock exchange; and (c) have an aggregate liquidation entitlement of at least $200 million. Sun Life Assurance has not issued any shares that qualify as Public Preferred Shares as at the date of this AIF.

The terms of SLF Inc.'s outstanding Class A Preferred Shares provide that for so long as Sun Life Assurance is a subsidiary, no dividends on such preferred shares may be declared or paid if Sun Life Assurance’s minimum regulatory capital ratio falls below the applicable threshold.

Security Ratings

SLF Inc.'s Class A Preferred Shares, senior unsecured debentures, and subordinated unsecured debentures are rated by independent rating agencies. Security ratings assigned to securities by the rating agencies may be subject to revision or withdrawal at any time by the applicable rating agency and are not a recommendation to purchase, hold or sell these securities as such ratings do not comment as to market price or suitability for a particular investor. Security ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities.

The table below provides the security ratings for SLF Inc.'s securities as at February, 10, 2021. All rating agencies currently have stable outlooks on SLF Inc. issuer credit ratings:

Security Ratings

	A.M. Best[1]		DBRS[2]		Fitch[3]		Moody's[4]		S&P[5]	
	Rating	Rank	Rating	Rank	Rating	Rank	Rating	Rank	Rating	Rank
Senior Unsecured Debentures Series E	a	6 of 21	A (high)	5 of 26	A	6 of 21	NR[6]	-	A+	5 of 22
Subordinated Unsecured Debentures: Series 2007-1, 2016-1, 2016-2, 2017-1, 2019-1, 2020-1, and 2020-2	a-	7 of 21	A	6 of 26	A-	7 of 21	NR[6]	0	A	6 of 22
Class A Preferred Shares: Series 1 - 5, 8R, 9QR, 10R, 11QR and 12R	bbb+	8 of 21	Pfd-2 (high)	4 of 16	BBB	9 of 21	Baa1 (hyb)	8 of 21	P-1(low) /A-[7]	3 of 18/ 5 of 20[7]

(1) A.M. Best Company, Inc.
(2) DBRS Limited, part of DBRS Morningstar group, a wholly-owned subsidiary of Morningstar, Inc.
(3) Fitch Ratings, Inc., part of Fitch Group, is majority owned by Hearst. We do not participate in Fitch's ratings process, or provide additional information to Fitch Ratings, beyond our available public disclosures.
(4) Moody's Investors Service, a subsidiary of Moody's Corporation (NYSE: MCO). Moody's rate Preferred Shares Series 2 only.
(5) S&P Global (NYSE:SPGI).
(6) Not Rated.
(7) The Canadian scale rating/global scale rating for preferred shares.

SLF Inc. has made payments in the ordinary course to A.M. Best, DBRS, Moody's and Standard and Poor's ("S&P") in connection with the assignment of ratings on the securities of SLF Inc. In addition, SLF Inc. has made customary payments in respect of certain other services provided to SLF Inc. by the applicable rating agencies during the last two years.

The descriptions of the ratings below are sourced from public information as disclosed by each rating agency.

A.M. Best

A.M. Best's issue credit rating ("IR") provides an opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligations and can be issued on a long- or short-term basis. An IR assigned to a specific issue is A.M. Best's opinion of the issuer's ability to meet the ongoing financial obligations to security holders when due. As such, an IR is an opinion regarding the relative future credit risk. Credit risk is the risk that a debt issuer may not meet its contractual financial obligations as they come due. The rating does not address any other risk, including, but not limited to, liquidity risk, market value risk or price volatility of rated obligations.

A.M. Best assigns long-term IR in a range from "aaa" to "c". Ratings from "aa" to "ccc" may be enhanced with a "+" (plus) or "-" (minus) to indicate whether credit quality is near the top or bottom of a category. The absence of either a plus or minus designation indicates the rating is in the middle of the category.

SLF Inc.'s Senior Unsecured Debentures and Subordinated Unsecured Debentures have been assigned "a" and "a-" ratings, respectively. An "a" rating denotes an issuer's excellent ability to meet the terms of the obligation.

SLF Inc.'s Class A Preferred Shares have been assigned "bbb+" ratings. A "bbb" rating denotes an issuer's good ability to meet the terms of the obligation, however, the issue is more susceptible to changes in economic and other conditions.

DBRS

The DBRS long-term rating scale provides an opinion on the risk of default. That is, the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued. Ratings are based on quantitative and qualitative considerations relevant to the issuer, and the relative ranking of claims. DBRS assigns long-term ratings in a range from AAA to D, and "(high)" and "(low)" designations indicate standing within the major rating categories. The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category. There are no "(high)" or "(low)" designations for AAA and D ratings.

SLF Inc.'s Senior Unsecured Debentures have been assigned an A (high) rating. SLF Inc.'s Subordinated Unsecured Debentures have been assigned an A rating. A ratings, reflecting a good credit quality, are assigned to issues when the capacity for the payment of financial obligations is substantial, but of lesser credit quality than AA, and the issue may be vulnerable to future events, but qualifying negative factors are considered manageable.

DBRS assigns ratings for preferred shares in a range from Pfd-1 to D. Reference to “high” and “low” designations indicate standing within the major rating categories. The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category. There are no "(high)" or "(low)" designations for D ratings. The DBRS preferred share rating scale is used in the Canadian securities market and is meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both dividend and principal commitments. SLF Inc.’s Class A Preferred Shares have been assigned a Pfd-2 (high) rating, the second highest among rating categories used by DBRS. Preferred shares rated Pfd-2 are generally of good credit quality. Protection of dividends and principal is still substantial, but earnings, the balance sheet and coverage ratios are not as strong as Pfd-1 rated companies.

Fitch

Fitch’s credit ratings provide an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. Fitch’s credit ratings do not directly address any risk other than credit risk. In particular, ratings do not deal with the risk of a market value loss on a rated security due to changes in interest rates, liquidity and other market considerations.

Fitch assigns long-term ratings for debt and preferred shares in a range from AAA to C. The modifiers + or - may be appended to a rating to denote relative status within major rating categories. The absence of either a plus or minus designation indicates the rating is in the middle of the category. Such modifiers are not added to the AAA rating or to ratings below CCC.

SLF Inc.’s Senior Unsecured Debentures and Subordinated Unsecured Debentures have been assigned an A and A- ratings, respectively. An A rating denotes expectations of low credit risk and the capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. SLF Inc.’s Class A Preferred Shares have been assigned a BBB rating. A BBB rating indicates that expectations of credit risk are currently low and the capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

Moody's

Moody's long-term obligation ratings are forward-looking opinions of the relative credit risk of financial obligations with an original maturity of one year or more. Moody’s defines credit risk as the risk that an entity may not meet its contractual financial obligations as they come due and any estimated financial loss in the event of default or impairment.

Moody’s assigns long-term obligation ratings in a range from Aaa to C. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a “(hyb)” indicator is appended to all ratings of hybrid securities.

SLF Inc.’s Class A Preferred Shares Series 2 have been assigned a Baa1 (hyb) rating. Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

Standard & Poor's

An S&P issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation. The opinion reflects S&P's view of the obligor's capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default.

S&P’s credit ratings for securities are based, in varying degrees, on S&P's analysis of the following considerations:

- Likelihood of payment - capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;
- Nature of and provisions of the obligation and the promise imputed by S&P; and
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

These ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy.

S&P assigns long-term ratings in a range from AAA to D. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. The absence of either a plus or minus designation indicates the rating is in the middle of the category.

SLF Inc.'s Senior Unsecured Debentures and Subordinated Unsecured Debentures have been assigned A+ and A ratings, respectively. An A rating category indicates that the obligor's capacity to meet its financial commitment on the obligation is strong.
S&P has Canadian and global rating scales for preferred shares. S&P assigns ratings for Canadian preferred shares in a range from P-1 to D on the Canadian scale and from AA to D on the global rating scale. S&P uses "high" and "low" designations to indicate standing within the major rating categories on the Canadian rating scale and plus or minus designations to indicate the relative standing of securities within a particular rating category on the global rating scale. The absence of either a "high" and "low" or a plus or minus designation indicates the rating is in the middle of the category. There are no plus and minus or "high" and "low" designations for CC, C and D ratings, and no plus designation for a AA rating category.

S&P's preferred share rating on the Canadian scale is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific preferred share obligation issued in the Canadian market, relative to preferred shares issued by other issuers in the Canadian market. There is a direct correspondence between the specific ratings assigned on the Canadian preferred share scale and the various rating levels on the global debt rating scale of Standard & Poor's. S&P presents an issuer's preferred share ratings on both the global rating scale and on the Canadian national scale when listing the ratings for a particular issuer.

SLF Inc.'s Class A Preferred Shares have been assigned a P-1 (low) rating on the Canadian scale, which corresponds to a A- rating on the global scale. An A rating category indicates that the obligor's capacity to meet its financial commitment on the obligation is strong.

Transfer Agents and Registrars

Common Shares

AST Trust Company (Canada) is the principal transfer agent and the registrar for SLF Inc.'s Common Shares. The central securities register is maintained in Toronto, Ontario, Canada. The transfer agent and co-transfer agents for SLF Inc.'s Common Shares are as follows (opposite their applicable jurisdictions):

Transfer Agent	
Canada	AST Trust Company (Canada) 1 Toronto Street, Suite 1200 Toronto, Ontario Canada M5C 2V6
Co-Transfer Agents	
United States	American Stock Transfer & Trust Company, LLC 6201 15th Avenue Brooklyn, NY 11219 United States
United Kingdom	Link Asset Services 34 Beckenham Road Beckenham BR3 4TU Kent United Kingdom
Philippines	Rizal Commercial Banking Corporation RCBC Stock Transfer Processing Section Ground Floor, West Wing GPL (Grepalife) Building 221 Senator Gil Puyat Avenue Makati City, Philippines
Hong Kong	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong

Preferred Shares and Debentures

AST Trust Company (Canada) is the transfer agent and the registrar for SLF Inc.'s Class A Preferred Shares, and BNY Trust Company of Canada is the trustee and the registrar for SLF Inc.'s senior unsecured debentures, Series E, and its subordinated unsecured debentures, Series 2007-1, 2016-1, 2016-2, 2017-1, 2019-1, 2020-1 and 2020-2. The registers for those securities are maintained in Toronto, Ontario, Canada.

Directors and Executive Officers

Board of Directors

As of the date of this AIF, the Board of SLF Inc. had four standing committees: Audit Committee, Governance, Investment & Conduct Review Committee, Management Resources Committee and Risk Committee.

The following table sets out the directors of SLF Inc. as of the date of this AIF and, for each director, the province or state and country of his or her residence, principal occupation, years as a director, and membership on Board committees. The term of each director expires at the close of business of the Annual Meeting in 2021. Each director of SLF Inc. is an independent director as defined in the Company's Director Independence Policy, except Mr. Connor, the President & Chief Executive Officer of SLF Inc.[1]

Name and Province/State and Country of Residence	Principal Occupation	Director Since	Board Committee Membership
William D. Anderson Ontario, Canada	Chair of the Board, SLF Inc. and Sun Life Assurance	2010	None
Dean A. Connor[1] Ontario, Canada	President & Chief Executive Officer, SLF Inc. and Sun Life Assurance	2011	None
Stephanie L. Coyles Ontario, Canada	Corporate Director	2017	Audit Governance, Investment & Conduct Review
Martin J. G. Glynn British Columbia, Canada	Corporate Director	2010	Management Resources Risk
Ashok K. Gupta London, England	Corporate Director	2018	Management Resources Risk
M. Marianne Harris Ontario, Canada	Corporate Director	2013	Management Resources Risk
Sara Grootwassink Lewis Arizona, U.S.A.	Corporate Director	2014	Audit Governance, Investment & Conduct Review
James M. Peck Texas, U.S.A.	Corporate Director	2019	Management Resources Risk
Scott F. Powers Massachusetts, U.S.A.	Corporate Director	2015	Audit Governance, Investment & Conduct Review
Hugh D. Segal, OC,OONT, CD Ontario, Canada	Corporate Director	2009	Audit Governance, Investment & Conduct Review
Barbara G. Stymiest Ontario, Canada	Corporate Director	2012	Audit Risk

[1] Dean A. Connor intends to retire from the Board of SLF Inc. on August 6, 2021. Kevin D. Strain, Executive Vice-President & Chief Financial Officer, will become President and will be appointed as a member of the Board of SLF Inc. effective February 15, 2021.

Each director of SLF Inc. has been engaged for more than five years in his or her present principal occupation or in other capacities with the company or organization (or predecessor thereof) in which he or she currently holds his or her principal occupation, except:
(i) Ms. Coyles, who from 2012 to 2016 was an independent strategy consultant;
(ii) Mr. Peck, who from 2012 to 2019 was President & Chief Executive Officer, TransUnion; and
(iii) Mr. Segal, who from 2014 to 2019 was Principal of Massey College, University of Toronto.

Audit Committee

The responsibilities and duties of the Audit Committee are set out in its charter, a copy of which is attached as Appendix A.
The Board has determined that each member of its Audit Committee is independent as defined in the Company's Director Independence Policy and is financially literate. In the Board's judgment, a member of the Committee is financially literate if, after seeking and receiving any explanations or information from senior financial management of the Company or the auditors of the Company that the member requires, the member is able to read and understand the consolidated financial statements of the Company to the extent sufficient to be able to intelligently ask, and to evaluate the answers to, probing questions about the material aspects of those financial statements.

The members of the Audit Committee as of the date of this AIF and their qualifications and education are set out below:

Sara Grootwassink Lewis (Chair), is a corporate director, a Certified Public Accountant and a Chartered Financial Analyst. Prior to 2009, she held progressively senior positions during her seven-year career with Washington Real Estate Investment Trust, a publicly traded real estate investment trust, including Executive Vice-President, and was Chief Financial Officer from 2002 to 2009. Ms. Lewis joined the Board, and the Governance, Investment & Conduct Review Committee (formerly the Governance, Nomination & Investment Committee) and the Management Resources Committee of SLF Inc. and Sun Life Assurance in December 2014. She was a member of the Management Resources from her appointment until May 2016. She became a member of the Audit Committee (formerly the Audit & Conduct Review Committee) in May 2016 and was appointed Chair of the Audit Committee in May 2017. Ms. Lewis is a director and Chair of the Audit Committee of Weyerhaeuser Company. She is a director and a member of the Audit Committee of Healthpeak Properties, Inc. Ms. Lewis is also a Trustee, Vice Chair of the Audit Committee, an Executive Committee member and the Chair of the Governance Studies Program Leadership Council of The Brookings Institution. She serves on the Leadership Board and Governance Working Group for the United States Chamber of Commerce - Center for Capital Markets Competitiveness and is a member of the Center for Audit Quality's Audit Committee Council. Ms. Lewis is a National Association of Corporate Directors Board Leadership Fellow and a member of the Tapestry West Audit Committee Network. Ms. Lewis was formerly a director and a member of the Audit Committee of PS Business Parks, Inc. from 2010 to April 2019, and was the Chair of its Audit Committee from 2012 to April 2019. She was a director and a member of the Audit Committee of Adamas Pharmaceuticals, Inc. from March 2014 to June 2016. She served as a director and a member of the Audit Committee of Plum Creek Timber Company, Inc. from November 2013 until its acquisition by Weyerhaeuser in February 2016. Ms. Lewis was also a director and a member of the Audit Committee of CapitalSource, Inc. from 2004 to April 2014, and was the Chair of its Audit Committee from February 2013 to April 2014. Ms. Lewis was named to the National Association of Corporate Directors ("NACD") Directorship 100 in 2017.

Stephanie L. Coyles is a corporate director. Her background is as a strategic consultant and advisor who has worked with a diverse clientele across North America, including retail, consumer distribution, private equity and business consulting organizations. She was previously Chief Strategic Officer at LoyaltyOne Co. from 2008 to 2012. Prior to that, Ms. Coyles spent 18 years with McKinsey & Company Canada where she held progressively senior positions and was a partner for eight years from 2000 to 2008. Ms. Coyles joined the Board, and the Audit Committee (formerly the Audit & Conduct Review Committee) of SLF Inc. and Sun Life Assurance in January 2017. She is a member of the Governance, Investment & Conduct Review Committee (formerly the Governance, Nomination & Investment Committee) from her appointment to May 2017, a member of the Risk Committee (formerly Risk & Conduct Review Committee) from May 2017 to May 2019 and became a member of the Governance, Investment, & Conduct Review Committee (formerly the Governance, Nomination & Investment Committee) in May 2019. Ms. Coyles is currently a director and member of the Audit Committee of Corus Entertainment Inc. She is also a director and a member of the Audit Committee of Metro Inc. Ms. Coyles was a director and a member of the Audit Committee of Hudson's Bay Company from 2019 to March 2020. She also serves on the board of The Earth Rangers Foundation. Ms. Coyles holds a Master in Public Policy degree and a Bachelor of Commerce degree. She also received the ICD.D designation from the Institute of Corporate Directors and the CERT Certificate in Cybersecurity Oversight, issued by the CERT Division of the Software Engineering Institute at Carnegie Mellon University.

Hugh D. Segal, OC, OONT, CD is a corporate director. He served as Principal of Massey College, University of Toronto from 2014 to 2019. Before that, Mr. Segal was a Canadian senator from 2005 to 2014 and President & Chief Executive Officer of the Institute for Research on Public Policy from 1999 to 2006. He was formerly Chair of the NATO Association of Canada and Vice-Chair of the Institute of Canadian Advertising. Mr. Segal joined the Board of SLF Inc. and Sun Life Assurance in 2009. He was a member of the Governance, Investment, & Conduct Review Committee (formerly the Governance and Conduct Review Committee) from his appointment to 2011, the Investment Oversight Committee from his appointment to 2012, and the Management Resources Committee from 2011 to 2016. Mr. Segal became a member of the Audit Committee (formerly the Audit & Conduct Committee) and the Governance, Investment & Conduct Review Committee (formerly Governance & Conduct Review Committee) in May 2016. He served as a director of Just Energy Group Inc. from 2001 to 2015 and was a member of its audit committee from 2013 to 2015. Mr. Segal is a Senior Advisor at Aird & Berlis LLP. He is Chair and a Distinguished Fellow of the School of Policy Studies External Advisory Board and the Donald Matthews Faculty Fellow in Global Public Policy, Queen's University, a Distinguished Fellow at the Munk School of Global Affairs, University of Toronto and a Senior Fellow at the Canadian Institute of Global Affairs. Mr. Segal is also an Honourary Captain of the Royal Canadian Navy, an Honorary Captain of the Canadian Forces College and Honorary Chair of the Navy League of Canada. He is an officer of the Order of Canada and a member of the Order of Ontario.

Scott F. Powers is a corporate director. He was President and Chief Executive Officer of State Street Global Advisors until his retirement in 2015. Before joining State Street in 2008, Mr. Powers was President and Chief Executive Officer of Old Mutual Asset Management Plc, the U.S.-based global asset management business of Old Mutual plc. Prior to 2008, he held senior executive positions at Mellon Institutional Asset Management, BNY Mellon's investment management business, and at The Boston Company Asset Management, LLC. Mr. Powers joined the Board, the Governance, Investment & Conduct Review Committee (formerly the Governance, Nomination & Investment Committee) and the Management Resources Committee of SLF Inc. and Sun Life Assurance in October 2015, and became the Chair of the Governance, Investment & Conduct Review Committee (formerly the Governance, Nomination & Investment Committee) in May 2017. He ceased to be a member of the Management Resources Committee and became a member of the Audit Committee in September 2020. Mr. Powers is currently a director and member of the Audit

Committee of Automatic Data Processing, Inc., and is also a director of PulteGroup, Inc. He has served as a member of the Systemic Risk Council and the Advisory Board of the U.S. Institute of Institutional Investors.

Barbara G. Stymiest is a corporate director and a Chartered Professional Accountant. She was a member of the Group Executive at Royal Bank of Canada, an international banking and financial services organization, from 2004 to 2011; Royal Bank's Group Head, Strategy, Treasury and Corporate Services from 2010 to 2011; and Chief Operating Officer from 2004 to 2009. Prior to that Ms. Stymiest held senior positions in the financial services sector including Chief Executive Officer, TSX Group Inc., Executive Vice-President and Chief Financial Officer, BMO Nesbitt Burns, and Partner, Financial Services Group, Ernst & Young LLP. She joined the Board, and the Risk Committee (formerly the Risk Review Committee) of SLF Inc. and Sun Life Assurance in May 2012. Ms. Stymiest was a memeber of the Management Resources Committee from her appointment until May 2015. She became a member of the Audit Committee (formerly the Audit & Conduct Review Committee) and Chair of the Risk Committee (formerly the Risk Review Committee) in May 2015. She is a Fellow of the Chartered Professional Accountants of Ontario and received an Award of Outstanding Merit from that organization in 2011. She is a director and Chair of the audit and risk management committee of BlackBerry Limited, a director and Chair of the audit committee of George Weston Limited, one of North America's largest food processing and distribution groups. Ms. Stymiest also serves as a director of President's Choice Bank and Vice Chair of University Health Network. She holds an Honours Business Administration degree. Ms. Stymiest was named to the National Association of Corporate Directors ("NACD") Directorship 100 in 2018.

SLF Inc.'s Board has determined that each of Sara Grootwassink Lewis and Barbara G. Stymiest is an Audit Committee Financial Expert as defined by the SEC. The SEC has indicated that the designation of a person as an Audit Committee Financial Expert does not make that person an "expert" for any purpose, or impose any duties, obligations or liabilities on that person that are greater than those imposed on members of the audit committee and the Board who do not carry this designation or affect the duties, obligations or liabilities of any other member of the Audit Committee or the Board. Each of Ms. Lewis and Ms. Stymiest is "independent" within the meaning of the listing standards of the New York Stock Exchange and Rule 10A-3 of the U.S. Securities Exchange Act of 1934, as amended.

Executive Officers

The following table sets out the executive officers of SLF Inc. as of the date of this AIF:

Name	Province/State and Country of Residence	Position
Dean A. Connor[1]	Ontario, Canada	President & Chief Executive Officer
Linda M. Dougherty	Ontario, Canada	Executive Vice-President, Corporate Strategy and Global Marketing
Daniel R. Fishbein	Maine, USA	President, Sun Life U.S.
Colm J. Freyne	Ontario, Canada	Executive Vice-President & Chief Risk Officer
Jacques Goulet	Ontario, Canada	President, Sun Life Canada
Léo M. Grépin	Hong Kong, China	President, Sun Life Asia
Melissa J. Kennedy	Ontario, Canada	Executive Vice-President, Chief Legal Officer & Public Affairs
Laura A. Money	Ontario, Canada	Executive Vice-President & Chief Information Officer
Helena J. Pagano	Ontario, Canada	Executive Vice-President, Chief Human Resources & Communications Officer
Stephen C. Peacher	Massachusetts, USA	President, SLC Management
Mark S. Saunders[2]	Ontario, Canada	Executive Vice-President, Enterprise Services
Kevin D. Strain[3]	Ontario, Canada	Executive Vice-President & Chief Financial Officer

(1) Dean A. Connor will cease to be President of SLF Inc. effective February 15, 2021 and will continue as Chief Executive Officer until he retires on August, 6, 2021.
(2) Mark Saunders intends to retire in April, 2021.
(3) Kevin Strain will be appointed as President of SLF Inc. effective February 15, 2021 and will assume the Chief Executive Officer role upon Mr. Connor's intended retirement on August 6, 2021.

Each executive officer of SLF Inc. has held his or her current position or other senior positions with the Company during the past five years with the following exceptions:

(i) Mr. Goulet was President, Health and Wealth, Mercer (US) Inc. (“Mercer”), from January 2017 to December 2017 and President, Retirement, Health and Benefits, Mercer, from October 2014 to December 2016;
(ii) Ms. Money was Senior Vice-President and Chief Information Officer Corporate Centre Technology, Canadian Imperial Bank of Commerce (“CIBC”), from November 2018 to May 2020, Senior Vice President, Enterprise Programs & Deliver Excellence, CIBC, from April 2016 to October 2018 and Senior Vice President, Strategic Initiatives, Retail & Business Banking, CIBC, from June 2012 to April 2016; and
(iii) Prior to February 2017, Ms. Pagano was Managing Director, Head of Human Resources, RBC Capital Markets and Investor & Treasury Services, Royal Bank of Canada.

Cease Trade Orders, Bankruptcies, Penalties and Sanctions

To the best of SLF Inc.’s knowledge, as at the date of this AIF, except as set out below, no director or executive officer of SLF Inc.:

(i) is or has been, in the last ten years, a director, chief executive officer or chief financial officer of a company (including SLF Inc.) that, while that person was acting in that capacity,
  (a) was the subject of a cease trade or similar order or an order that denied the company access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days, or
  (b) was subject to an event that resulted, after that person ceased to be a director, chief executive officer or chief financial officer, in the company being the subject of a cease trade or similar order or an order that denied the company access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days.
(ii) is or has been, in the last ten years, a director or executive officer of a company (including SLF Inc.) that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets,
(iii) has, within the last ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer; and
(iv) has been subject to (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Ms. Coyles was a director of Postmedia Network Canada Corp. while it completed a restructuring following an arrangement plan under the Canada Business Corporation Act in October 2016. Ms. Coyles is no longer a director of Postmedia Network Canada Corp.

Mr. Glynn was a director of MF Global Holdings Ltd. when it filed a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States in October 2011. Mr. Glynn is no longer a director of MF Global Holdings Ltd.

Mr. Peck was a director and President & Chief Executive Officer of TransUnion when it agreed to settle a Civil Investigative Demand by the U.S. Consumer Financial Protection Bureau ("CFPB") in December 2016 focused on common industry practices relating to the advertising, marketing and sale of consumer reports, credit scores or credit monitoring products to consumers by TransUnion’s Consumer Interactive segment. TransUnion executed a Stipulation and Consent to the Issuance of a Consent Order which was issued by the CFPB in January 2017, which required them to implement certain practice changes in the way they advertise, market and sell products and services to consumers, develop a comprehensive compliance plan, and pay approximately US$13.9 million for redress to eligible customers and a civil money penalty to the CFPB in the amount of US$3.0 million.

Shareholdings of Directors and Executive Officers

To the knowledge of SLF Inc., as at December 31, 2020, SLF Inc.'s directors and executive officers, as a group, owned, directly or indirectly, or had voting control or direction over 203,209 Common Shares of SLF Inc., or less than 1% of the total Common Shares outstanding.

Code of Conduct

We have built a strong corporate culture founded on ethical behaviour, high business standards, integrity and respect. The Board establishes the “tone from the top” and makes every effort to ensure that Senior Management consists of people of integrity who create and sustain a culture of integrity throughout the organization. Questions about integrity are included in our Board's, committee and peer effectiveness surveys.

The Board has established our Code of Conduct (the "Code") that applies to every Director, Officer and employee, with no exception. Each Director, Officer and employee receives annual training and is required to complete a declaration of compliance with the Code.

Our Code promotes speaking up and outlines our commitment against retaliation. Our Code also requires employees and Board members to report all known and suspected breaches. Our Ethics Hotline empowers our employees to play an active role in protecting the organization. They may use the Ethics Hotline to report allegations of misconduct anonymously or if they feel their concerns have not been resolved using other reporting methods.

Communications that accompanied the Code in 2020 further reinforced our expectations of behaviours in the workplace; emphasizing the importance of speaking up, fostering a workplace that is free of harassment of any kind and promoting diversity, equity and inclusion.

The Governance, Investment & Conduct Review Committee of the Board is responsible for reviewing the effectiveness of the Code, monitoring compliance with the Code and reporting the results of its review to the Board annually. On a quarterly basis, the Chief Compliance Officer reports on breaches of the Code and reviews our controls and compliance with the Governance, Investment & Conduct Review Committee. No waivers of the Code for Directors or Executive Officers have been granted.

We completed our full triennial review of the Code in 2020. The updated Code was approved by the Board in August 2020 and formally published in October 2020. The most recent copy of the Code is available on our website (www.sunlife.com). It has been filed with securities regulators in Canada and with the SEC and may be accessed at www.sedar.com and www.sec.gov, respectively.

Principal Accountant Fees and Services

The following table shows the fees related to services provided by the Company's external auditors, Deloitte LLP, for the past two years:

For the years ended December 31 ($ millions)	**2020**	2019[1]
Audit Services	**18.8**	18.1
Audit-Related Services	**1.7**	1.2
Tax Services	**0.5**	0.3
Other Services	**1.5**	1.7

[1] Adjustment to 2019 fees of $0.4 million for Audit Services and ($0.2) million for Other Services.

Audit fees relate to professional services rendered by the auditors for the audit of our Annual Consolidated Financial Statements, the statements for our segregated funds and services related to statutory and regulatory filings. Audit fees of $12.1 million (2019: $12.9 million) relates to the audit of the Consolidated Financial Statements of SLF and its subsidiaries to support the audit opinions expressed in the Independent Auditor's Report; the remaining Audit Services fees of $6.7 million (2019: $5.6 million) relates to audit of the statements of segregated funds and statutory and regulatory filings.

Audit-related fees include assurance services not directly related to performing the audit of the Annual Consolidated Financial Statements of the Company. These include internal control reviews, specified procedure audits and employee benefit plan audits.

Tax fees relate to tax compliance, tax advice and tax planning.

All other fees relate to products and services other than audit, audit-related and tax as described above.

Pre-Approval Policies and Procedures

The Audit Committee of SLF Inc. and Sun Life Assurance have adopted a policy restricting the use of the external auditor (the “Policy”). The objective of the Policy is to ensure that the independence of the external auditor is not compromised by certain engagements. The Policy is based on the following principles, which specify that the external auditor cannot:

- function in the role of management of the Company;
- audit its own firm’s work; or
- serve in an advocacy role for the Company.

The Policy requires that any services to be provided by the external auditor be pre-approved by the Audit Committees of SLF Inc. and/or Sun Life Assurance, as applicable, and the audit committee of any affected subsidiary that is itself directly subject to the Sarbanes-Oxley Act of 2002. If a service has not been pre-approved by the Audit Committee, specific approval must be obtained from the committee before an engagement letter can be issued and the related work commenced. The committee has, subject to certain fee thresholds and reporting requirements, pre-approved certain audit, audit-related and other permissible non-audit services that are consistent with maintaining the independence of the external auditor. These pre-approved services are reviewed annually by the committee. The Policy prohibits engaging the external auditor to provide certain services, including:

- bookkeeping or other services related to accounting records or financial statements;
- financial information systems design or implementation services;
- appraisal or valuation services, fairness opinions or contribution in kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources services;
- broker or dealer, investment adviser, underwriting, securities or investment banking services;
- legal services and expert services unrelated to an audit;
- any service for which no fee is payable unless a specific result is obtained;
- any non-audit tax services that recommend the Company engage in confidential transactions or aggressive tax position transactions, as defined by the U.S. Public Company Accountability Oversight Board; and
- any other service that governing regulators or professional bodies determine to be impermissible.

Fees paid to SLF Inc.'s external auditors have been approved by the Audit Committee of the Board of SLF Inc. or otherwise in accordance with the Policy. None of the services provided by the Company's external auditors described above were approved pursuant to a waiver of pre-approval provisions under SEC rules (paragraph (c)(7)(i)(C) of Rule 2 - 01 of Regulation S-X).

Interests of Experts

Deloitte LLP is the auditor of SLF Inc. and is independent of SLF Inc. within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario and within the meaning of the U.S. Securities Act of 1933, as amended, and the applicable rules and regulations thereunder adopted by the Securities and Exchange Commission ("SEC") and the Public Company Accounting Oversight Board (United States)("PCAOB").

Kevin Morrissey, the Appointed Actuary of SLF Inc., has provided an opinion on the value of policy liabilities and reinsurance recoverables for SLF Inc.'s statements of financial position as at December 31, 2020 and 2019 and the change in the consolidated statement of operations for the years ended December 31, 2020 and 2019. Mr. Morrissey owned beneficially, directly or indirectly, less than 1% of all outstanding securities or other property of SLF Inc. or its affiliates when he prepared that opinion, and after that opinion was prepared, and he does not expect to receive any such securities or other property in excess of that amount in the future.

Regulatory Matters

Sun Life is subject to regulation and supervision by government authorities in the jurisdictions in which it does business.

Various regulators have introduced new measures or adjustments to respond to the evolving situation with the COVID-19 pandemic. Information on the impact of COVID-19 and certain other regulatory developments affecting Sun Life are described in our 2020 MD&A under the heading "COVID-19" and is incorporated herein by reference.

Canada

Regulation of Insurance Operations

SLF Inc. is incorporated under and governed by the Insurance Act. OSFI administers the Insurance Act and supervises the activities of SLF Inc. SLF Inc. has all the powers and restrictions applicable to life insurance companies governed by the Insurance Act, which permits insurance companies to offer, directly or through subsidiaries or networking arrangements, a broad range of financial services, including:

- Insurance and reinsurance;
- Investment counselling and portfolio management;
- Mutual funds and segregated funds;
- Trust services;
- Banking services;
- Real property brokerage and appraisal; and
- Merchant banking services.

The Insurance Act requires the filing of annual and other reports on the financial condition of insurance companies, provides for periodic examinations of insurance companies' affairs, imposes restrictions on transactions with related parties, and sets out requirements governing certain aspects of insurance companies' businesses.

OSFI supervises SLF Inc. on a consolidated basis to ensure that it has an overview of activities of SLF Inc. and its consolidated subsidiaries. This consolidated supervision includes the ability to review insurance and non-insurance operations of SLF Inc. and subsidiaries and supervisory power to bring about corrective action. OSFI has extensive powers to intervene in the affairs of regulated insurance companies, including the power to request information or documents, to conduct investigations, to require that appropriate actions are taken to address issues identified by OSFI and to levy fines. OSFI may intervene and assume control of an insurance company governed by the Insurance Act if OSFI deems that the amount of the company’s available capital is not sufficient.

Investment Powers

Under the Insurance Act, a life insurance company must maintain a prudent portfolio of investments, subject to certain overall limitations on the amount it may invest in certain classes of investments, such as commercial loans, real estate and stocks. Additional restrictions (and, in some cases, the need for regulatory approvals) limit the type of investments which SLF Inc. can make in excess of 10% of the voting rights or 25% of the equity of any entity.

Capital and Surplus Requirements

SLF Inc. and Sun Life Assurance, SLF Inc.’s principal operating life insurance subsidiary in Canada, are subject to OSFI’s Life Insurance Capital Adequacy Test ("LICAT") capital framework.

The LICAT Guideline uses a risk-based approach for measuring specific life insurer risks and for aggregating the results to calculate the amount of a life insurer’s regulatory required capital to support these risks. LICAT measures the capital adequacy of an insurer using a Total Ratio and a Core Ratio and is one of several indicators used by OSFI to assess an insurer’s financial condition. The Total Ratio is the Available Capital plus Surplus Allowance and Eligible Deposits divided by a Base Solvency Buffer as described below.

The principal elements included in determining Qualifying Regulatory Available Capital (“Available Capital”) under LICAT include common shares, contributed surplus, retained earnings, the participating account, accumulated currency translation account, unrealized gains and losses on available for sale equity and debt securities, qualifying preferred shares, innovative capital instruments and subordinated debt.

The calculation of the Total Ratio takes into consideration other aspects of the balance sheet that are available as loss absorbing capacity, including the Surplus Allowance and Eligible Deposits. The Surplus Allowance includes the provisions for adverse deviations for non-economic and risk-free interest rate assumptions. The Eligible Deposits consist of the excess deposits held for unregistered reinsurers and claims fluctuation reserves.

The Base Solvency Buffer includes five risk components: (1) credit risk, (2) market risk, (3) insurance risk, (4) segregated funds guarantee risk, and (5) operational risk. Credits are available for: (1) qualifying in-force participating and adjustable products, (2) other risk mitigation and risk transfer, and (3) risk diversification. The sum of the risk components, net of credits, are multiplied by 1.05 to arrive at the Base Solvency Buffer.

The LICAT Guideline sets a Supervisory Target Total Ratio of 100% and a minimum Total Ratio of 90%. The supervisory target provides a cushion above the minimum requirements, provides a margin for other risks, and facilitates OSFI's early intervention process. The supervisory target is not applicable to regulated insurance holding companies and non-operating insurance companies. The Company has established capital targets in excess of the supervisory target set by OSFI.

Restrictions on Dividends and Capital Transactions

The Insurance Act prohibits the declaration or payment of dividends on shares of an insurance company if there are reasonable grounds for believing the company does not have, or the payment of the dividend would cause the company not to have, adequate capital or liquidity, or upon any direction made by the Superintendent. The Insurance Act also requires that an insurance company notify the Superintendent of the declaration of a dividend at least fifteen days before the dividend payment date.

The Insurance Act also prohibits the purchase for cancellation of shares issued by an insurance company or the redemption of redeemable shares or other similar capital transactions, if there are reasonable grounds for believing that the company does not have, or the payment would cause the company not to have, adequate capital or liquidity, or upon any direction made by the Superintendent. Further, any redemption or purchase for cancellation of shares issued by an insurance company or similar capital transactions are prohibited without the prior approval of the Superintendent.

On March 13, 2020, OSFI set the expectation for all federally regulated financial institutions that dividend increases and share buybacks should be halted for the time being.

Restrictions on Ownership

The Insurance Act contains restrictions on the purchase or other acquisition, issue, transfer and voting of the shares of an insurance company. Pursuant to these restrictions:

- No person is permitted to acquire any shares of SLF Inc. if the acquisition would cause the person to have a "significant interest" in any class of shares of SLF Inc., without the prior approval of the Minister of Finance of Canada;
- SLF Inc. is not permitted to record any transfer or issue of shares of SLF Inc. if the transfer or issue would cause the person to have a significant interest in SLF Inc., unless prior approval is obtained from the Minister of Finance of Canada; and
- No person who has a significant interest in SLF Inc. may exercise any voting rights attached to the shares held by that person, unless prior approval of the Minister of Finance of Canada is obtained.

A person has a significant interest in a class of shares where the aggregate of any shares of that class beneficially owned by that person, any entity controlled by that person and any person acting jointly or in concert with that person exceeds 10% of all of the outstanding shares of that class of shares.

Under the Insurance Act, the Minister of Finance of Canada may approve only the acquisition of a significant interest of up to 30% of any class of non-voting shares and up to 20% of a class of voting shares, provided that the person acquiring those shares does not have direct or indirect influence over SLF Inc. that, if exercised, would result in that person having control in fact of SLF Inc. In addition, the Insurance Act prohibits life insurance companies, including SLF Inc., from recording a transfer or issuing shares of any class to Her Majesty in right of Canada or of a province, an agent of Her Majesty, a foreign government or an agent of a foreign government.

SLF Inc. is required to continue to control, but not wholly own, Sun Life Assurance. Any shares of Sun Life Assurance that are not owned by SLF Inc. are required to meet the widely-held criteria (no individual may own more than 10% of any class of shares without prior approval of the Minister of Finance of Canada). The 20% limit on voting share ownership and 30% limit on non-voting share ownership apply to the direct and indirect cumulative ownership of Sun Life Assurance, with the effect that no single investor will be able to use the holding company structure to exceed those ownership restrictions.

Appointed Actuary

In accordance with the Insurance Act, SLF Inc.'s Board has appointed a Fellow of the Canadian Institute of Actuaries as its "Appointed Actuary". The Appointed Actuary must provide an opinion on:

- The value of the Company's consolidated policy liabilities as at the end of each fiscal period in accordance with accepted actuarial practice, including the selection of appropriate assumptions and methods;
- Whether the amount of policy liabilities makes appropriate provisions for all obligations to policyholders; and
- Whether the valuation of liabilities is fairly presented in the consolidated financial statements.

Regulations require that the Appointed Actuary meet with the Board or a delegated Committee of the Board at least once in each financial year to report, in accordance with accepted actuarial practice, on the Company's financial position and its expected future financial condition. The Appointed Actuary must report to the Chief Executive Officer and the Chief Financial Officer of SLF Inc. any matters that, in the Appointed Actuary's opinion, could have material adverse effects on the financial condition of SLF Inc.

Prescribed Supervisory Information

The Supervisory Information (Insurance Companies) Regulations made under the Insurance Act prohibit regulated insurance companies, such as SLF Inc. and Sun Life Assurance, from disclosing, directly or indirectly, “prescribed supervisory information”, as defined in those Regulations. Prescribed supervisory information includes assessments, recommendations, ratings and reports concerning the Company made by or at the request of the Superintendent, orders of the Superintendent with respect to capital and liquidity, certain regulatory actions taken with respect to the Company, prudential agreements between the Company and the Superintendent, and directions of the Superintendent that we cease or refrain from committing, or remedy, unsafe or unsound practices in conducting our business.

Provincial/Territorial Insurance Regulation

In Canada, life insurance is also subject to provincial regulation and supervision in each province and territory in Canada. Provincial insurance regulation is primarily concerned with market conduct matters, the rights and obligations under insurance contracts, and the licensing and oversight of insurance intermediaries. In addition to those regulations, guidelines adopted by the Canadian Life and Health Insurance Association (“CLHIA”) govern several aspects of our business in Canada.

SLF Inc. is licensed as an insurance company in Canada under the Insurance Act and is the holding company for the Sun Life group of companies. SLF Inc. is not licensed to carry on life insurance business in any province or territory in Canada.

Sun Life Assurance and Sun Life Insurance (Canada) Limited are licensed to carry on life insurance and accident and sickness insurance business in each province and territory in Canada.

Regulation of Securities Operations

Several of SLF Inc.'s subsidiaries in Canada are registered with various Canadian Securities Administrators as dealers, advisors or managers under one or more of the following categories of registration: mutual fund dealer, investment fund manager, commodity trading manager, investment counsel/portfolio manager and exempt market dealer. These entities, their registered employees and their products and/or services are regulated in Canada under provincial and territorial securities laws which are administered and enforced by the various Canadian Securities Administrators, and certain entities are also subject to the rules of the applicable self-regulatory organization, such as the Mutual Fund Dealers Association of Canada for mutual fund dealers. These entities may be subject to examinations or proceedings by the various Canadian Securities Administrators and self-regulatory organizations. These examinations or proceedings could subject our registered subsidiaries to a range of regulatory sanctions, including censure, limitations on the registrant's activities, and termination of registration, and could subject these entities to a cessation of sales or the rescission of a sale of securities.

Client Protection for Financial Institution Failure

Sun Life Assurance’s Canadian policyholders are provided protection from an insolvency through Assuris, a not for profit organization that is funded by its member insurance companies. Every life insurance company authorized to sell insurance policies in Canada is required, by the federal, provincial and territorial regulators, to become a member of Assuris. Assuris provides separate protection for individual, group, registered and non-registered, life insurance policies and annuity policies.

The MFDA Investor Protection Corporation (“IPC”) provides Clients with protection, within defined limits, in the event of the insolvency of their mutual fund dealer. The IPC is funded by its member mutual fund dealers, including Sun Life Financial Investment Services (Canada) Inc.

The Canada Deposit Insurance Corporation (“CDIC”) is a federal crown corporation created to protect deposits made with member financial institutions in case of their failure. CDIC member institutions, including Sun Life Financial Trust Inc., fund deposit insurance through premiums paid on the insured deposits that they hold.

Other Regulatory Matters

Privacy of Client Information and Anti-Spam Legislation

Canadian federal, and some provincial, laws and regulations require organizations, including financial institutions, to protect the security and confidentiality of Client information. This includes financial institutions notifying Clients about their policies and practices relating to their collection, use and disclosure of Client information, including protection of that information. Requirements
also include an obligation to notify individuals and report to privacy regulators when there is a real risk of significant harm to affected individuals resulting from a breach of security safeguards. Both the federal and Quebec governments have introduced draft legislation that would significantly alter privacy legislation by introducing new rights for individuals, additional obligations for organizations and expansive enforcement powers and financial penalties for non-compliance. Canadian anti-spam legislation imposes certain restrictions and formalities on the delivery of commercial electronic messages to existing and prospective Clients. This includes obtaining consent from recipients and providing the ability to unsubscribe from subsequent messages.

Anti-Money Laundering Legislation

The Proceeds of Crime (Money Laundering) and Terrorist Financing Act, Canada, contains measures to assist in detecting, deterring, and facilitating the investigation of money laundering and terrorist financing offences. This legislation and the associated regulations impose reporting, recordkeeping and "know your Client" obligations on SLF Inc. and certain of its subsidiaries.

United States

In the U.S. SLF Inc. does not carry on business and is not regulated as an insurance company. Sun Life Assurance and several indirect U.S. subsidiaries of SLF Inc. carry on business and are regulated as insurance companies in the United States. Michigan is Sun Life Assurance's "state of entry" and is treated as the state of domicile for Sun Life Assurance's U.S. branch (the "U.S. Branch"). The U.S. Branch is licensed to transact business in every state in the United States except New York, plus in the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. SLF Inc.'s U.S. life and health insurance subsidiaries are, collectively, licensed to transact business in all states, the District of Columbia, and Puerto Rico.

Certain SLF Inc.'s U.S. subsidiaries (including MFS and its subsidiaries, Sun Life Capital Management (U.S.) LLC, [1] BGO and certain of its subsidiaries, certain subsidiaries of InfraRed, and Crescent and certain of its subsidiaries) and certain contracts, policies and funds issued, offered or managed by them are subject to regulation under federal securities laws administered by the SEC and under certain state securities laws.

Regulation of Insurance Operations - State Level

In the United States, all states, the District of Columbia, and the U.S. territories and possessions have insurance laws that apply to companies licensed to carry on an insurance business in the jurisdiction. The primary regulator of an insurance company, however, is the state insurance department or equivalent body located in its state of domicile. Most jurisdictions have laws and regulations governing the financial aspects of insurers, including standards of solvency, reserves, reinsurance, and capital adequacy, and the business conduct of insurers. In addition, the laws of the various states provide state insurance regulators with broad administrative powers to approve policy forms and related materials and approve rates for certain lines of insurance, grant and revoke licenses to transact business, regulate trade practices, license agents, and require statutory financial statements. The primary purpose of such regulation is the protection of policyholders and consumers, rather than shareholders.

The National Association of Insurance Commissioners ("NAIC") is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the United States.

The U.S. Branch and SLF Inc.'s U.S. life and health insurance subsidiaries are subject to the insurance holding company laws and regulations in the states in which they are domiciled (or deemed to be commercially domiciled). Most states' insurance holding company laws require each insurer that is domiciled therein and that is a member of a holding company system to register with the insurance regulatory authority of that state and, annually, to furnish those authorities with reports that include information concerning capital structure, ownership, financial condition, certain intercompany transactions and general business operations. In addition, under most states' holding company laws, transactions within the holding company system to which the domestic insurer is a party must be fair and equitable and the insurer's policyholder surplus following any such transaction must be both reasonable in relation to its outstanding liabilities and adequate for its needs. Most states require prior regulatory approval of the change of control of the domestic insurer or an entity that controls the domestic insurer and prior notice or regulatory approval of certain intercompany transfers of assets or other material affiliate transactions to which a domestic insurer is a party. Generally, under such laws, a state insurance authority must approve in advance the direct or indirect acquisition of 10% or more of the voting securities of an insurance company domiciled in the state.

SLF Inc.'s U.S. captive insurance companies are subject to the laws and regulations applicable to captive insurers in their states of domicile, as well as the terms of the business plans approved by, and the licensing orders issued by, the companies' domestic regulators. Generally, a captive insurance company is required to seek regulatory approval prior to taking any action that would deviate from the activities described in its approved business plan or specifically permitted by the licensing order issued by its domestic regulator.

The U.S. Branch and SLF Inc.'s U.S. life and health insurance subsidiaries are required to file detailed annual and quarterly financial statements with state insurance regulators in each of the states in which they are licensed, and their business and accounts are subject to examination by such regulators at any time. Regulators have authority to limit or prohibit the ability to issue new policies if, in their judgment, an insurer is not maintaining sufficient surplus or capital or if the further transaction of business would be detrimental to policyholders.

[1] On January 1, 2020, Ryan Labs Asset Management Inc., Prime Advisors Inc. and Sun Life Capital Management (U.S.) LLC merged, with the resulting entity being Sun Life Capital Management (U.S.) LLC.

As part of their oversight process, state insurance departments conduct detailed examinations periodically (generally, every three- to five-years) of the financial condition and market conduct of insurance companies domiciled in their states. The latest published examination reports of the U.S. Branch and SLF Inc.'s U.S. life and health insurance companies did not raise any material issues or adjustments. In addition to the periodic examinations, states will on occasion perform targeted market conduct reviews that may cover, among other things, content of disclosures, advertising, sales practices and complaint handling. Examinations are periodically conducted, in cooperation with the departments of other states, under guidelines published by the NAIC.

Restrictions on Dividends

The amount of dividends that an insurance company may pay to its parent without prior regulatory approval is regulated under the U.S. state insurance holding company laws and regulations and under the terms of licensing orders issued by various states.

NAIC IRIS Ratios

The NAIC has developed a set of financial relationships or “tests” known as the Insurance Regulatory Information System (“IRIS”) to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that may require special attention or action by insurance regulatory authorities. A second set of confidential ratios, called the Financial Analysis Solvency Tracking System, is also used for monitoring. Insurance companies generally submit data to the NAIC, which in turn analyzes the data using prescribed financial data ratios, each with defined “usual ranges”. Having ratios that fall outside the usual range does not necessarily indicate that a company experienced unfavourable results. Generally, if four or more of an insurance company's ratios fall outside the usual ranges, regulators will begin to investigate or monitor the company. Regulators have the authority to impose remedies with various degrees of supervision, ranging from increased monitoring to certain business limitations. For the twelve-month period ended December 31, 2019, the most recent period for which results are available, SLF Inc.'s U.S. life and health insurance subsidiaries were within the usual ranges for most of the IRIS ratios. The U.S. Branch had four ratios outside of the usual ranges, which was anticipated in connection with certain planned transactions that were reported to or approved by state regulators as required. The ratios that were outside the usual ranges did not indicate any adverse solvency issues.

Risk-based Capital Ratio Requirements

All states have risk-based capital (“RBC”) ratio requirements for insurance companies. The NAIC RBC system was created to provide a capital adequacy standard that is related to risk, raises a safety net for insurers, is uniform among the states, and provides regulatory authority for timely action. The RBC system requires an insurer to calculate a minimum amount of capital that it must maintain to support the various risks to which it is exposed. A separate factor is used across each major risk category, and may vary by primary insurance type. RBC focuses on the material risks that are common for the particular insurance type. For life and health insurance, RBC considers investment risk, insurance risk, interest rate risk, and other market and business risks, by applying factors to various amounts presented in the company's statutory financial statements. The RBC framework was updated in 2018 to incorporate the impacts of the Tax Cuts and Jobs Act of 2017. For the year ended December 31, 2020, the RBC ratio for the U.S. Branch and SLF Inc.'s U.S. life and health insurance subsidiaries is expected to exceed the levels under which any remedial or regulatory action would be required.

Statutory Reserves

State insurance laws require life and health insurance companies to analyze the adequacy of their reserves annually. The appointed actuary for the U.S. Branch and SLF Inc.'s other U.S. life and health insurance subsidiaries must submit an opinion that such reserves, when considered in light of the assets held with respect to those reserves, make adequate provision for the associated contractual obligations and related expenses of the U.S. Branch and each of SLF Inc.’s life and health insurance subsidiaries. If such opinion cannot be provided, the affected insurer must set up additional reserves.

Under NAIC rules, life and health insurance companies must maintain an asset valuation reserve (“AVR”), which is a provision for potential asset credit defaults. The size of the AVR depends upon the composition and results of a company’s investment portfolio. These reserves are recorded for purposes of statutory accounting practices; they are not recorded under the provisions of IFRS and therefore have no impact on SLF Inc.'s reported results of operations or financial position. The AVR affects the determination of statutory surplus, and changes in such reserves may affect the ability of SLF Inc.'s U.S. life and health insurance subsidiaries to pay dividends or other distributions to their respective parents and also may affect the amounts required to be maintained in trust by the U.S. Branch (see discussion below under Minimum Statutory Surplus and Capital).

Minimum Statutory Surplus and Capital

The U.S. Branch and SLF Inc.'s U.S. life and health insurance subsidiaries are required to have minimum statutory surplus and capital of various amounts, depending on the states in which they are licensed and the types of business that they transact.

The U.S. Branch is required to maintain a certain amount of assets in trust with a financial institution acceptable to the Director of Michigan's Department of Insurance and Financial Services (the “Michigan Director”) in an amount at all times at least equal to the sum of the U.S. Branch's reserves and other liabilities, the minimum required capital and surplus, and any additional amounts considered necessary by the Michigan Director to cover the U.S. Branch's liabilities. Generally, these assets are available only to meet the obligations of Sun Life Assurance to its U.S. policyholders, claimants and other U.S. Branch creditors. Amendments to the

trust agreement must be approved by the Michigan Director. As at December 31, 2020, the U.S. Branch had assets in trust in excess of Michigan's requirements.

Investments of Insurance Companies

The U.S. Branch and SLF Inc.'s other U.S. life and health insurance subsidiaries are subject to state laws and regulations that require diversification of their investment portfolios and limit the amount of investments in certain investment categories such as below-investment-grade fixed income securities, equity real estate, foreign investments and equity investments. Failure to comply with these laws and regulations would cause investments exceeding regulatory limits to be treated as non-admitted assets for purposes of measuring surplus and, in some instances, would require divestiture of such non-qualifying investments.

State Guaranty Association Assessments

All states, the District of Columbia and Puerto Rico require insurers to participate in the local insurance guaranty association. The association may levy assessments for policyholder losses incurred by impaired or insolvent insurers. Generally, assessments up to certain prescribed limits are based upon the proportionate share of premiums written by member insurers in the lines of business in which the impaired or insolvent insurer is engaged. A large part of the assessments paid by SLF Inc.'s U.S. insurance subsidiaries pursuant to these laws may be used as credits for a portion of its U.S. premium taxes.

Regulation of Insurance Operations - Federal Level

Although the U.S. federal government does not directly regulate the insurance business, federal legislation and administrative policies in several areas apply to the conduct of the insurance business, including age and sex discrimination, investment company regulation, financial services regulation, health care regulation, foreign corrupt practices regulation and federal taxation. For example, the U.S. Congress has, from time to time, considered legislation related to limitations on antitrust immunity and the alteration of the federal income tax structure.

Regulation of Securities Operations

The investment management activities of SLF Inc.'s U.S. subsidiaries are subject to federal and state laws and regulations in the jurisdictions where they conduct business. MFS and certain of SLF Inc.'s other U.S. subsidiaries are registered as investment advisers under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), which imposes various obligations on registered investment advisers, including fiduciary duties, and disclosure, operational, recordkeeping and reporting requirements.

Several of SLF Inc.'s U.S. subsidiaries issue or have issued products that are registered with the SEC as investment companies under the Investment Company Act of 1940, as amended (the "1940 Act") and which issue securities that are registered under the Securities Act of 1933, as amended (the "1933 Act"). Certain of SLF Inc.'s U.S. subsidiaries provide investment management services to affiliated funds, which similarly are registered as investment companies under the 1940 Act and which issue securities that are registered under the 1933 Act. The 1940 Act and the 1933 Act impose various obligations on registered investment companies and with respect to the securities that they issue, including disclosure, operational, recordkeeping and reporting requirements and, in the case of the 1940 Act, prohibitions or restrictions on certain transactions with affiliates.

Registered investment companies and investment advisers are regulated by and subject to examination by the SEC. The SEC is authorized to institute proceedings and impose sanctions for violations of the U.S. federal securities laws. Failure to comply with applicable securities laws could subject SLF Inc.'s investment companies and investment adviser subsidiaries to a range of regulatory sanctions, including censure, limitations on the registrant's activities, and termination of registration, and could subject its registered investment companies to a cessation of sales or rescission of securities sold.

To the extent that any products are deemed to be securities under U.S. federal or state securities laws, they are qualified for sale as needed in certain states in the United States and the District of Columbia. Marketing and sales of securities products are subject to the Securities Exchange Act of 1934, as amended (the "1934 Act"), and regulations promulgated by the Financial Industry Regulatory Authority ("FINRA").

Certain of SLF Inc.'s U.S. subsidiaries are registered as broker-dealers under the 1934 Act and are subject, for example, to the SEC's net capital rules, and are members of, and subject to regulation by FINRA. Certain other U.S. subsidiaries of SLF Inc. are registered as transfer agents under the 1934 Act.

MFS also conducts business in the European Union ("EU") that is also subject to securities laws and regulations. The revised Markets in Financial Instruments Directive and Regulation (together "MiFID II") became effective on January 3, 2018 and applies across the EU and member states of the European Economic Area ("EEA"). Implementation of MiFID II is having a significant impact on both the structure and operation of EU financial markets. Some of the main changes introduced under MiFID II include applying enhanced disclosure requirements, enhancing conduct of business and governance requirements, broadening the scope of pre and post trade transparency, increasing transaction reporting requirements, transforming the relationship between Client commissions and research, and further regulation of trading venues. In response to MiFID II, MFS is paying for all external investment research for all clients (including non-European clients).

Other U.S. Regulatory Matters

U.S. Taxation

In light of the recent U.S. presidential election and senate elections, a corporate income tax rate increase could be introduced in the U.S., along with other legislative changes aimed at combating base erosion. If enacted, such changes could materially impact our tax expense on profits earned in the U.S.

The Dodd-Frank Act

The Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), which was signed into law in July 2010, enacted numerous legal and regulatory changes for the financial services industry, which have been gradually implemented over the ensuing years.

The Dodd-Frank Act mandated the U.S. federal regulation of the over-the-counter (“OTC”) derivatives market and granted new joint regulatory authority to the SEC and the U.S. Commodity Futures Trading Commission (“CFTC”) over OTC derivatives. While the SEC and CFTC continue to promulgate additional rules, certain of SLF Inc.'s. derivatives operations have become subject to, among other things, new recordkeeping, reporting and documentation requirements. In addition, certain non-cleared derivatives entered into as part of SLF Inc.’s derivatives operations have become subject to two-way variation margin requirements and may become subject to two-way initial margin requirements beginning in 2022. These margining requirements are expected to increase the cost and reduce the availability of non-cleared derivatives. Collectively, the Dodd-Frank Act requirements have increased the direct and indirect costs of the Company's hedging and related activities and will likely increase them further in the future.

LIBOR

Uncertainty relating to the LIBOR and other Interbank Offer Rates ("IBORs") calculation process and the anticipated phasing out of LIBOR and other IBORs may adversely affect the value of SLF Inc.’s derivatives and floating rate securities investments (collectively, the “Investments”) that are LIBOR or IBOR-based. On July 27, 2017, the UK Financial Conduct Authority, which regulates the panel banks that submit quotes to the ICE Benchmark Administration ("IBA") (which is responsible for computing LIBOR) for the purpose of calculating LIBOR, announced that it will no longer require or compel panel banks to submit rates for the calculation of the LIBOR rates after December 31, 2021. On November 18, 2020, the IBA announced that it will initiate a public consultation process on its intention to cease the publication of GBP, EUR, CHF and JPY LIBOR after December 31, 2021. In a follow-up announcement on November 30, 2020, the IBA announced that it will also seek public comment on its intention to cease the publication of the one-week and two-month USD LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining USD LIBOR settings immediately following the LIBOR publication on June 30, 2023. On the same day, the Federal Reserve Board issued supervisory guidance encouraging U.S. banks to stop new USD LIBOR issuances by the end of 2021. Regulatory and industry initiatives concerning LIBOR and other IBORs, such as a change in the compiling body, sponsor or administrator of LIBOR and other IBORs, could also result in changes or modifications affecting LIBOR or IBOR-based investments like the Investments.

In the United States, the Alternative Reference Rates Committee of the Federal Reserve Board has identified the Secured Overnight Financing Rate (“SOFR”) as the replacement rate for USD LIBOR. SOFR is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. During the third quarter of 2018, certain market participants began moving towards the utilization of SOFR as a possible LIBOR replacement through the issuance of debt securities indexed to SOFR. It is expected that some of these, and other, market participants will continue or begin to transition to SOFR in anticipation of the cessation of USD LIBOR. However, there can be no guarantee that alternative rates will be developed, that SOFR will become the dominant alternative rate to USD LIBOR, or that SOFR will be widely used. A transition to SOFR or another replacement rate (whether prior to or after December 31, 2021) may adversely affect the trading of USD LIBOR-based investments, including the Investments, insofar as their value, liquidity, return, and usefulness for intended purpose are concerned. While it may be possible to convert SOFR into an approximate USD LIBOR-equivalent rate by developing a term rate or by adding, subtracting or otherwise incorporating one or more interest rate spreads, or by making other appropriate adjustments to minimize, to the extent possible, discrepancies between LIBOR and SOFR, the feasibility and appropriateness of such adjustments will depend on a variety of factors, including market conditions, monetary policy, and factors affecting SOFR’s or USD LIBOR’s integrity during the transition.

Similar benchmark reform is also underway in several other countries, where working groups (including, but not limited to, the Canadian Alternative Reference Rate Working Group in Canada and the Working Group on Risk-Free Reference Rates for the Euro Area in the European Union) have identified, and are considering the implications of a transition to, alternative secured or unsecured (depending upon the jurisdiction) “risk free” transaction-based rates, which may or may not have been published at the time of this disclosure. For example, in the UK, the regulators are working with market participants to catalyse a transition from LIBOR to the Sterling Overnight Index Average as the primary interest rate benchmark in sterling markets.

At this time, it is difficult to predict the effect of any changes to the methodology for calculating LIBOR or other IBORs or of any other benchmark reform that may happen in the United States or elsewhere. Uncertainty as to the nature of potential changes, alternative rates, accounting and tax relief, and other related reforms may adversely affect our operations and cash flows and the value of and return on our investments. Accordingly, we continue to be focused on implementing an effective transition away from LIBOR and other IBORs.

Cybersecurity and Privacy of Client Information

U.S. regulators at the federal and state level are increasing their focus on cybersecurity. In particular, the New York Department of Financial Services has adopted regulations designed to enhance cybersecurity controls of financial institutions, and other U.S. insurance regulators have begun to consider similar laws and regulations designed to address specific cyber risks. These laws and regulations require licensees, including SLF Inc.'s U.S. insurance subsidiaries, to implement risk-based information security programs; establish detailed procedures for investigating cybersecurity events, assessing risk, and overseeing third-party service providers; and comply with increased regulatory reporting requirements.

In addition, U.S. federal and state laws require financial institutions, including insurers, investment companies and investment dealers, to protect the security and confidentiality of Client information and to notify Clients about the institution's policies and practices relating to its collection, use and disclosure of client information. The State of California has enacted legislation designed to enhance consumer privacy rights, and other states are considering similar consumer focused privacy laws that would significantly change data privacy requirements in the U.S., impose greater penalties for non-compliance, and provide for consumer rights to access and delete their personal information and private rights of action.

These laws and regulations will increase the costs and compliance obligations associated with the Company's information security and administration activities.

The Affordable Care Act

The Patient Protection and Affordable Care Act ("Affordable Care Act") enacted significant legal and regulatory changes for the health care and insurance industries with a primary goal of increasing the number of Americans with health insurance coverage. While the law's changes are primarily directed at traditional health insurance products not offered by the U.S. Branch and SLF Inc.'s U.S. life and health insurance subsidiaries, the Affordable Care Act has led to an increase in the number of employers choosing to self insure their health plans. The expansion of the self-insured health plan market has positively impacted our medical stop-loss business.

In November 2020, the U.S. Supreme Court heard oral arguments in a case challenging the constitutionality of the Affordable Care Act. The outcome of this case is not expected to have a material impact on our business.

The USA PATRIOT Act of 2001

The USA PATRIOT Act of 2001 (the "PATRIOT Act") seeks to promote cooperation among financial institutions, regulators and law enforcement agencies in identifying parties that may be involved in terrorism, money laundering or other illegal activities. Regulations applicable to the insurance industry require insurance companies issuing "covered products" to implement anti-money laundering programs and file suspicious activity reports with the U.S. Treasury Department. SLF Inc.'s U.S. subsidiaries that issue covered products and its U.S. broker-dealer subsidiaries have implemented anti-money laundering programs to comply with the PATRIOT Act regulations and with the Office of Foreign Assets Control requirements with respect to anti-terrorist financing.

Paid Family and Medical Leave

A growing number of states have passed or are considering mandated paid family and medical leave ("PFML") programs. These programs generally provide partial income protection for an employee who is unable to work on account of his or her own serious health condition or for various family care reasons. There are a number of PFML proposals at the federal level as well. While PFML programs overlap with short term disability coverage and, as a result, could have a negative impact on the short term disability marketplace in which the U.S. Branch and SLF Inc.'s U.S. life and health subsidiaries operate, these programs also offer an opportunity for insurers to build new products to serve an emerging market.

United Kingdom

SLF Inc. does not carry-on business and is not regulated as an insurance or asset management company in the UK. However, it is the indirect owner of Sun Life Assurance Company of Canada (U.K.) Limited ("SLOC UK"), which is authorized and regulated as an insurance company in the UK, and subject to the Solvency II insurance regime. Insurance supervision in the UK is performed by two financial services regulators, the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA"). In addition, there are several other UK regulatory bodies of financial services with whom SLOC UK is required to maintain compliance.

Following the end of the transitional phase of the UK's withdrawal from the EU on December 31, 2020, SLOC UK will continue to be subject to Solvency II. However, some of our policyholders continue to be residents of the EU and EEA jurisdictions. As National Competent Authorities, individual EU and EEA regulators may seek additional returns from SLOC UK to meet their local requirements regarding continuity of service to policyholders resident in their jurisdictions.

Insurance Supervision and Regulation

The FCA's statutory and operational objectives are to protect consumers, ensure market integrity and promote effective competition. The PRA's statutory objectives are to promote the safety and soundness of its regulated firms and to ensure policyholders are appropriately protected. It also has a secondary objective to facilitate effective competition in the markets for services provided by PRA-authorized firms.

Both the FCA and PRA adopt a principles rather than a rules-based philosophy to supervision. Within this approach, they use judgment, are forward looking and focus on the issues that pose the greatest risks to their respective objectives. They aim to supervise proportionately relative to the nature, scale and complexity of the business. Both regulators apply a harmonized approach to their expectations of a firm's governance - the Senior Managers and Certification Regime - which places legally enforceable requirements on designated individuals alongside a Conduct Rules regime that applies to most employees within the business.

Both the FCA and the PRA have extensive powers to intervene in the affairs of an authorized insurance company. These include the power to fine an authorized company and to vary or cancel its permission to carry on regulated activities in the UK, to request information or documents, to investigate the business of the company and to require the company to take appropriate actions to satisfy required threshold conditions for authorization.

SLOC UK is regulated as a Standard Formula firm under Solvency II and carries out certain regulated activities in the UK in relation to long-term contracts of insurance. It is required to meet certain Threshold Conditions and to conduct business in accordance with the provisions set out in the FCA Handbook and the PRA Rulebook. Under these requirements, SLOC UK must maintain systems, procedures and controls appropriate to the nature, scale and complexity of its business, to conduct its business with due regard to the interests of its policyholders, and to treat them fairly. It is also required to hold capital appropriate to its risk profile, and report to the regulator its ongoing compliance in that respect.

Solvency II also includes group a supervision requirement that applies to SLOC UK, its ultimate holding company (SLF of Canada UK Limited), and a number of small, mostly inactive and un-regulated entities. SLF Inc. is excluded from the scope of group supervision under the terms of a rule modification granted by the PRA and scheduled for renewal on December 31, 2022. This group supervision regime also places some firm-specific restrictions on dividend and capital transactions, in addition to the provisions of the Companies Act 2006 regarding the payment of dividends.

Financial Ombudsman Service

The Financial Ombudsman Service ("FOS") provides consumers with a free and independent service to resolve disputes between consumers and financial services firms. The FOS is empowered to order firms to pay compensation for consumer losses and to take steps to remedy a complaint.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme provides for the protection of consumers who may be affected by the inability of financial services companies who carry on regulated business in the UK to meet their liabilities.

The Pensions Regulator

The Pensions Regulator is the regulator of workplace pension schemes and has agreed a joint strategy with the FCA that aims to deliver better outcomes for pension savers and those entering retirement.

Asia

Sun Life carries on business through subsidiaries, joint ventures or associates in the Philippines, Hong Kong, Indonesia, India, China, Vietnam and Malaysia. The operations of our subsidiaries, joint ventures and associates in Asia are subject to the local regulatory and supervisory schemes in the jurisdictions in which they operate, which varies from country to country, but the regulators typically grant (or revoke) licenses to operate and control the ability of a company to operate an insurance business in that country. In general, the applicable legislation in a particular country includes features governing the registration of agents, regulation of product features and product approvals, asset allocation, minimum capital, the basis for calculating solvency and reserves, the valuation of policyholder liabilities, conditions for outsourcing core and non-core functions, policyholder and investor protection, change of directors or key management and money laundering, know-your-Client and terrorist financing requirements. Regulatory authorities may also regulate affiliations with other financial institutions, shareholder structures and may impose restrictions on declaring dividends and the ability to effect certain capital transactions and many jurisdictions require insurance companies to participate in policyholder protection schemes.

Philippines

Our operations in the Philippines, established in 1895, distribute a diverse range of insurance and savings products largely through our career agency sales force and bancassurance channel. We offer individual and group life and health insurance products to individuals and businesses through our wholly-owned subsidiary, Sun Life of Canada (Philippines), Inc. (“Sun Life Philippines”), and our joint venture with the Yuchengco Group, Sun Life Grepa Financial, Inc. (“Sun Life Grepa”), in which we have a 49% ownership

stake. In addition, we offer mutual funds and pre-need products respectively through Sun Life Philippines' wholly-owned subsidiaries, Sun Life Asset Management Company, Inc. ("Sun Life Asset Management (Philippines)") and Sun Life Financial Plans Inc. ("SLFPI"). There are no foreign ownership restrictions applicable to life insurance, mutual funds, or pre-need businesses in Philippines.

Sun Life Philippines and Sun Life Grepa are life insurance companies incorporated in the Philippines and governed by the Insurance Code. Sun Life Philippines offers individual and group life and health insurance products through its agency sales force. Sun Life Grepa offers its individual and group life insurance products through an agency sales force and through bancassurance distribution arrangements. The Insurance Commission supervises and regulates the operations of life, non-life, and pre-need companies.

Life insurance companies in the Philippines are required at all times to maintain the minimum net worth requirements prescribed by regulations. Current minimum net worth requirements are 900 million Philippine Pesos ("Php"), and will increase to Php1.3 billion by 2022. In addition, life insurance companies must maintain a minimum RBC ratio of 100% as prescribed in the Risk-Based Capital Framework. Insurance companies compliant with the net worth requirements as of December 31, 2019 that are adversely affected by the COVID-19 pandemic are required to comply with the Amended Risk Based Capital Framework and Revised Regulatory Intervention (RBC ratio). The Amended Risk Based Capital Framework adopts a risk-based approach to solvency, including quantitative capital requirements, government and risk management requirements, and disclosure requirements to encourage market discipline. The Revised Regulatory Intervention Ratio provides for the corresponding regulatory action/response to specific levels of RBC ratios. Depending on the RBC ratio, the regulatory response ranges from a required submission of linear extrapolations of the ratio for the next period to a take-over of the insurance company by the Insurance Commission.

Sun Life Asset Management (Philippines) is a mutual fund manager and distributor and is governed by the Securities Regulation Code and the Investment Company Act. SLFPI is governed by the Pre-Need Code and offers pension and education plans in the Philippines, and is supervised and regulated by the Insurance Commission.

The Securities and Exchange Commission supervises and regulates the operations of investment company advisers and mutual fund companies and issues licenses to these companies and other securities market participants.

Hong Kong

Our Hong Kong operations offer a full range of products to address insurance and savings needs. We offer individual life and health insurance, mandatory provident funds (the government-legislated pension system) and pension administration to individuals and businesses through a career sales agency force and independent financial advisors.

Sun Life Hong Kong Limited is authorized by the Hong Kong Insurance Authority ("IA") under the Insurance Ordinance to carry on certain classes of long-term business in or from Hong Kong. On June 26, 2017, the IA took over from the previous government-funded regulator, the Office of the Commissioner of Insurance, the functions of overseeing the authorization and regulation of insurance companies in Hong Kong. On September 23, 2019, the IA took over the regulation of insurance intermediaries from the existing self-regulatory organizations through a new statutory licensing regime. The offer of our investment linked insurance products, pooled retirement funds, approved pool investment funds, mandatory provident fund schemes and occupational retirement schemes are also regulated by one or more of the financial services regulators, including the IA, the Hong Kong Securities and Futures Commission and/or the Mandatory Provident Fund Schemes Authority. Our trustees and intermediaries who administer and distribute these products, funds and schemes are also supervised and regulated by one or more of the above regulators.

In Hong Kong, long-term insurance companies are required to maintain at all times a required solvency margin. The required solvency margin is the higher of $2 million Hong Kong dollars ("HKD") or the aggregate of two components: a percentage of the mathematical reserves and a percentage of the capital at risk as prescribed under the Insurance (Margin of Solvency) Rules (which is generally 4% of the mathematical reserves and 0.3% of the capital at risk). For a long-term insurer, the value of its assets must be greater than the amount of its liabilities by at least the required solvency margin. The minimum paid-up capital for insurers in Hong Kong is HKD$10 million. The actual capital requirement depends on the business undertaken by the insurer. Despite the above, in practice, the IA will also impose additional solvency requirements to ensure a sound and healthy insurance market.

Indonesia

In Indonesia, we offer individual life and health insurance, as well as creditor life insurance through our wholly-owned subsidiary, PT Sun Life Financial Indonesia.

PT Sun Life Financial Indonesia is licensed to carry on insurance business in Indonesia and can distribute life insurance products. PT Sun Life Financial Indonesia can additionally manufacture and distribute Shariah products through its Shariah unit.

The Otoritas Jasa Keuangan ("OJK") is the regulator responsible for supervising the insurance industry. The Indonesia Life Insurance Association ("AAJI") continues to act as a conduit between insurers and the Ministry of Finance and the OJK in terms of the development of new regulations and guidelines. Insurance sales forces are licensed by the AAJI. The Indonesia Sharia Insurance Association acts in the similar capacity as AAJI in relation to the Shariah business. The implementation of anti-money laundering controls in the insurance industry is monitored by the Indonesian Financial Transaction Reports and Analysis Center.

Life insurance companies in Indonesia are required to maintain a minimum solvency ratio of 120% of the minimum required capital and must have minimum shareholder equity of 100 billion Indonesian Rupiah.

In October 2014, legislation was enacted in Indonesia that introduced significant changes to the insurance sector in Indonesia, including establishing single presence requirements, establishing local ownership requirements to be prescribed by regulations, establishing an insurance guarantee program, requiring that Shariah (Takaful) products are distributed through separate standalone insurance companies within 10 years, requiring the appointment of a controlling entity that will be responsible for losses of the insurance company under its control and imposing stiffer penalties and sanctions for non-compliance. The Government Regulation which regulates local/foreign ownership requirements was issued in April 2018 and since then a grandfathering provision has been included to allow existing ownership by a foreign shareholder to be maintained (the "Grandfathering Provision"). The Government Regulation on the foreign ownership requirement was amended in early 2020. The key amendments introduced include: (1) an expansion of the applicability of the Grandfathering Provision for standalone shariah insurance companies and (2) the removal of requirements for local shareholders in joint venture insurance companies to participate in at least 20% of any capital injection, such that local shareholders are now only required to participate in an amount at least proportionate to their current shareholdings.

Vietnam

In Vietnam, we offer a diverse range of insurance, savings, investment and pension products through our wholly owned subsidiary Sun Life Vietnam Insurance Company Limited (“Sun Life Vietnam”). There are no foreign ownership restrictions applicable to Sun Life Vietnam, however, a transfer of 10% or more of the charter capital of any life insurer must be approved by the Ministry of Finance of Vietnam (“MOF”).

Insurance operations in Vietnam are mainly regulated by the MOF, which sets the standards on all insurance business matters, including product approvals, limits on commission rates payable on insurance products, actuarial liability valuation, and solvency requirements. Life insurers have responsibility for minimum legal capital of Vietnamese Dong ("VND") 600 billion and that a security deposit equal to 2% of the legal capital be maintained at a commercial bank in Vietnam. Life insurers that sell pension products are required to have a minimum legal capital of VND 800 billion. Life insurers that sell pension and unit-linked products are required to have a minimum legal capital of VND 1,000 billion. The equity of the owner of a life insurer must not be lower than the required minimum legal capital applicable to that insurer.

The required solvency margin is VND 300 billion over the minimum solvency margin for insurers selling pension, unit-linked and universal life products. The MOF also requires life insurers to maintain: (a) minimum reserves; (b) for unit-linked policies, a minimum solvency margin of 1.5% insurance reserves plus 0.3% of the sums at risk; (c) for universal life products and pension products, a minimum solvency margin of 4% of insurance reserves plus 0.3% of the sums at risk; and (d) for other life insurance policies and health policies, a minimum reserves and a minimum solvency margin of 4% of insurance reserves plus either (i) 0.1% of sums at risk for policies with a term of five years or less, or (ii) 0.3% of the sums at risk for policies with a term over five years. Life insurers must also establish a reserve fund to ensure their solvency. Life insurers are to deduct 5% of annual profit after-tax to set up a compulsory reserve fund, the maximum of which is equal to 10% of the charter capital.

Sun Life Vietnam’s products are generally distributed through a career agency sales force, including individual agency, corporate agency and bank partner, for individual Clients and through a corporate agency for corporate Clients. Sun Life Vietnam has an option to contract with eligible insurance auxiliary service providers to support Sun Life Vietnam in selling Sun Life Vietnam's products to Clients. The insurance auxiliary services include insurance consultation, insurance risk assessment, insurance calculation, insurance loss assessment and insurance claim assistance.

India

Aditya Birla Sun Life Insurance Company Limited ("ABSLI"), our insurance joint venture with the Aditya Birla Group in India in which we have a 49% stake, provides a full range of individual and group insurance, savings and retirement products through a multi-channel distribution network, including an agency sales force, bancassurance distribution, brokers and worksite marketing.

Insurance operations in India are regulated by the Insurance Regulatory & Development Authority of India ("IRDAI"), whose duties include issuing certificates of registration to insurance companies, protecting the interests of policyholders, and regulating, promoting and ensuring the orderly growth of the insurance industry. In recent years, a number of regulatory changes have been introduced, affecting matters that include product design and structure including commissions, distribution, investments, expense management, risk management, corporate governance and grievance handling.

Life insurance companies in India are expected to maintain a Minimum Solvency Ratio (Total Assets Available for Solvency / Required Solvency Margin) of 150% at all times, where the Required Solvency Margin is an amount calculated by applying specified factors to reserves and amounts-at-risk. Life insurance companies are required to maintain their Available Solvency Margin at a level which is not less than the greater of fifty per cent of the amount of minimum required capital and one hundred percent of Required Solvency Margin. The Minimum Paid-up Capital for life insurers is INR 1 billion.

In light of the COVID-19 pandemic, the IRDAI has urged insurers to refrain from making dividend payments from profits pertaining to the financial year ending March 31, 2020 until further directions are issued, in order to conserve capital and maintain solvency. This position was to be reassessed by the IRDAI based on the financial results of insurers for the quarter ending September 30, 2020. However, no further directions have been issued in this regard. The IRDAI has also advised the insurers that their respective board of directors should critically examine their capital availability and solvency margin as required in the financial year 2020-2021 and devise strategies to ensure that they have adequate capital and resources available. Insurers have also been advised to rationalize their expenses for the financial year 2020-2021.

The foreign investment limit in the insurance sector in India is 49% of the equity share capital in an Indian insurance company and the Indian insurance company must be Indian owned and controlled. In addition, prior approval is required from the IRDAI for any sale of shares over 1% of the total equity share capital and any purchase of more than 5% of the equity share capital and increases in foreign investment in an Indian insurance company must comply with the pricing guidelines specified by the Reserve Bank of India and Guidelines on Indian Owned and Control.

Aditya Birla Sun Life Pension Management Limited (“ABSLPML”) is a wholly owned subsidiary of ABSLI. ABSLPML’s business offers pension solutions and acts as Pension Fund Manager under the National Pension Scheme Trust of the National Pension System (“NPS”) to manage pension funds in the private sector according to the provisions of the NPS, the schemes, and the guidelines issued by the Pension Fund Regulatory and Development Authority.

Mutual funds and portfolio management services in India are regulated by the guidelines and regulations issued by the Securities and Exchange Board of India and various other applicable statutes.

Aditya Birla Sun Life AMC Limited (“ABSLAMC”), our asset management joint venture in India in which we have a 49% stake, offers mutual fund products and portfolio management services, and is registered with the Securities and Exchange Board of India to act as an investment manager to the funds launched under Alternative Investment Funds: Category III and Category II. ABSLAMC acts as an investment manager to two offshore funds. ABSLAMC has also set up wholly owned subsidiaries in Singapore, Dubai and Mauritius.

China

Sun Life Everbright Life Insurance Company Limited is a domestically-invested life insurance company in China, in which we have a 24.99% ownership stake. It operates a multi-distribution model that combines a direct career agency, financial consultants, telemarketing and bancassurance alliances to sell individual life and health insurance and savings products.

Sun Life Everbright Life Insurance Company Limited has a 99% ownership stake in Sun Life Everbright Asset Management Co., Ltd, which carries on business in China as an insurance asset management company.

The insurance industry in China is regulated by the China Banking and Insurance Regulatory Commission (“CBIRC”), which is a central government agency under the State Council of the People’s Republic of China. The CBIRC has authority to: (i) issue regulatory rules and other normative documents applicable to the insurance industry and insurance market participants to implement the relevant laws and administrative regulations; (ii) review and approve the establishment, alteration and other significant matters of insurance institutions (which generally include insurance group (holding) companies, insurance companies and insurance asset management companies) and insurance intermediaries in China and, where applicable, their overseas activities (e.g., investment); (iii) review and approve the policy terms and premium rates for insurance products; (iv) formulate and implement standards to measure and supervise the corporate governance, risk management, internal control, financial soundness, capital sufficiency, solvency, operational compliance and information disclosure of insurance institutions; (v) require insurance institutions to submit periodical and ad hoc reports concerning their business operations and condition of assets; and (vi) take necessary regulation measures and impose corresponding regulatory sanctions (e.g. to order the suspension of all or part of an insurance company's business, to restrict the exercise of a shareholder's rights if that shareholder fails to fulfill its obligations).

Currently, insurance companies established in China (including life insurance companies) are allowed to use their insurance funds (including their capital funds, reserve funds, undistributed profits, various reserves and other funds, whether dominated in RMB or a foreign currency) to invest in the following assets (subject to the satisfaction of conditions prescribed for each form of investment): bank deposits, various negotiable securities (such as government bonds, corporate bonds, financial bonds, stocks, units of securities investment funds), real estate, equity interest, financial derivatives such as forwards, options and interest rate swaps (provided that investment in any financial derivatives must not be speculative but be only intended for risk hedging and investment in offshore financial derivatives is subject to additional requirements of the CBIRC), products of insurance asset management companies, certain qualified financial products of commercial banks, trust companies, securities companies, securities investment fund management companies and other financial institutions and other investment channels as approved by the State Council.

The minimum paid-up capital of an insurance company is RMB200 million (in cash only) and there are additional capital requirements when additional branches are established.

Insurance asset management companies are also regulated by the CBIRC and may conduct the following businesses: (i) managing and utilizing funds in RMB or foreign currencies entrusted to them by their clients (including but not limited to their shareholders and the insurance companies controlled by their shareholders); (ii) managing and utilizing their own funds in RMB or foreign currencies; (iii) privately offering insurance asset management products to qualified investors; and (iv) other businesses approved by the CBIRC or other ministries or departments of the State Council.

The management and utilization of insurance funds by insurance asset management companies is subject to requirements and limitations that are similar to those applicable to insurance companies. Currently, insurance and asset management companies established in China are allowed to use the entrusted insurance funds to invest in the following assets: bank deposits, government bonds, financial bonds, and other investment channels as approved by the State Council. Independent custodians are designated for funds managed by insurance asset management companies and those custodians must be commercial banks or other financial institutions that satisfy regulatory requirements. The registered capital of an insurance asset management company must not be less than RMB100 million or the equivalent amount in a freely convertible foreign currency.

Insurance companies may, either by themselves or by entrusting qualified investment managers, use their insurance funds to make investments, and such "qualified investment managers" include not only insurance asset management companies and their subsidiaries, but also securities companies, securities asset management companies, securities investment management companies and other professional investment management institutions. Insurance asset management companies are allowed to manage and utilize not only entrusted insurance funds, but also other entrusted funds of non-insurance clients.

Insurance asset management companies are also allowed to carry out insurance asset management product business in accordance with the CBIRC's rules and should complete the product issuance, registration, custody, transaction, settlement, information disclosure and other processes via an asset registration and transaction platform as approved by the CBIRC. The CBIRC is responsible for dynamically supervising the full process of the operation and management of such products and identifying the ultimate investors (beneficiaries) and the underlying assets.

Effective January 1, 2020, the CBIRC lifted the previous 51% cap on foreign ownership in life insurance companies established in China, which means that a foreign investor is now permitted to wholly own a life insurance company in China. In September 2019, the CBIRC also implemented an amendment to the Administrative Regulations on Foreign-Invested Insurance Companies, which relaxes market access by removing the requirement that a foreign insurance company must have engaged in insurance business for more than 30 years and have maintained a representative office in China for at least two years before it can establish a foreign invested insurance company in China.

Malaysia

Our operations in Malaysia offer individual and group insurance and takaful products through Sun Life Malaysia Assurance Berhad ("SLMA") and Sun Life Malaysia Takaful Berhad ("SLMT"), respectively, our joint ventures with Renggis Ventures Sdn. Bhd. (a subsidiary of Khazanah Nasional Berhad), in which we have a 49% ownership stake in each company. SLMA has an exclusive bancassurance agreement with CIMB Bank Berhad to distribute insurance products through its network across Malaysia, while SLMT has an exclusive bancatakaful agreement with CIMB Islamic Bank Berhad to distribute takaful products through its network across Malaysia. The companies have expanded their distribution channel to include other bancassurance and bancatakaful partners, agency distribution, direct marketing, government and corporate business, telemarketing, online and telco-assurance.

The central bank of Malaysia, Bank Negara Malaysia ("BNM"), regulates entities carrying on the insurance and takaful business in Malaysia and requires insurers and takaful operators to have a minimum paid-up capital of Ringgit Malaysia 100 million. BNM also requires insurers and takaful operators to maintain a capital adequacy level that is commensurate with their risk profiles under the risk-based capital frameworks and has set a minimum Supervisory Target Capital Adequacy Level of 130%. Based on current Government policy, there is a 70% limit on foreign equity ownership in insurance companies and takaful operators in Malaysia.

In efforts to minimize the impact of disruptions caused by the COVID-19 pandemic, BNM has introduced various relief measures for affected policyholders, including an option to defer payment of life insurance premiums and family takaful contributions for 3 months and such option is available from April 1, 2020 until December 31, 2020. BNM has also reduced the interest rate and profit rate stress factor caps applied under the risk-based capital frameworks from 40% to 30% with effect from March 31, 2020 to reflect the changes in the prevailing market conditions since the stress factors were set in 2009.

Bermuda

Sun Life Assurance and certain SLF Inc. subsidiaries carry on insurance and investment business in or from Bermuda and are regulated as insurance or investment companies, as the case may be, in that jurisdiction. The Bermuda Monetary Authority (“BMA”) is the primary regulator of domestic and international insurance and investment companies carrying on business in or from Bermuda, and has regulatory authority for licensing and registration matters. The BMA has broad supervisory powers to regulate licensees under the Insurance Act 1978 and the Investment Business Act 2003, and is also the designated supervisory authority over the financial services industry in respect of Bermuda’s Proceeds of Crime Act anti-money laundering legislation. In accordance with

these and related laws, Sun Life Assurance and certain subsidiaries of SLF Inc. are subject to requirements governing their solvency, financial reporting, privacy and data security and business conduct.

Other Jurisdictions

In each of the countries in which our other subsidiaries, joint ventures and associates operate, local regulatory authorities supervise and monitor their business and financial condition. In a number of countries, certain insurance subsidiaries, joint ventures and associates are required to meet specific minimum working and regulatory capital requirements. Certain of our subsidiaries, including MFS and its subsidiaries, joint ventures and associates, also conduct business in various countries, including Singapore, Japan and Australia, that are subject to securities laws and regulations, which vary from country to country.

Risk Factors

This section provides a summary of some of the significant risks that could affect (and, in some cases, are affecting) our business, reputation, financial condition or results of operations. As a large financial services organization operating in a complex industry, the Company encounters a variety of risks and uncertainties. We face risks in formulating our business strategy and business objectives, in carrying on our business activities in the pursuit of our strategy and objectives, and from external factors such as changes in the economic, political, competitive and regulatory environments. We are subject to financial and insurance risks that are connected to our liabilities and also in connection with the management and performance of our assets, including how we match returns from assets with the payment of liabilities to our Clients. Each of these risks are also considered from the perspective of different types of uncertainties under which either the outcomes and/or their probabilities of occurrence are unknown. Uncertainty can exist around expected financial results and from volatility, trend and extreme events. In addition, risk correlation, interconnected risks, terms of exposure and the risk horizon are important elements to consider while identifying risks.

These risk factors have been grouped as outlined in our Risk Management Framework into six major categories: market, insurance, credit, business and strategic, operational and liquidity risks. Other risks, not specified below, may exist but are not considered to be material at the present time may also impact our business in the future. This information should be considered carefully together with other information in this AIF and in the 2020 MD&A, the 2020 Consolidated Financial Statements and other reports and materials that we file with securities regulators.

These risks may occur independently or in combinations, and may occur simultaneously or in an environment where one or more risks evolve rapidly. For example, a major pandemic could have a material adverse impact on mortality and morbidity claims experience. Such an event may also trigger adverse global capital markets developments, including a downturn in equity market levels and interest rates, increased market volatility and credit deterioration, and could also lead to operational risks such as disruptions within the organization and in third party service arrangements.

While a number of risks that are described below provide examples of inter-connectedness and relationships between risks, these do not represent a complete inventory. It should be noted that these relationships can continue to develop and change over time, and the combined adverse impact on our profitability, financial position, and reputation could be significantly greater than the sum of the individual parts. Our assessment of the impact and probability of these risks changes over time.

A description of our risk management approach can be found under the heading Risk Management in our 2020 MD&A. Many of the risk factors set out below contain forward-looking statements.

Market Risk

We are exposed to financial and capital market risk, which is defined as the risk that the fair value or future cash flows of an insurance contract or financial instrument will fluctuate because of changes or volatility in market prices. Market risk includes equity, interest rate and spread, real estate and foreign currency risks.

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. 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 and capital.

While a large percentage of these segregated fund products are included in our hedging program, not all of this exposure is hedged. For those contracts included in our hedging program, we generally hedge the value of expected future net claims costs and associated margins, as we are primarily focused on hedging expected economic costs associated with providing the guarantees. Since the value of benefits being hedged will generally differ from the financial statement value (due to different valuation methods and the inclusion of valuation margins in respect of financial statement values), this approach will result in residual volatility to equity market shocks in reported income and capital. The general availability and cost of these hedging instruments may be adversely impacted by a number of factors, including changes in interest rates, increased volatility in capital markets and changes in the general market and regulatory environment within which these hedging programs operate.

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

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 our revenue and net income. 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 our net income and financial position.

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 is the potential for financial loss arising from changes or volatility in interest rates or spreads 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 spread environments. The impact of changes or volatility in interest rates or spreads is reflected in the valuation of our financial assets and liabilities for insurance contracts.

Our primary exposure to interest rate and spread risk arises from certain general account products and segregated fund contracts which contain investment guarantees in the form of minimum crediting rates, guaranteed premium rates, settlement options and benefit guarantees. 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. These products are included in our asset-liability management program and the residual interest rate exposure is managed within our risk appetite limits.

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 may 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 deposits and low or negative returns on our fixed income assets impacting our profitability. In contrast, increases in interest rates or a widening of spreads may have a material impact on the value of fixed income assets, resulting in depressed market values, and may lead to lower LICAT ratios 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 spreads may increase the risk that policyholders will surrender their contracts, potentially forcing us to liquidate assets at a loss and accelerate recognition of certain acquisition expenses. 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 the underlying losses.

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.

We have implemented asset-liability management and hedging programs involving regular monitoring and adjustment of risk exposures using assets, derivative instruments and repurchase agreements to maintain interest rate exposures within our risk appetite. The general availability and cost of these hedging instruments may be adversely impacted by a number of factors including changes in interest rates, increased volatility in capital markets, and changes in the general market and regulatory environment within which these hedging programs operate. In particular, regulations for over-the-counter derivatives could impose additional costs and could affect our hedging strategy. In addition, these programs may themselves expose us to other risks such as those described under the heading Risk Factors - Market Risk - Equity Risk in this AIF.

A sustained low interest rate environment may adversely impact our earnings, regulatory capital requirements and our ability to implement our business strategy and plans in several ways, including:
(i) Lower sales of certain insurance and wealth products, which can in turn pressure our operating expense levels;
(ii) Shifts in the expected pattern of redemptions (surrenders) on existing policies;
(iii) Higher new business strain reflecting lower new business profitability;
(iv) Reduced return on new fixed income asset purchases, and higher hedging costs;
(v) The impact of changes in actuarial assumptions;
(vi) Impairment of goodwill; and
(vii) Additional valuation allowances against our deferred tax assets.

We have taken various management actions to mitigate the risk of low levels of interest rates including changes in product mix, product design and hedging activities. If low levels of interest rates continue to be persistent over an extended period of time, other effects may also surface including changes in policyholder behaviour and actuarial assumptions prescribed by the regulating bodies.

Real Estate Risk

Real estate risk is the potential for financial loss arising from fluctuations in the value of, or future cash flows from, our investments in real estate. We are exposed to real estate risk and may experience financial losses resulting from the direct ownership of real estate investments or indirectly through fixed income investments secured by real estate property, leasehold interests, ground rents, and purchase and leaseback transactions. Real estate price risk may arise from external market conditions, inadequate property analysis, inadequate insurance coverage, inappropriate real estate appraisals, or from environmental risk exposures. We hold direct real estate investments that support general account liabilities and surplus, and fluctuations in value will impact our profitability and financial position. A material and sustained increase in interest rates may lead to deterioration in real estate values.

Foreign Currency Risk

Foreign currency risk is the result of mismatches in the currency of our assets and liabilities (inclusive of capital), and cash flows. This risk may arise from a variety of sources such as foreign currency transactions and services, foreign currency hedging, investments denominated in foreign currencies, investments in foreign subsidiaries and net income from foreign operations. Changes or volatility in foreign exchange rates, including a change to currencies that are fixed in value to another currency, could adversely affect our financial condition and results of operations.

As an international provider of financial services, we operate in a number of countries, with revenues and expenses denominated in several local currencies. In each country in which we operate, we generally maintain the currency profile of assets to match the currency of aggregate liabilities and required surplus. This approach provides an operational hedge against disruptions in local operations caused by currency fluctuations. Foreign currency derivative contracts such as currency swaps and forwards are used as a risk management tool to manage the currency exposure in accordance with our Asset Liability Management Policy. As at December 31, 2020 and December 31, 2019, the Company did not have a material foreign currency risk exposure on a functional currency basis.

Changes in exchange rates can affect our net income and surplus when financial results in functional currencies are translated into Canadian dollars. Net income earned outside of Canada is generally not currency hedged and a weakening in the local currency of our foreign operations relative to the Canadian dollar can have a negative impact on our net income reported in Canadian currency. A strengthening in the local currency of our foreign operations relative to the Canadian dollar would have the opposite effect. Regulatory capital ratios could also be impacted by changes in exchange rates.

Insurance Risk

Insurance risk is the uncertainty of product performance due to actual experience emerging differently than expected in the areas of policyholder behaviour, mortality, morbidity and longevity. In addition, product design and pricing, expense and reinsurance risks impact multiple risk categories, including insurance risk.

Policyholder Behaviour Risk

We can incur losses due to adverse policyholder behaviour relative to the assumptions used in the pricing and valuation of products with regard to lapse of policies or exercise of other embedded policy options.

Uncertainty in policyholder behaviour can arise from several sources including unexpected events in the policyholder's life circumstances, the general level of economic activity (whether higher or lower than expected), changes in the financial and capital markets, changes in pricing and availability of current products, the introduction of new products, changes in underwriting technology and standards, as well as changes in our financial strength or reputation. Uncertainty in future cash flows affected by policyholder behaviour can be further exacerbated by irrational behaviour during times of economic turbulence or at key option exercise points in the life of an insurance contract.

Many of our products include some form of embedded policyholder option. These could range from simple options relating to surrender or termination, to more complex options relating to payment of premiums or various other benefit and coverage provisions. Changes in the relative frequency or pattern with which these options are elected (relative to those assumed in the pricing and valuation of these options) could have an adverse impact on our profitability and financial position.

Systemic forms of policyholder behaviour risk could also arise with the development of investor-owned and secondary markets for life insurance policies.

Mortality and Morbidity Risk

Mortality and morbidity risk is the risk that future experience could be worse than the assumptions used in the pricing and valuation of products. Mortality and morbidity risk can arise in the normal course of business through random fluctuation in realized experience, through catastrophes, as a result of a pandemic, or in association with other risk factors such as product development and pricing or model risk. Adverse mortality and morbidity experience could also occur through systemic anti-selection, which could arise due to poor plan design, or underwriting process failure or the development of investor-owned and secondary markets for life insurance policies.

External factors could adversely affect our life insurance, health insurance, critical illness, disability, long-term care insurance and annuity businesses. Morbidity experience could be unfavourably impacted by external events, such as pandemics, increases in disability claims during economic slowdowns and increases in high medical treatment costs and growth in utilization of specialty drugs. This introduces the potential for adverse financial volatility in our financial results.

Mortality and morbidity concentration risk is the risk of a catastrophic event, such as natural environmental disasters (for example, earthquakes), human-made disasters (for example, acts of terrorism, military actions, and inadvertent introduction of toxic elements into the environment) as well as epidemics that could occur in geographic locations where there is significant insurance coverage. Certain factors could adversely affect our mortality or morbidity experience relative to the assumptions used in the pricing and valuation of products, leading to a material adverse effect on our profitability and financial position.

Current legislation restricts insurers from requiring Clients to take or release the results of genetic tests. If Clients have access to the results of genetic tests and we do not, this creates asymmetry of information between Clients and insurers, which could adversely impact mortality and morbidity experience and policyholder behaviour. This asymmetry of information may increase as genetic testing advances and becomes more accessible, giving rise to better diagnoses of conditions where treatments are expensive or non-existent. The asymmetry of information may lead to increased anti-selection in new business underwriting. There may also be an impact on policy lapse rates where adverse genetic testing results may motivate Clients to retain their policies resulting in higher claims payouts than assumed in the pricing and valuation of products, as well as increased insurance rates which may result in loss of new and existing Clients.

Longevity Risk

Longevity risk is the potential for economic loss, accounting loss or volatility in earnings arising from adverse changes in rates of mortality improvement relative to the assumptions used in the pricing and valuation of products. This risk can manifest itself slowly over time as socioeconomic conditions improve and medical advances continue. It could also manifest itself more quickly, for example, due to medical breakthroughs that significantly extend life expectancy. Longevity risk affects contracts where benefits or costs are based upon the likelihood of survival and higher than expected improvements in policyholder life expectancy could therefore increase the ultimate cost of these benefits (for example, annuities, pensions, pure endowments, reinsurance, segregated funds, and specific types of health contracts). Additionally, our longevity risk exposure is increased for certain annuity products such as guaranteed annuity options by an increase in equity market levels.

Many of our products provide benefits over the policyholder's continued lifetime. Higher than expected improvements in policyholder life expectancy could therefore increase the ultimate cost of these benefits, thereby requiring strengthening of policyholder liabilities and resulting in reductions in net income and capital. For longevity risks, external factors including medical advances could adversely affect our life insurance, health insurance, critical illness, disability, long-term care insurance and annuity businesses.

Product Design and Pricing Risk

Product design and pricing risk is the risk a product does not perform as expected, causing adverse financial consequences. This risk may arise from deviations in realized experience versus assumptions used in the pricing of products. Risk factors include uncertainty concerning future investment yields, policyholder behaviour, mortality and morbidity experience, sales levels, mix of business, expenses and taxes. Although some of our products permit us to increase premiums or adjust other charges and credits during the life of the policy or contract, the terms of these policies or contracts may not allow for sufficient adjustments to maintain expected profitability. This could have an adverse effect on our profitability and capital position.

Products that offer complex features, options or guarantees require increasingly complex pricing models, methods or assumptions, leading to additional levels of uncertainty. The risk of mis-pricing increases with the number and inherent uncertainty of assumptions needed to model a product. Past experience data supplemented with future trend assumptions may be poor predictors of future experience. Lack of experience data on new products or new Client segments increases the risk that future actual experience unfolds differently from expected assumptions. External environmental factors may introduce new risk factors, which were unanticipated during product design, and have an adverse result on the financial performance of the product. Policyholder sophistication and behaviour in the future may vary from that assumed at the time the product is designed, thereby adversely affecting the product's financial performance.

Expense Risk

Expense risk is the risk that future expenses are higher than the assumptions used in the pricing and valuation of products. This risk can arise from general economic conditions, unexpected increases in inflation, slower than anticipated growth, or reduction in productivity leading to increases in unit expenses. Expense risk occurs in products where we cannot or will not pass increased costs onto the Client and will manifest itself in the form of a liability increase or a reduction in expected future profits.

From time to time, certain products or business segments may be closed for new sales (for example variable annuities in our international business in the Asia pillar, our business in the UK and our individual insurance business in the U.S.). Our ability to effectively manage the run-off of business in these products or business segments introduces additional risks, such as policyholder behaviour and expense risk that may have an adverse effect on our operations, profitability and financial position.

Reinsurance Risk

We purchase reinsurance for certain risks underwritten by our various insurance businesses. Reinsurance risk is the risk of financial loss due to adverse developments in reinsurance markets (for example, discontinuance or diminution of reinsurance capacity, or an increase in the cost of reinsurance), insolvency of a reinsurer or inadequate reinsurance coverage.

Changes in reinsurance market conditions, including actions taken by reinsurers to increase rates on existing and new coverage and our ability to obtain appropriate reinsurance, may adversely impact the availability or cost of maintaining existing or securing new reinsurance capacity, with adverse impacts on our business strategies, profitability and financial position. There is an increased possibility of rate increases or renegotiation of legacy reinsurance contracts by our reinsurers, as the global reinsurance industry continues to review and optimize their business models. In addition, changes to the regulatory treatment of reinsurance arrangements could have an adverse impact on our capital position.

Credit Risk

Credit risk is the possibility of loss from amounts owed by our borrowers or financial counterparties. We are subject to credit risk in connection with issuers of securities held in our investment portfolio, debtors, structured securities, reinsurers, counterparties (including derivative, repurchase agreement and securities lending counterparties), other financial institutions and other entities. Losses may occur when a counterparty fails to make timely payments pursuant to the terms of the underlying contractual arrangement or when the counterparty's credit rating or risk profile otherwise deteriorates. Credit risk can also arise in connection with deterioration in the value of, or ability to realize, any underlying security that may be used as collateral for the debt obligation. Credit risk can occur as a result of broad economic conditions, challenges within specific sectors of the economy, or from issues affecting individual companies. Events that result in defaults, impairments or downgrades of the securities in our investment portfolio would cause the Company to record realized or unrealized losses and may cause an increase in our provisions for asset default, adversely impacting earnings.

Volatility in the capital markets, including deteriorating credit and negative real estate risk indicators, fluctuations in global or domestic macro-economic factors, or loss given default expectations, may have a significant impact on the value of the fixed income assets in our investment portfolio. For example, our asset-backed portfolio is sensitive to fluctuations in macro-economic factors, assumed default rates for the underlying collateral pool and loss given default expectations.

As part of our risk management strategy, we maintain hedging programs that may employ the use of derivatives. Market conditions determine the availability and cost of the derivative protection. Although we deal primarily with highly rated counterparties, a derivative counterparty's insolvency or its inability or unwillingness to make payments under the terms of a derivative agreement could have an adverse effect on our profitability and financial position.

We purchase reinsurance for certain risks underwritten by our various insurance businesses. Reinsurance does not relieve us from our direct liability to policyholders and accordingly, we bear credit risk with respect to our reinsurers. Although we deal primarily with highly rated reinsurers, deterioration in their credit ratings, or reinsurer insolvency, inability or unwillingness to make payments under the terms of a reinsurance agreement could have an adverse effect on our profitability and financial position. The risk that a reinsurer is unable or unwilling to make payments may occur due to, but is not limited to, legal disagreements, interpretations by a court regarding the terms of the reinsurance contract, changes in laws and regulations or interpretation of those changes.

Business and Strategic Risk

Business and strategic risk includes risks related to changes in the economic or political environment, distribution channels or Client behaviour, environmental and social risks, competitive, legal or regulatory environment and risks relating to the design or implementation of our business strategy.

Economic and Political Risk

We operate in various geographies and our business and financial operations are susceptible to regional and global economic, political and regulatory changes. We may be affected by economic and capital markets conditions and economic shocks around the globe as a result of increasingly connected global markets. Factors such as changes in interest rates, foreign exchange rates, market volatility, housing prices, consumer spending, saving and debt, business investment and inflation around the globe can affect the business and economic environments in which we operate. Continued economic and political uncertainty may give rise to increased business and strategic risks including those associated with industry restructuring, mergers and acquisitions, changing competitive dynamics and changes in the legal, regulatory and tax regimes in which our businesses operate. In addition, adverse economic conditions often arise in conjunction with volatile and deteriorating capital markets conditions, which can have an adverse impact on Client behaviour and in turn on our sales and profitability, credit and financial strength ratings, and capital and liquidity positions.

Currently, there are various factors that impact continuing economic and political risk and uncertainty, including the following examples:

- the duration and impact of the COVID-19 pandemic which has already had an adverse impact on the global economy, and may deepen if prolonged, adding to financial market volatility, corporate insolvency risks and household wealth impacts;
- the shift to protectionism leading to ongoing trade uncertainties and/or new or increased tariffs;
- macro-economic uncertainty and potential disruptive policy changes due to global political unrest as seen within Hong Kong and strained relations between countries, such as between the United States and Russia or China;
- uncertainty due to Euroscepticism in various European Union countries and the impact of Brexit;
- increased support for populist parties; and
- rising income inequality.

These risks can also intersect with other risk considerations such as environmental and social risks including climate change and inequality. The impact of these factors include the possibility of continued low growth, sustained low interest rates, increased volatility in interest rates and equity markets, and a continuation of relatively low yet volatile credit spreads. The impact on the economic environment from any of these events may not be consistent with our assumptions and expectations, which may adversely impact our financial results and the ability to implement our business strategy. Market-related impacts from the economic environment, legal, regulatory or policy changes or other governmental actions could continue to place pressure on our earnings, regulatory capital requirements, profitability, liquidity and our ability to implement our business strategies and plans. Low interest rates and increased volatility create a number of challenges for us including increased hedge costs, lower investment yields, adverse policyholder behaviour and lower levels of new business profitability. Other impacts of macro-economic uncertainty and volatility may lead to other financial and non-financial impacts including goodwill impairment, decline in our share price and impact on our credit and financial strength ratings. These risks continue to have the potential to inflict significant damage on global and regional markets.

Strategic Execution Risk

Our business strategies and plans are dependent on the successful execution of organizational and strategic initiatives designed to support the growth of our business. Our ability to manage the execution of these initiatives effectively and prioritize initiatives directly affects our ability to execute our strategies. Identifying and implementing the right set of initiatives is critical to achieving our business plan targets. Failure to identify and implement the right set of initiatives could also lead to cost structure challenges and inability to achieve our growth objectives.

Our financial performance is dependent upon our ability to implement and execute our business strategies and plans for growth. The current economic, regulatory and competitive environment requires us to identify and adapt rapidly to new opportunities and to refine our strategies. If we fail to identify new opportunities, revise our strategies on a timely basis or adapt to the changing environment, we may not be able to achieve our growth objectives.

Successful execution of our business strategies and plans impacts a number of factors, including our ability to generate sufficient earnings to maintain an adequate level of capital, our ability to generate sustained investment performance, our ability to meet regulatory requirements, our ability to manage our risk exposures effectively, our ability to attract and retain Clients and distributors, our ability to have the right set of diverse products and business mix, and our ability to reduce operating expenses while maintaining our ability to hire, retain and motivate key personnel. There is no certainty that we will be successful in implementing our business strategies or that these strategies will achieve our objectives. If our business strategies are not successful or are not executed effectively, we may not be able to achieve our growth objectives or react to market opportunities, which may have an adverse impact on our business and financial results.

Distribution Risk

Failure to achieve planned distribution scale or appropriate and compliant distribution of products could materially impact our financial and strategic objectives. This includes the inability to attract and retain intermediaries and agents at a cost that is financially feasible to the Company, or to develop digital sales and Client support capabilities and technologies. Distribution risk may also be influenced where our distribution or product strategy and related services (including digital sales and Client support capabilities and technologies) are not developed, modified or executed in line with our strategic objectives or in consideration of the changes in Client behaviour or our regulatory environment. In addition, the lack of a well-diversified distribution model in the jurisdictions in which we do business may cause over-reliance on agency channel or key partners.

We distribute our products through a variety of distribution channels, including direct sales agents, managing general agents, independent general agents, financial intermediaries, broker-dealers, banks, pension and benefits consultants and other third-party marketing organizations. We compete with other financial institutions to attract and retain these intermediaries and agents on the basis of products, compensation, support services and financial position. We also face the risk that our key distribution partners may undergo consolidation, change in ownership structure or change their distribution model which could materially impact sales and our growth targets. New distribution channels could emerge that may impact the effectiveness of our current distribution strategy. Distribution channels are growing rapidly in some businesses in certain countries, which may heighten the risks of market conduct and channel conflicts or overlaps. The capability to reach and retain Clients through use of digital technology and data analytics is becoming increasingly important in the insurance industry. While use of digital-based distribution channels may help us achieve or expand scale, these channels expose us to regulatory compliance and information security related risks. Our sales and results of operations could be materially adversely affected if we do not have the right distribution or product strategy and related technology or if we are unsuccessful in attracting and retaining intermediaries and agents.

Risks Relating to Mergers, Acquisitions, Divestitures and Strategic Investments

We regularly explore opportunities to selectively acquire other businesses or to divest ourselves of all or part of certain businesses, in support of our growth and strategic objectives. Any transaction that we enter into introduces a number of risks associated with economic, operational, strategic, financial, tax, legal, regulatory, compliance, and other factors.

There is a risk that we may be unable to make an appropriate acquisition in a desired market or business line or are unable to realize the financial and strategic benefits of the transactions due to competitive factors, regulatory requirements or other factors. These risks could adversely impact our ability to achieve our financial and strategic objectives.

Our ability to realize the contemplated economic, financial, and strategic benefit of any transaction that we enter into is contingent on the effective separation and integration of the transferred businesses, restructuring or reorganization of related businesses, and motivating and retaining personnel to effectively execute these transactions. In addition, the integration of operations and differences in organizational culture may require the dedication of significant management resources, which may distract management’s attention from our day-to-day business. Anticipated cost synergies or other expected benefits may not materialize due to a failure to successfully integrate the acquired businesses with our existing operations. Any of these risks, if realized, could prevent us from achieving the expected results from a transaction or could impact our financial and strategic objectives.

Although we undertake extensive due diligence in connection with potential acquisitions, there may be liabilities or asset impairments that we fail to, or are unable to discover during our due diligence investigations. There could also be unforeseen liabilities or asset impairments, including goodwill impairments that arise in connection with acquisitions or divestitures of businesses. There is no assurance that we will achieve our financial or strategic objectives or anticipated cost savings following an acquisition.

The purchase and sale agreements that support acquisition transactions typically include indemnifications provided by the seller to the purchaser. These rights are typically limited by survival periods and limitations on the nature and amount of losses we may recover and there is a risk that these indemnifications will not be collectible or be sufficient to fully offset losses arising from the acquired business. We would also be exposed to the credit risk of the selling party with respect to its ability to pay if an indemnification provision is triggered.

Competitive Environment

Competition from insurance companies, banks, asset managers, mutual fund companies, financial planners and other service providers (including new entrants and non-traditional financial services companies) is intense, and could adversely affect our business in certain countries.

The businesses in which we engage are highly competitive and our ability to sell our products is dependent on many factors, including scale, price and yields offered, distribution channels, digital capabilities, financial strength ratings, range of product lines and product quality, brand strength, investment performance, historical dividend levels and the ability to provide value added services to distributors and Clients. In certain markets, some of our competitors may be superior to us on one or more of these factors. Our competitors have significant potential to disrupt our business through targeted strategies to reduce our market share

which may include targeting our key people or bancassurance partners and other distributors or aggressively pricing their products. Our ability to achieve our business plans and strategies depends significantly upon our capacity to anticipate and respond quickly to these competitive pressures.

Technology is driving rapid change in the financial services sector and is enabling new entrants to compete or offer services to our competitors to enhance their ability to compete in certain segments of the insurance, wealth and asset management markets. The emergence of new technologies such as robotic process automation, artificial intelligence, blockchain and advanced analytics may have an impact on the financial services sector and how companies interact with their stakeholders. Our current competitors or new entrants may use these or other new technologies to provide services in various areas such as customized pricing, proactive outreach to Clients and targeted marketing in order to strengthen their Client relationships and influence Client behaviour. The impact of disruption from changing technology and innovation by traditional and non-traditional competitors who may offer a better user experience, functionality or lower priced products and may have lower distribution costs will require us to adapt at a more rapid pace and may create margin pressures. The risk of disruption may also impact our distribution models as new and low cost digital-based business models emerge in connection with the distribution of financial services and products, such as insurtechs and robo-advisors. These risks are evolving rapidly with an increasing number of digital users and are difficult to anticipate and respond to proactively, and may adversely impact our profitability and financial position.

Competitors may offer a greater selection of or lower cost products, which may create margin pressure in some of our businesses and impact our profitability and market share. In the asset management sector, there has been a trend among investors towards lower-fee passive investment products such as index- and other types of exchange-traded funds, which may impact our ability to attract and retain Clients in our actively managed products. Product development and product life cycles have shortened in many product segments, leading to more intense competition with respect to product features. This increases product development and administrative costs and reduces the time frame over which capital expenditures can be recovered. Regulatory and compliance costs also generally rise with increases in the range and complexity of our product portfolio.

We have many large and well-capitalized competitors with access to significant financial resources and in certain jurisdictions, these competitors have significant market share and established distribution relationships and brands. Among other things, the competition in these industries throughout the world has resulted in a trend towards the global consolidation of the financial services industry including, in particular, the insurance, banking and asset management sectors. To the extent that consolidation continues, we will increasingly face competition from large, well-capitalized financial services companies in many of the jurisdictions in which we operate. These larger companies have the ability to heavily invest in fundamental activities for sustained profitable growth and superior Client service in the life insurance industry such as brand equity, product development, technology, risk management, and distribution capability. There can be no assurance these developments will not adversely affect our businesses in certain countries.

Many of our insurance products, particularly those offered by the group segment, are renewed annually. Given this relatively high frequency of renewal activity, this business may be particularly exposed to adverse persistency through competitive market pressures.

Different accounting bases of reporting and regulatory capital requirements across multiple jurisdictions may cause us to be at a disadvantage compared to some of our competitors due to differences in reported earnings and due to these reporting and regulatory capital requirements.

Investment Performance

Investment performance risk is the possibility that we fail to achieve the desired return objectives on our investment portfolio, or that our asset management businesses fail to design or execute investment strategies in order to achieve competitive returns on the products and managed accounts offered by these businesses. Failure to achieve investment objectives may adversely affect our revenue and profitability through slower growth prospects and adverse impacts on policyholder or Client behaviour.

For our insurance businesses, the performance of our investment portfolio depends in part upon the level of and changes in interest rates, spreads, credit experience, equity prices, real estate values, the performance of the economy in general, the performance of the specific obligors included in these portfolios and other factors that are beyond our control. These changes can affect our net investment income substantially in any period.

In our asset management businesses, investment performance, along with achieving and maintaining superior distribution and Client services, is critical. If investment performance is less than that of our competitors or applicable benchmarks, we could lose existing and potential Clients. Similarly, a shift in investing trends and Client preference towards products that differ from our investment products or strategies, and in particular, the trend towards passive or alternative investment portfolios, could also lead to increased outflows. Accordingly, poor investment performance by our asset management operations or a shift in investing trends and Client preferences could adversely affect sales, increase outflows, reduce the level of assets under management or lead to a decline in the fee margin, which could adversely impact our revenues, income and capital position.

Changes in Legal and Regulatory Environment

Most of our businesses are subject to extensive regulation and supervision. Changes to legislation, regulations or government policies, or the manner in which they are interpreted or enforced, may require that we make significant changes to our strategy, may result in increased implementation costs and diversion of resources to manage the change, could impact financial reporting, accounting processes and capital requirements, and could impact the ability of sales intermediaries to distribute our products, all of which could have an adverse effect on our business and operations. Our failure to comply with existing and evolving regulatory requirements could also result in regulatory sanctions and could affect our relationships with regulatory authorities and our ability to execute our business strategies and plans.

These changes could impact our capital requirements, the regulatory framework for our products and services, the regulation of selling practices, sales intermediaries (such as bancassurance) and product offerings (such as coverage for prescription drugs), solvency requirements, executive compensation, corporate governance practices and could impose restrictions on our foreign operations, which may include changes to the limits on foreign ownership of local companies.

Currently there are a number of regulatory developments in Canada and globally which could impact our business and the way we are regulated or supervised in various jurisdictions, which include the following:

- OSFI is considering alternatives for in-force variable annuity and segregated fund capital requirements, which may materially change the capital required to support our in-force variable annuity and segregated fund business.
- In Canada, there has been increased focus on enhancing the affordability of and accessibility to prescription drugs, including pressure from some provincial governments, the media and advocacy groups on the federal government to implement a form of nationalized pharmacare program. If implemented, a national pharmacare plan could impact our business in several ways, including premium income, our ability to offer prescription drug coverage, the price and level of coverage of other benefits we offer or are able to offer through our Canadian group benefits business, which in turn could impact plan renewals and retention of group Clients, plan member interaction and the value of other coverage offered by that business.
- Insurance and securities regulators continue to focus on client fairness, advisor conduct and related practices and are assessing product fees, compensation practices, sales practices and conflicts of interest. Regulators are also imposing higher standards that relate to interacting with clients in order to increase disclosure obligations related to fees; impose prohibitions or restrictions on the payment of certain types of commissions and service fees to agents, advisors and third-party distributors; resulting in changes to product features and sales and market practices by agents, advisors, product manufacturers and distributors. Examples of these changes include the Client Focused Reforms released by the Canadian Securities Administrators and expected to come into effect in stages throughout 2021, the Canadian Securities Administrators' ban on deferred sales charges (in all provinces except Ontario) adopted in 2020 and expected to take effect in June 2022 and the implementation of the Financial Services Regulatory Authority of Ontario.
- In the U.S., states have adopted a number of model laws and regulations that have transformed the way state regulators evaluate and monitor insurance companies. These laws and regulations, which most states have enacted, require insurers to increase their level of regulatory reporting around risk management, solvency, and governance practices, and allow the U.S. regulators to lead or participate in the group-wide supervision of certain international insurance groups. These regulatory developments have increased the complexity of ensuring compliance and could result in changes to the capital standards associated with our U.S. business. The NAIC recently adopted a group capital calculation, which could lead to increased reporting and capital requirements for insurance groups operating in the U.S. The full impact of the group capital calculation on our business has not yet been determined.
- In June 2020, China passed the Hong Kong National Security Law, which is now in force in Hong Kong. In July 2020, the U.S. took steps to terminate the preferential treatment afforded to Hong Kong under the 1992 Hong Kong Policy Act. Additionally, then-U.S. President Trump signed into law the Hong Kong Autonomy Act (the “Act”) and issued an Executive Order, providing authority to impose primary sanctions against entities and individuals determined to have materially contributed to the undermining of Hong Kong’s autonomy. The Act also provides authority to impose secondary sanctions against non-U.S. financial institutions determined to have conducted a significant transaction for any individual or entity subject to primary sanctions under the Act. The U.S. Treasury Department has imposed primary sanctions on Chinese individuals under the Executive Order. China has similarly imposed sanctions on members of the U.S. Congress, heads of NGOs and former U.S. officials. There may be heightened risks and uncertainties to our business in Hong Kong as a result of these developments.
- Regulators are increasing their focus on cybersecurity and new laws, regulations, directives and expectations have begun to emerge that will require the Company to continue to enhance its information security programs, increase regulatory reporting obligations and have an impact on the costs and resources associated with the Company’s information security activities.
- The UK concluded its transitional period for leaving the EU on December 31, 2020. The EU-UK Trade and Cooperation Agreement signed in December 2020 does not set out any detailed arrangements for financial services or regulatory equivalence, although this is expected to be agreed between the parties during 2021. In the meantime, SLOC UK is now unilaterally subject to UK law and regulations. However, SLOC UK does retain the risk that individual EU regulators may regard the payment of around 14,000 clients resident in the EU as being non-compliant with their regulations. SLOC UK has determined it will be able to continue to pay its clients legally because such payments will be in satisfaction of contracts entered into before the end of the transitional period, after which no new business will be written by SLOC UK to clients resident in the EU.

- IBORs, including LIBOR, measure the average cost that banks pay to borrow from each other on an unsecured basis on a short-term basis. They are commonly used as a benchmark or reference rate for certain financial products and contracts. At this time, it is not clear whether certain IBORs will be discontinued, but the suspension, discontinuance or unavailability of some IBORs is anticipated. Uncertainty as to the nature of potential changes, alternative rates, accounting and tax relief, and other related reforms may adversely affect our operations and cash flows and the value of our derivatives and floating rate investments that are IBOR-based.

See the heading Regulatory Matters above for a description of our regulatory environment in Canada, the U.S., the UK, Asia and Bermuda and other examples of changes in regulation that may affect our business and operations. A summary of additional regulatory changes instituted by governments globally and by OSFI during 2020 in response to the COVID-19 pandemic are included in our 2020 MD&A under the headings "COVID-19" and "Risk Management - Risk Categories - Other Risks". See also the heading "Risks relating to the COVID-19 Pandemic" in this AIF.

Environmental and Social Risk

Our financial performance, operations, and reputation may be adversely affected if we do not adequately prepare for the direct or indirect negative impacts of environmental and social risks. Environmental risk includes environmental damage on properties owned or managed by us and climate change related physical and transition risks. These events and developments may include increased frequency and severity of natural or human-made environmental disasters, longer-term shifts in climate patterns, emerging regulatory and public policy developments, and their impacts on our operations, invested assets, suppliers, Clients and reputation. External factors such as stakeholder expectations around environmental performance, resource constraints and costs associated with adaptation are also potential sources of environmental risk. Risks that affect our Clients and our suppliers could have a negative impact on our operations and performance. Social risk includes but is not limited to public health issues and issues of inequality. These risks are considered in our key risk assessments. An environmental issue on a property owned or operated by us could have financial or reputational impacts.

A transition to a lower carbon economy could affect public and private fixed income and non-fixed income asset values. Existing portfolio investments in coal, conventional oil and oil sands producers, utilities and related fossil fuel industries, railways and pipelines, as well as markets that depend on these industries, may be subject to additional financial risk as a result of changes in regulation, cost of capital, consumer preferences and competition from renewable energy companies leading to lower overall profitability and/or stranded assets.

Similarly, if our Clients, shareholder groups, or other key stakeholders deem that our environmental, social, climate change or other sustainability-related practices are inadequate, our reputation and operations could be negatively affected. Failure to comply with an existing or potential Client's policies in these areas could disqualify us from bidding on, or earning business opportunities, or retaining existing business. We may also experience reduced access to capital markets if sustainability indices and/or investors find that our practices fall short of their criteria, which in turn could result in being removed from one or more of these indices or as an appropriate investment by investors.

As an owner/lessor of, investor in real estate, we may be impacted where environmental events damage or disrupt our underlying properties. Our businesses and the properties underlying our investments are subject to environmental laws and regulations in all key jurisdictions where we carry on business or hold investments. Consequently, we may experience environmental impacts or liabilities that could adversely affect the value of those businesses and properties, their ability to generate income, and costs related to any required compliance requirements or remediation. Through other invested assets, such as loans, bonds or equity investments, we could be subject to these impacts and negative consequences from environmental issues arising at the level of the issuer and/or specific asset. Our reputation and operations may be adversely affected if we or our tenants, borrowers, or other associated parties violate environmental regulations or best practices.

As noted above under Insurance Risk - Mortality and Morbidity Risk, environmental risks, including climate change risks have implications in areas such as catastrophic risk and the concentration risk presented by natural and human-made environmental disasters, which could impact our mortality and morbidity experience and our pricing and modeling assumptions as these events increase. For example, in our group benefits businesses, a localized event that affects the workplace of one or more of our Clients could cause a significant loss related to a concentration of claims under group policies.
In addition to the impacts noted above, failure to adequately prepare for the potential impacts of environmental risks, including those associated with climate change, may have other direct and indirect negative impacts. These may include business losses or disruption, including a shift in Client preferences or demands, resulting from:

- extreme weather conditions or other environmental disasters,
- longer-term shifts and impacts related to warming temperatures, the availability of food and water and other ongoing climate change impacts,
- wider and/or more rapid transmission of new and existing diseases through pandemics or otherwise, and
- other unforeseen human consequences.

Significant environmental changes and disasters may also reduce the overall level of economic activity in affected areas which could hurt our businesses, the value of our investments, our ability to offer products and services, or service our existing Clients.

These risks could also harm the financial condition of our reinsurers and insurers of property which we own, lease, have invested in or manage which may increase the risk of default on recoveries from these reinsurers and insurers, may increase the cost of reinsuring our business or the cost of insurance, and may result in reinsurance or insurance coverage being unavailable.

Operational Risk

Operational risk is the risk of loss (financial and non-financial) resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is present in all of our business activities and encompasses a broad range of risks as described below. Operational risk is embedded in the practices utilized to manage other risks and, therefore, if not managed effectively, operational risk can impact our ability to manage other key risks.

Information Security and Privacy Risks

Information and technology are used in almost all aspects of our business and operations. As part of our Client strategy, we continue to enhance the digital side of our business to support and enable new business models and processes, that are more personal, proactive and predictive.

Our business and the successful implementation of our digital strategy are dependent on various factors including maintaining a secure environment for our Clients, employees and other parties' information. This requires the effective and secure use, management and oversight of information and physical assets. We engage with various stakeholders and leverage emerging technologies, including digital, mobile applications, cloud computing, artificial intelligence and robotic process automation. These technologies are used to collect, process and maintain information relating to business transactions and financial reporting, as well as the personal information of our Clients and employees. We also obtain services from a wide range of third-party service providers and have outsourced some business and information technology functions in various jurisdictions.

There continues to be increased information security and privacy attacks across all industry sectors, including financial institutions, retailers and governments and the scope of these threats continues to increase in size and complexity. This increasing level of malicious activity poses a significant risk to our systems and these risks may be exacerbated by the breadth of our operations, our geographic footprint and the complexity of our technology systems. A serious security or privacy breach of either an internal or third-party service provider’s computer system that contains sensitive business, Client and/or employee information may result in business interruption, theft or misuse of confidential information, regulatory penalties and scrutiny, litigation, reputational damage and may have an adverse impact on current and future business opportunities with our Clients, employees and business relationships.

In particular, privacy breaches could occur and may result in unauthorized access and disclosure or use of personal information. Many jurisdictions in which we do business are developing and implementing reporting requirements relating to cybersecurity and more stringent consumer privacy legislation. Social media risk could also significantly impact our reputation due to the broad reach and real-time interaction of such media.

We have established security controls and processes that are intended to protect information and computer systems including information security risk assessments and privacy impact assessments. Notwithstanding these measures, the threat environment is rapidly and constantly changing, and there remains a possibility that our processes and controls could be unsuccessful in detecting or preventing a security breach. We remain vulnerable, and work with third parties who may also be vulnerable, to computer viruses and other types of malicious software, cyber-attacks and hacking attempts from unauthorized persons, the physical theft of computer systems, internal programming or human errors, fraud, or other disruptive problems or events. There is also a risk that certain internal controls fail, which could also exacerbate the consequences from such events.

Human Resources Risk

Our ability to achieve business objectives can be adversely affected if we are unable to attract, retain or effectively deploy resources with the in-depth knowledge and necessary skills required, or are unable to design compensation programs that effectively drive employee behaviour. Failure to manage Human Resources risk can also lead to direct financial and reputational loss including losses arising from activity that is inconsistent with Human Rights or employment laws or health and safety regulations.

Regulatory Compliance, Legal and Conduct Risk

We are subject to extensive regulatory oversight by insurance and financial services regulators in the jurisdictions in which we conduct business. In recent years, there has been an increased focus by regulators globally on Client fairness, conduct, anti-money laundering, privacy and data governance. Failure to comply with applicable laws or to conduct our business consistent with changing regulatory or public expectations could adversely impact our reputation and may lead to regulatory investigations, examinations, proceedings, settlements, penalties, fines, restrictions on our business, litigation or an inability to carry out our business strategy.

Our business is based on public trust and confidence and any damage to that trust or confidence could cause Clients not to buy, or to redeem, our products. We also face a significant risk of litigation in the ordinary course of operating our business including the risk of class action lawsuits. In addition, we also face the risk of reputational damage or loss due to intentional, malicious, illegal or unethical acts such as fraud, misappropriation or circumvention of the law by internal and/or external parties including our employees, Clients, distributors, service providers or other third parties. Even with controls in place, these parties may behave in ways that could harm, injure or otherwise negatively impact our Clients and other stakeholders. For instance, we may not be able to fully monitor or control the manner of distribution of our products by third party firms or the submission of falsified applications or claims, despite the training program and compliance testing in place. We may suffer financial, reputation or other harm to our business if our products are distributed by such firms in an inappropriate manner or to Clients for whom such products are unsuitable. We are subject to anti-bribery and anti-corruption laws, including the U.S. Foreign Corrupt Practices Act, the Canadian Corruption of Foreign Public Officials Act, and the UK Bribery Act, each of which include significant civil and criminal penalties if breached. Our policies, including our Code of Business Conduct, require strict adherence to these laws. In the course of business, we, or our joint ventures, distributors or other non-controlled business partners, may from time to time transact with government entities. As a consequence, we may be at risk of censure under anti-bribery and anti-corruption laws if our or our partners' due diligence or other process and procedures when transacting with government entities are deemed inadequate.

Insurance and securities regulatory authorities and other government agencies in jurisdictions we operate regularly make inquiries, conduct investigations and administer market conduct examinations with respect to compliance with applicable anti-money laundering, bribery, corrupt practices, insurance, privacy and securities laws and regulations. As well, regulatory and governmental authorities, industry groups and rating agencies have developed initiatives regarding market conduct. In recent years, financial services regulators and other governmental authorities in many of the countries in which we operate have raised issues and commenced regulatory inquiries, investigations and proceedings with respect to current and past business practices in the financial services industry, and have given greater emphasis to the investigation of those practices. For example, regulatory reviews and investigations have been made concerning suitability of sales of certain products, payment of commissions and other fees to intermediaries, market timing and late trading in investment funds, governance practices, allegations of improper life insurance pricing, sales and compensation practices by life and annuity insurers and mutual fund dealers, including related conflicts of interest and anti-money laundering controls and procedures. Current and future regulatory investigations, examinations, proceedings, and civil actions arising out of such matters could adversely affect our reputation, and may result in settlements, penalties, fines, restrictions on our business, litigation or an inability to carry out our business strategy or may cause us to make changes to our business and compliance practices, policies and procedures, which in turn could impact our profitability and future financial results and increase our litigation risk.

Under the Insurance Act and the Supervisory Information (Insurance) Regulations (Canada) and pursuant to similar restrictions in other jurisdictions, we are prohibited from directly or indirectly disclosing any supervisory information relating to SLF Inc., Sun Life Assurance and their affiliates.

Information Technology Risk

The use of technology and computer systems is essential in supporting and maintaining business operations. We use technology to support virtually all aspects of our business and operations. The rapidly changing business environment increases the risk of our technology strategy not being agile enough to adapt to new business demands in a timely manner leading to financial losses, increased costs and the inability to meet Client needs.

Initiatives supporting our business strategy rely on developing innovative information technology solutions and upgrading our existing systems on a timely basis to meet business needs. Although every reasonable precaution is taken to ensure information technology systems remain available, stable and current, it is not possible to fully eliminate all risk. Some changes and upgrades are extremely complex and there is a chance that an undetected technical flaw may exist, which, when implemented, stops or disrupts critical information technology systems or business applications or leads to operational errors such as incorrect financial reporting.

Third-Party Risk

We engage in a variety of third-party relationships, including with distributors, independent contractors, outsourcing service providers and suppliers. Our profitability or reputation could be impacted if these third parties are unable to meet their ongoing service commitments or fail to perform to expected standards.

An interruption in our relationship with certain third parties or other parties engaged by such third parties, the impairment of their reputation or creditworthiness, their failure to provide contracted services in the manner agreed or in accordance with applicable laws and regulations could materially and adversely affect our business objectives or expose us to regulatory fines and/or reputational harm. Even with contingency plans developed for our material third party arrangements, there can be no assurance that we would be able to transition to alternate sources for these arrangements in a timely manner, at reasonable cost, or with minimal disruption to our stakeholders.

Business Disruption Risk

Our businesses are dependent on the availability of trained employees, physical locations to conduct operations and access to technology. A significant business disruption to our operations can result if one or more of these key elements are negatively impacted.

Although we have implemented and periodically test our business continuity, crisis management and disaster recovery plans, a sustained failure of one or more of our key business processes or systems could materially and adversely impact our business, operations and employees. These failures can result from disruption of our processes and systems due to utility outages, fires, floods, severe storms, cyber-attacks, terrorism and other human-made attacks, natural disasters and other events. We have experienced increased incidences and impacts of disruption due to weather events such as tropical storms and flooding in the geographies in which we operate, as well as earthquakes and pandemic risks. In addition to these key business processes and system disruptions, these unanticipated events, including disease pandemics, can also negatively affect staff, preventing them from getting to work or from operating business processes. Business disruptions can also occur due to changes in environmental risk and related impacts have been highlighted above under the heading Environmental and Social Risk. Also, because some of our business processes are performed by third parties and some of our systems interface with or are dependent on third-party systems, we could experience service interruptions if these third-party operations or systems fail.

Model Risk

We use complex models to support many business functions including product development and pricing, capital management, valuation, financial reporting, planning, hedging, asset-liability management, risk management and advanced analytics (such as artificial intelligence, predictive modeling and decision making algorithms). Model risk is the risk of loss, either in the form of financial loss, inappropriate or poor business decisions, damage to reputation, or other adverse impact, arising from inaccurate model outputs or incorrect use or interpretation of model outputs.

Model risk can arise from many sources including inappropriate methodologies, assumptions or parameters, incorrect use of source data, inaccurate or untimely source data, incorrect application or operator errors, increasing product complexity and regulatory expectations. If the models' methodologies and assumptions are not appropriately set or well controlled, or data or implementation errors occur in the models, this could result in a negative impact on our results and financial position.

Many of our methods and models for managing risk and exposures are based upon the use of observed historical precedents for financial market behaviour, credit experience and insurance risks. As a result, these methods may not fully predict future risk exposures, which can be significantly greater than our historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, Clients, catastrophic occurrence or other matters that are publicly available or otherwise accessible to us. However, this information may not always be accurate, complete, up-to-date, properly evaluated or necessarily indicative of ultimate realized experience. As we review and update our models, changes might be made to valuation methods and assumptions, which may impact our results.

Information Management Risk

As an international provider of financial services, we deal with extensive information across a number of countries. Information management risk is the inability to capture, manage, retain and appropriately dispose of business records, the inability to provide data that is fit for purpose, accurate, complete or timely to support business decisions, and the inability to manage data location and cross-border appropriately. Failure to manage these risks could have financial or reputational impacts, and may lead to regulatory proceedings, penalties and litigation.

Additional information on operational risk can be found in the Risk Factors section of this AIF.

Liquidity Risk

Liquidity risk is the possibility that we will not be able to fund all cash outflow commitments and collateral requirements as they fall due. This includes the risk of being forced to sell assets at depressed prices resulting in realized losses on sale. This risk also includes restrictions on our ability to efficiently allocate capital among our subsidiaries due to various market and regulatory constraints on the movement of funds. Our funding obligations arise in connection with the payment of policyholder benefits, expenses, reinsurance settlements, asset purchases, investment commitments, interest on debt, and dividends on common and preferred shares. Sources of available cash flow include general fund premiums and deposits, investment related inflows (such as maturities, principal repayments, investment income and proceeds of asset sales), proceeds generated from financing activities, and dividends and interest payments from subsidiaries. We have various financing transactions and derivative contracts under which we may be required to pledge collateral or to make payments to our counterparties for the decline in market value of specified assets. The amount of collateral or payments required may increase under certain circumstances (such as changes to interest rates, credit spreads, equity markets or foreign exchange rates), which could adversely affect our liquidity.

Under stress conditions, increases in funding obligations can occur in conjunction with reductions in cost effective sources of available cash inflow. In particular, adverse stress scenarios could involve increases in policyholder cash surrenders and terminations and decreases in the amounts of premiums and deposits being generated by existing and new Clients. Adverse capital market conditions may also be associated with a reduction in available market liquidity and clearing prices for expected asset sales, and reductions in the level of cash inflows (dividends, interest payments and expected maturities) on continuing portfolio investments. These developments could have an adverse effect on our financial position and results of operations.

We engage in various transactions including repurchase agreements and other capital markets transactions to meet short-term cash requirements. The cost and our ability to execute these transactions may be negatively impacted by illiquid or volatile markets. Disruption in the financial markets may limit our access to capital in the event we are required to seek additional liquidity to operate our businesses. This will result in increased costs to raise capital coupled with less desirable terms or maturities which would decrease future profitability and financial flexibility.

SLF Inc. is a holding company for its insurance, wealth and asset management subsidiaries and does not have significant operations of its own. Dividends and interest payments from its subsidiaries are its principal sources of cash. If the cash received from its subsidiaries is insufficient, then it may be required to raise debt or equity externally or sell some of its assets. We are subject to various regulations in the jurisdictions in which we operate. The ability of SLF Inc.'s subsidiaries to pay dividends and transfer funds is regulated in certain jurisdictions and may require local regulatory approvals and the satisfaction of specific conditions in certain circumstances.

In addition, rating agencies publish credit ratings of securities issued by SLF Inc. and its subsidiaries, which have an impact on the interest rates paid by those companies on borrowed funds. A material downgrade in the issuer credit ratings could limit our access to capital or increase the cost of borrowing and may have an adverse effect on our financial condition.

We have established financing arrangements that support NAIC statutory reserves for universal life policies issued by Sun Life Assurance in the U.S. Our ability to support these reserves with these financing structures can be negatively impacted by market conditions and regulatory changes. Further, these financings, in all or in part, are treated as operating leverage by the rating agencies. If, due to a change in rating agency methodology or position, the rating agencies cease to treat these financings as operating leverage, without providing any grandfathering provisions, there may be an adverse impact on our credit and financial strength ratings.

Other Risks

Risks relating to the COVID-19 Pandemic

Pandemics, epidemics or outbreaks of an infectious disease could have an adverse impact on our results, business, financial condition or liquidity, and could result in changes to the way we operate. The COVID-19 pandemic and the measures imposed by governments around the world to limit its spread including travel restrictions, business closures, social distancing protocols, school closures, quarantines, and restrictions on gatherings and events, have disrupted the global economy, financial markets, supply chains, business activity and productivity in unprecedented ways. The duration and impacts of the COVID-19 pandemic in the countries in which we operate are varied and cannot currently be determined. Containment measures continue to impact global economic activity, including the pace and magnitude of recovery as well as contributing to increased market volatility and changes to the macroeconomic environment. Governments, monetary authorities, regulators and financial institutions, have taken, and continue to take, actions in support of the economy and financial system. These actions include fiscal, monetary and other financial measures to increase liquidity, and to provide financial aid to individuals and businesses. If the COVID-19 pandemic is prolonged, the adverse impact on the global economy could deepen, augmenting financial market declines or volatility, corporate insolvency risks and negative household wealth impacts. The continuing or worsening of the economic and market conditions caused by the COVID-19 pandemic, and impact on Clients, industries and individual countries could have a material adverse effect on our businesses including sales, fee income, investment performance, results of operations, corporate reputation and financial condition. Sustained adverse effects could also make it difficult for us to access capital markets, could impact our liquidity and capital position, or may result in downgrades in our credit ratings. To the extent the COVID-19 pandemic adversely affects our business, results of operations, corporate reputation and financial condition, it may also have the effect of heightening many of the other risks described in the section entitled "Risk Factors" in this document and "J - Risk Management" in our 2020 MD&A. This includes, but is not limited to:

- Market risks, such as equity, interest rates and spread, real estate, and foreign currency risks, including impact on fee income;
- Insurance risk, including higher than expected mortality and, morbidity claims and adverse policyholder behaviour including but not limited to higher than expected policy lapses, withdrawals, and surrenders;
- Credit risk, including defaults, impairments and downgrades;
- Business and strategic risk including economic and political risk, business strategy implementation risk, distribution risk, expense risk, changes in Client behaviour, sales, investment performance, and changes in legal and regulatory environment;
- Operational risk, including information security and privacy risk, human resources risks, regulatory compliance, legal and conduct risk, information technology risk, processing risk, third-party risk, and business disruption risk, and change management risk with the need to quickly implement and execute new programs and procedures to support Clients, advisors, employees, products, and services; and
- Liquidity risk including collateral, and payment deferrals on invested assets or policyholder insurance premium impacts.

The overall impact of the COVID-19 pandemic is still uncertain and dependent on the progression of the virus, including mutations, the timing of mass vaccine production, distribution, public acceptance and the subsequent reduction in rates of infection and the actions taken by governments, monetary authorities, regulators, financial institutions, businesses and individuals, which could vary by country and result in differing outcomes. Given the extent of the circumstances, it is difficult to reliably measure or predict the potential impact of this uncertainty on our future financial results.

IFRS 17 and 9

IFRS 17 *Insurance Contracts* ("IFRS 17") and IFRS 9 *Financial Instruments* ("IFRS 9") are effective for Canadian insurance companies for annual periods beginning on or after January 1, 2023.

IFRS 17 will replace IFRS 4 *Insurance Contracts* and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and includes guidance on the classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

Risks related to IFRS 17 and 9 include:

- Operational risk - the standards requires a more expansive set of data, introduces complex estimation techniques, computational requirements and disclosures, which necessitate a major transformation to various actuarial and financial reporting processes, tools, and systems.
- Business and strategic risk - the standards may create additional volatility in our financial results and capital position. Volatility of reported results may require changes to business strategies and the introduction of new or modified non-GAAP measures to explain our results. The impact to business strategy could include changes to hedging and investment strategy, product strategy and the use of reinsurance and, as a result, could impact our exposures to other risks such as counterparty risk and liquidity risk.
- Regulatory Capital risk - the regulatory capital framework in Canada currently based on IFRS 4 will align with IFRS 17 effective January 1, 2023. The impact to Sun Life from this change is currently uncertain. While OSFI has stated that it intends to maintain capital frameworks consistent with current capital policies and to minimize potential capital impacts at the industry level, the impact for individual companies may vary. OSFI will make changes to the LICAT guideline to reflect IFRS 17 and is consulting directly with affected stakeholders. LICAT guideline changes for Segregated Fund Guarantee capital are also planned to take effect January 1, 2023. OSFI has been engaging the industry in testing of new Segregated Fund Guarantee capital requirements, and the impact will not be known until the final calibrations are completed.
- Impact on tax - in certain jurisdictions, including Canada, the implementation of IFRS 17 may impact tax positions and other financial metrics that are dependent upon IFRS accounting values.

International Operations

The future success of our businesses in our international operations depends in large part on our ability to grow and compete in the markets where we operate. Challenges in these markets pose strategic and execution risk including our ability to attract and retain qualified employees and executives with local experience and critical skills, political, legal, economic, competition or other risks, risks associated with joint venture operations, developing and executing our risk management practices, and our ability to attract, retain, expand and diversify distribution channels.

If we are unable to attract, retain and engage qualified employees and executives with relevant experience and critical business skills, our ability to grow our business in our international operations as quickly as planned may be limited. Competition for qualified employees and distribution partners in our international operations, in particular the Asian markets, continues to be strong and could adversely impact our ability to attract and retain talent.

Our international operations may face political, legal and regulatory, economic, competitive, operational or other risks that we may not face in our domestic operations. Examples of this type of risk are the risk of changes in regulation, political risks due to changes in government, discriminatory regulation, political instability, nationalization or expropriation of assets, changes to the maximum level of non-domestic ownership, price controls and exchange controls or other restrictions that could prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold into Canadian dollars or other currencies.

Capital markets in certain international markets may not have the same depth, liquidity or range of investment options generally available in other markets in which we operate. In particular, the more limited availability of long-duration assets exposes our Asian operations to higher asset-liability management costs and potential risk.

We have entered into joint venture arrangements in certain markets in Asia, where we may have a lesser degree of control over these businesses that may expose us to additional operational, financial, compliance and legal risks. We may be dependent on our joint venture counterparty for capital, product distribution, local market knowledge, or other resources. Our ability to exercise management control or influence over these joint ventures and the success of our investments in them will depend on the cooperation between the joint venture participants and the terms of the joint venture agreements, which allocate control among the joint venture participants. If we are unable to effectively manage these joint ventures, or any joint venture counterparty fails to meet its obligations under the joint venture arrangement, encounters financial difficulty, elects to alter, modify or terminate the relationship, or a joint venture does not comply with local legislation or regulations, we may be unable to achieve our objectives and our results of operations and brand may be negatively impacted.

Capital Adequacy

Capital adequacy risk is the risk that our capital position is not or will not be sufficient to withstand adverse economic conditions, to maintain our financial strength, to allow us and our subsidiaries to support ongoing operations and to take advantage of opportunities for expansion, and to support the risk taking activity in pursuit of our business objectives.

The strength of our capital position depends in part upon the level of and changes in interest rates and equity prices, credit experience, mortality and morbidity experience, currency rate fluctuations and our overall profitability.

Various factors such as declining equity markets, downgrades in ratings, changes in interest rates, changes in credit spreads on corporate bonds and asset backed securities, lower earnings and inability to access capital markets on a timely basis may negatively impact our capital ratios, and may impair our financial position and our ability to execute our business strategies and plans. In addition, regulatory changes being considered by other regulators world-wide may adversely impact the capital ratios of SLF Inc. and its insurance subsidiaries. These factors may impair our financial position and our ability to execute our business strategy.

Credit and Financial Strength Ratings

Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under insurance policies. Credit ratings indicate the opinions of rating agencies regarding an issuer's ability to meet the terms of debt, preferred share and Tier 1 hybrid capital obligations in a timely manner, and are important factors in a company’s overall funding profile and ability to access external capital. A downgrade by a rating agency in the credit ratings of securities issued by SLF Inc. and its subsidiaries or the financial strength ratings of SLF Inc.'s insurance company subsidiaries could adversely affect our financial condition and results of operations.

The financial strength rating of an insurance company is a key competitive factor in marketing its products and in attracting and retaining agents and distributors. If our credit or financial strength ratings are downgraded, our financial condition, competitive position and results of operations could be negatively impacted in many ways, including:

- Reducing new sales of insurance products, annuities and investment products;
- Higher level of surrenders and withdrawals;
- Higher reinsurance costs;
- Requiring us to reduce prices for products and services to remain competitive;
- Increasing our cost of capital and limiting our access to the capital markets, thus reducing our financial flexibility;
- Reducing our ability to enter into normal course derivative or hedging transactions and increasing the costs associated with such transactions; and
- Adversely affecting our relationships with our advisors and third-party distributors of our products.

In addition, downgrades in our credit or financial strength ratings below thresholds specified in certain of our derivative agreements, reinsurance agreements and other agreements could result in the counterparties to those agreements having the right to terminate those agreements or to require that we provide support for those agreements in the form of collateral or letters of credit.

Changes in methodologies and criteria used by rating agencies could also result in downgrades that do not reflect changes in the general economic conditions or our financial condition.

Additional information concerning our ratings is provided in this AIF under the heading Security Ratings and in our 2020 MD&A under the heading Financial Strength.

Tax Matters

The validity and measurement of tax benefits associated with various tax positions taken or expected to be taken in our tax filings are a matter of tax law and are subject to interpretation. Tax laws are complex and their interpretation requires significant judgment. The provision for income taxes reflects management’s interpretation of the relevant tax laws and its best estimate of income tax implications of the transactions and events during the period. There can be a risk that tax authorities could differ in their interpretation of the relevant laws and could assert that tax positions taken by the company give rise to a need for reassessment, including reassessment under specific or general anti-avoidance rules or transfer pricing provisions.

The assessment of additional taxes, interest and penalties or damage to the Company’s reputation could be materially adverse to our future results of operations and financial position.

Under the liability method of accounting for income taxes, deferred tax assets are recognized for the carryforward of unused tax losses and tax credits, as well as amounts that have already been recorded in the financial statements, but will not result in deductible amounts in determining taxable income until future periods. Deferred tax assets are recognized only to the extent of the probability that taxable profit will be available against which the future tax deductions and unused tax losses can be utilized.

At the end of each reporting period, we must assess the value of our deferred tax assets. The determination of our deferred tax assets is dependent upon projections of future taxable profits. Our projections require significant judgments and estimates about future events, including global economic conditions and the future profitability of our businesses. If the profitability of our businesses is lower than our projections or if our outlook diminishes significantly, we may be required to reduce the value of our deferred tax assets. Any change to our deferred tax assets could have a material adverse impact on our future results of operations and financial position.

We are also subject to changing income tax regulations. We currently have an effective income tax rate that is lower than the Canadian statutory income tax rate for corporations. The Company reflects favourable tax impacts in its financial statements from certain tax benefits, including but not limited to tax-exempt investment income, dividends received deductions, tax credits (from certain investments or from taxes paid on foreign source income), and favourable tax rates in certain jurisdictions in which we operate. In addition, many of our life insurance products benefit Clients with preferred tax treatment under various tax regimes. For example life insurance policies and annuity contracts in the U.S. and Canada allow for the deferral or elimination of taxation on earnings (inside buildup) accrued under the policy. There is a risk that tax legislation, administrative guidance or legislative developments could lessen or eliminate some of the benefits currently available to the Company or its policyholders. This risk could result in lower product sales or increased lapses of policies, and could have a material adverse effect on our future results of operations and financial position.

From time to time, governments in countries in which we operate enact changes to statutory corporate income tax rates. A change in income tax rate requires us to review and re-measure our deferred tax assets and liabilities as of the date of substantive enactment. As of December 31, 2020, the Company reported a $1,251 million net deferred tax asset in its Consolidated Statements of Financial Position, primarily in Canada. Any future tax rate reductions in jurisdictions where we carry a net deferred tax asset could result in a reduction in the carrying value of the deferred tax asset and a corresponding income tax expense at the time of substantive enactment of a rate reduction.

In light of significant deficits incurred due to the COVID-19 pandemic, governments may seek to raise corporate tax rates or introduce further base-broadening measures, which could materially impact our tax expense.

Legal and Regulatory Proceedings

We are regularly involved in legal actions, both as a defendant and as a plaintiff. Information on legal and regulatory proceedings is provided in Note 23 of our 2020 Consolidated Financial Statements and is incorporated herein by reference.

Since January 1, 2020, (i) no penalties or sanctions have been imposed against Sun Life by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision; (ii) Sun Life has not entered into any settlement agreements with a court relating to Canadian securities legislation or with a Canadian securities regulatory authority and (iii) no penalties or sanctions have been imposed against Sun Life by a Canadian securities regulatory authority, other than nominal late filing fees, or by a court relating to Canadian securities legislation.

Additional Information

Additional information including directors' and officers' remuneration and indebtedness, principal holders of SLF Inc.'s securities, securities authorized for issuance under equity compensation plans and interests of informed persons in material transactions, if applicable, is contained in SLF Inc.'s information circular for its most recent annual meeting of security holders that involved the election of directors. Additional financial information is provided in SLF Inc.'s MD&A and consolidated financial statements for its most recently completed financial year.

Requests for copies of these documents may be sent to the Corporate Secretary of SLF Inc. at 1 York Street, 31st Floor, Toronto, Ontario, M5J 0B6. Copies of these documents and other additional information related to SLF Inc. are available at www.sunlife.com, www.sedar.com and www.sec.gov.

APPENDIX A



SUN LIFE FINANCIAL INC.
AND
SUN LIFE ASSURANCE COMPANY OF CANADA ("THE CORPORATION")
CHARTER OF THE AUDIT COMMITTEE

Purpose

The Audit Committee (the "Committee") is a standing committee of the Board of Directors (the "Board") whose primary functions are to assist the Board with its oversight role with respect to:

1. The integrity of financial statements and related information provided to shareholders and others;
2. The Corporation's compliance with financial regulatory requirements;
3. The adequacy and effectiveness of the internal control environment implemented and maintained by management; and
4. The qualifications, independence and performance of the External Auditor who is accountable to the Committee, the Board and the shareholders.

Membership

The Committee is composed of not less than three Directors, including a Committee Chair, appointed by the Board on an annual basis following each annual meeting.

Each member of the Committee shall be independent as defined in the Director Independence Policy and financially literate. In the Board's judgment, a member of the Committee is financially literate if, after seeking and receiving any explanations or information from senior financial management or the External Auditor of the Corporation that the member requires, the member is able to read and understand the consolidated financial statements of the Corporation to the extent sufficient to be able to intelligently ask, and to evaluate the answers to, probing questions about the material aspects of those financial statements. In addition, the Committee shall have at least one member that the Board has determined is an audit committee financial expert.

Committee membership is reviewed in connection with appointments to the Committee and annually by the Governance, Investment & Conduct Review Committee to ensure the Committee as a whole includes members with the experience and expertise required to fulfill the Committee's mandate and that the financial literacy and the audit committee financial expert requirements (as defined by the Securities and Exchange Commission) are met.

Any member of the Committee may be removed or replaced at any time by the Board and the Board shall fill vacancies on the Committee.

Structure and Operations

A meeting of the Committee may be called at any time by the Chair of the Board (the "Board Chair") or by any member of the Committee. The Committee meets as frequently as necessary, but not less than four times a year. A quorum at any meeting of the Committee shall be three members. The Chair of the Committee reports to the Board after each Committee meeting.

The Chair of the Committee is consulted in advance in connection with the appointment, reassignment, replacement or dismissal of the Chief Actuary, Chief Auditor and Chief Financial Officer, and annually on the performance assessment and compensation awarded to those individuals.

The External Auditor reports to the Committee. The External Auditor receives notice of, and may attend all Committee meetings.

The Committee holds a private session at each regularly scheduled meeting with each of the Chief Actuary, Chief Auditor, Chief Financial Officer and representatives of the External Auditor, and with the Chief Risk Officer and Chief Compliance Officer, as appropriate, and those individuals have unrestricted access to Committee members between meetings. The Committee holds a private session at each meeting of the Committee for members only. The Committee has full access to the Corporation's records and information and, in consultation with the Board Chair, may engage any special advisors it deems necessary to provide independent advice at the expense of the Corporation.

The Committee will review its Forward Agenda, as required, and on an annual basis, the Committee will review this Charter and, where necessary, recommend changes to the Board for approval. This Charter will be posted on the Corporation's website and the Committee will prepare a report on its activities for inclusion in the annual meeting material. The Committee shall undertake and review with the Board an annual performance evaluation of the Committee.

Duties and Responsibilities of the Committee

Financial Reporting

1. Reviews with management and the External Auditor and makes recommendations to the Board on the approval of:
   a. the interim unaudited consolidated financial statements, including the notes thereto, Management's Discussion and Analysis and related news release; and
   b. the annual audited consolidated financial statements, including the notes thereto, Management's Discussion and Analysis and related news release.
2. In conducting its review of the quarterly and annual financial statements:
   a. reviews the underlying earnings;
   b. discusses with the External Auditor any significant changes that were required in the external audit plan, any significant issues raised with management during the course of the audit or review, including any restrictions on the scope of activities or access to information, and those matters that are required to be discussed under generally accepted auditing standards;
   c. receives a report from management on its review of the financial statements, Management's Discussion and Analysis and related news release, and discusses with the President & Chief Executive Officer and the Chief Financial Officer any significant issues raised in connection with the certifications relating to financial disclosure and controls that those officers are required to file with securities regulatory authorities;
   d. assures itself that the External Auditor is satisfied that the accounting estimates and judgements made by management, and management's selection of accounting principles, reflect an appropriate application of International Financial Reporting Standards;
   e. seeks assurances from the External Auditor that the financial statements, including the notes thereto, fairly present the financial position, results of operations and cash flows of the Corporation;
   f. discusses with the Chief Actuary the parts of the quarterly and annual audited consolidated financial statements prepared by that officer;
   g. reviews with management and the External Auditor the Corporation's principal accounting and actuarial practices and policies; and
   h. considers emerging industry, regulatory and accounting standards and the possible impact on the Corporation's principal accounting practices and policies, including consideration of the use of non-IFRS measures.

External Auditor

3. Reviews the independence of the External Auditor, including the requirements relating to such independence under the laws governing the Corporation, the applicable rules of stock exchanges on which the Corporation's securities are listed, and regulatory bodies with responsibility for establishing auditor independence requirements and policies. At least annually, the Committee receives from and reviews with the External Auditor its written statement delineating relationships with the Corporation and, if necessary, recommends that the Board take appropriate action to satisfy itself of the External Auditor's independence and accountability to the Committee, the Board and shareholders.
4. Appraises the skills, resources and performance of the External Auditor and recommends to the Board the appointment, or if so determined by the Committee the replacement, of the External Auditor, subject to the approval of the shareholders.
5. Reviews and approves the scope and terms of the External Auditor's engagement, and reviews and recommends for approval by the Board the engagement letter and remuneration of the External Auditor.
6. Reviews and approves the Restricting Use of External Auditor Policy which outlines the services for which the External Auditor can be engaged, the approval process for such services and the policy regarding the employment of former employees of the External Auditor.
7. Determines, reviews and approves the services to be performed by the External Auditor and the fees to be paid to the External Auditor for audit, audit-related and other services permitted by law and in accordance with the Restricting Use of External Auditor Policy, with such approvals to be given by the Committee, through the exercise of authority delegated to one or more of the Committee's independent members or pursuant to pre-approval procedures adopted by the Committee in accordance with applicable requirements.
8. Reviews with the External Auditor and management the overall scope of the external audit plan, quality control procedures and the resources that the External Auditor will devote to the audit.
9. Reviews with the External Auditor any regulatory matters that pertain to the External Auditor.

Internal Control and Audit

10. Requires management to implement and maintain appropriate internal control procedures, reviews and evaluates the effectiveness of such procedures, and ensures that appropriate action is being taken to address any material internal control deficiencies.
11. Reviews at least annually and makes recommendations to the Board on the approval of the Corporation's Internal Control Framework.
12. Reviews management's reports on the effectiveness of the Corporation's disclosure controls and procedures and its internal control over financial reporting.
13. Reviews and approves the annual internal audit plan and oversees its coordination with the External Auditor's audit plan.
14. Reviews with management and the Chief Auditor the effectiveness of the internal control procedures, including a quarterly report thereon received from the Chief Auditor that includes disclosure of any significant changes that were required in the internal audit plan and any significant issues raised with management during the course of any internal audit work, including any restrictions on the scope of activities or access to information.

Governance

15. Reviews and approves the organizational structure of the Actuarial, Finance and Internal Audit functions on an annual basis.
16. Reviews, at least annually, and approves changes to the statements of mandate, responsibility and authority of the Chief Actuary, Chief Auditor and Chief Financial Officer.
17. Reviews, at least annually, the adequacy of the authority, independence and resources of the Chief Actuary, Chief Auditor and Chief Financial Officer.
18. Establishes the scope and frequency of the independent reviews of the Actuarial, Finance and Internal Audit functions.
19. Approves the objectives and reviews the effectiveness of the Chief Actuary, Chief Auditor and Chief Financial Officer and the Actuarial, Internal Audit and Finance functions annually.
20. Requires the Chief Actuary, Chief Auditor and Chief Financial Officer to report on any material disagreements with other members of senior management relating to the business, and reviews how such matters are being addressed.
21. Reviews succession plans for the roles of Chief Actuary, Chief Auditor, Chief Financial Officer and other senior management roles overseen by the Committee.
22. Reviews matters within its mandate that are addressed in the regular examination and similar reports received from regulatory agencies, including management's responses and recommendations.
23. Discusses with the External Auditor the financial and control-related aspects of material transactions that are being proposed by the Corporation.
24. Reviews and discusses with the External Auditor and Chief Actuary such reports and regulatory returns of the Corporation as may be specified by law.
25. Discusses the qualifications for and determines whether a member of the Committee is a financial expert, and in conjunction with the Governance, Investment & Conduct Review Committee, ensures the ongoing financial literacy of Committee members.

Other

26. Reviews the annual report on litigation or other reports, as required.
27. Performs such other duties and exercises such other powers as may, from time to time, be assigned to or vested in the Committee by the Board, and such other functions as may be required of the Committee by law, regulation or stock exchange rule.

Exhibit 99.4

CERTIFICATION

I, Dean A. Connor certify that:

1. I have reviewed this annual report on Form 40-F of Sun Life Financial Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 10, 2021

/s/ Dean A. Connor
Dean A. Connor
President and Chief Executive Officer

CERTIFICATION

I, Kevin D. Strain certify that:

1. I have reviewed this annual report on Form 40-F of Sun Life Financial Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 10, 2021

/s/ Kevin D. Strain
Kevin D. Strain
Executive Vice-President and
Chief Financial Officer

Exhibit 99.5

Certification
pursuant to
18 U.S.C. Section 1350
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 40-F of Sun Life Financial Inc. (the "Company") for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies pursuant to 18 U.S.C.§ 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his respective knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 10, 2021

/s/ Dean A. Connor
Dean A. Connor
President and
Chief Executive Officer

Date: February 10, 2021

/s/ Kevin D. Strain
Kevin D. Strain
Executive Vice-President and
Chief Financial Officer

This certificate has not been, and shall not be deemed to be, "filed" with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934.

Exhibit 99.6

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement Nos. 333-105130 and 333-229698 on Form S-8 and to the use of our reports dated February 10, 2021 relating to the consolidated financial statements of Sun Life Financial Inc. (the "Company") and the effectiveness of the Company's internal control over financial reporting appearing in this Annual Report on Form 40-F for the year ended December 31, 2020.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario, Canada
February 10, 2021

Exhibit 99.7

CONSENT OF APPOINTED ACTUARY

I consent to the use and incorporation by reference in this Annual Report on Form 40-F of Sun Life Financial Inc. (the "Company") for the year ended December 31, 2020 of the Appointed Actuary's Report to the Shareholders and Directors dated February 10, 2021 (the "Report"), relating to the valuation of the policy liabilities and reinsurance recoverables of the Company and its subsidiaries for its Consolidated Statement of Financial Position at December 31, 2020 and December 31, 2019 and their change in the Consolidated Statements of Operations for the year ended December 31, 2020.

/s/ Kevin Morrissey

Kevin Morrissey
Fellow, Canadian Institute of Actuaries

Toronto, Ontario, Canada
February 10, 2021