Third Quarter 2016
Reported net income was $737 million in the third quarter of 2016, reflecting favourable equity markets, interest rates, and ACMA. Reported net income also reflected factors discussed in underlying net income. Underlying net income was $639 million, reflecting higher levels of gains from investment activities on insurance contract liabilities, positive credit experience, and other experience items. This was partially offset by mortality and expense experience, including investment in growing our businesses.

Second Quarter 2016
Reported net income was $480 million in the second quarter of 2016, reflecting unfavourable impact of interest rates. Reported net income also reflected factors discussed in underlying net income. Underlying net income was $554 million, reflecting unfavourable morbidity experience, mainly in SLF U.S. Group Benefits notably from the stop-loss insurance business, and expense experience including investment in growing our businesses. This was partially offset by gains from investment activity on insurance contract liabilities and positive credit experience.

First Quarter 2016
Reported net income was $540 million in the first quarter of 2016, reflecting unfavourable impacts from interest rates and equity markets. Reported net income also reflected factors discussed in underlying net income. Underlying net income was $582 million, reflecting favourable impact of strong investing activities and positive morbidity experience.

L. Non-IFRS Financial Measures

i. Updates to Non-IFRS Measures

Beginning in 2017, we stopped reporting operating net income and its related measures, operating earnings per share ("EPS") and operating return on equity ("ROE"), in order to streamline our use of non-IFRS financial measures. The adjustments previously used to derive operating net income will continue to be used to derive underlying net income.

ii. 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 impact of the following items that create volatility in our results under IFRS and when removed assist in explaining our results from period-to-period:

(a) market related impacts, which include: (i) impact of returns in equity markets, net of hedging, above or below our best estimate assumptions of approximately 2% per quarter in the reporting period. Equity market impact also includes the impact 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 impact of changes in interest rate that differ from our best estimate assumptions in the reporting period and on the value of derivative instruments used in our hedging programs including changes in credit and swap spreads, and any changes to the assumed fixed income reinvestment rates in determining the actuarial liabilities; and (iii) the impact of changes in the fair value of investment properties in the reporting period.
(b) assumption changes and management actions, which include: (i) the impact of revisions to the methods and assumptions used in determining our liabilities for insurance contracts and investment contracts and (ii) the impact 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;
(c) Other adjustments:
    (i) certain hedges in SLF Canada that do not qualify for hedge accounting - this adjustment enhances the comparability of our net income from period to period, as it reduces volatility to the extent it will be offset over the duration of the hedges;
    (ii) fair value adjustments on MFS's share-based payment awards, that are settled with MFS's own shares and accounted for as liabilities and measured at fair value each reporting period until they are vested, exercised and repurchased - this adjustment enhances the comparability of MFS's results with publicly traded asset managers in the United States;
    (iii) acquisition, integration and restructuring amounts (including impacts related to acquiring and integrating acquisitions); 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 above, underlying EPS excludes the dilutive impact 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 2017 and 2016 is provided in this MD&A in section K - Additional Financial Disclosure - 3 - Fourth Quarter 2017 Profitability.

Reconciliations of Select Net Income Measures

($ millions, unless otherwise noted)	**2017**	2016	2015
Reported net income	**2,149**	2,485	2,185
Equity market impact			
Impact from equity market changes	**68**	62	(99)
Basis risk impact	**(6)**	(11)	(29)
Equity market impact	**62**	51	(128)
Interest rate impact			
Impact of interest rate changes	**(79)**	45	3
Impact of credit spread movements	**(54)**	(41)	33
Impact of swap spread movements	**(24)**	30	29
Interest rate impact(1)	**(157)**	34	65
Impact of changes in the fair value of investment properties	**88**	22	20
Market related impacts(3)	**(7)**	107	(43)
Assumption changes and management actions(2)(3)	**81**	45	(9)
Other adjustments:			
Certain hedges in SLF Canada that do not qualify for hedge accounting	**(16)**	(5)	21
Fair value adjustments on MFS's share-based payment awards	**(81)**	30	(9)
Acquisition, integration and restructuring	**(123)**	(27)	(80)
Total of other adjustments	**(220)**	(2)	(68)
U.S. tax reform(2)	**(251)**	—	—
Underlying net income	**2,546**	2,335	2,305
Reported EPS (diluted) ($)	**3.49**	4.03	3.55
Market related impacts ($)	**(0.01)**	0.18	(0.07)
Assumption changes and management actions ($)	**0.13**	0.07	(0.01)
Certain hedges in SLF Canada that do not qualify for hedge accounting ($)	**(0.03)**	(0.01)	0.03
Fair value adjustments on MFS's share-based payment awards ($)	**(0.13)**	0.05	(0.01)
Acquisition, integration and restructuring ($)	**(0.20)**	(0.04)	(0.13)
U.S. tax reform ($)	**(0.41)**	—	—
Impact of convertible securities on diluted EPS ($)	**(0.01)**	(0.02)	(0.02)
Underlying EPS (diluted) ($)	**4.15**	3.80	3.76

(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) U.S. tax reform of $(251) million includes $(288) million ($(444) million pre-tax) of ACMA, which is excluded from the ACMA of $81 million.
(3) See section L - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.

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

($ millions, unless otherwise noted)	**2017**	2016	2015
Reported net income (after tax)	**2,149**	2,485	2,185
Underlying net income adjustments (pre-tax):			
Market related impacts(1)	**(79)**	67	9
Assumption changes and management actions(1)(2)	**(61)**	10	(54)
Other adjustments(1)	**(297)**	(40)	(85)
U.S. tax reform(2)	**(444)**	—	—
Total underlying net income adjustments (pre-tax)	**(881)**	37	(130)
Tax related to underlying net income adjustments	**484**	113	10
Underlying net income(3) (after tax)	**2,546**	2,335	2,305

(1) See section L - Non-IFRS Financial Measures in this document for a breakdown of components within this adjustment.
(2) U.S. tax reform of $(444) million (pre-tax) is shown separately, and is excluded from ACMA of $(61) million (pre-tax).
(3) Represents a non-IFRS financial measure. See section L - Non-IFRS Financial Measures in this document.

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.

iii. 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 SLF 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 SLF U.S., insurance sales consist of sales by Group Benefits and individual life sales by International. In SLF Asia, insurance sales consist of the individual and group insurance sales by our subsidiaries and joint ventures and associates, based on our proportionate equity interest, in the Philippines, Hong Kong, Indonesia, India, China, Malaysia, and Vietnam; 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. SLF Asset Management sales consist of gross sales (inflows) for retail and institutional Clients; unfunded commitments are not included in sales.

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

($ millions)	**2017**	2016	2015
Revenues	**29,334**	28,573	19,274
Constant Currency Adjustment	**(372)**	—	(349)
FV Adjustment	**2,603**	2,233	(1,961)
Reinsurance in SLF Canada's GB Operations Adjustment	**(3,026)**	(2,758)	(4,684)
Adjusted revenue	**30,129**	29,098	26,268

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

($ millions)	**2017**	2016	2015
Premiums and deposits	**164,680**	158,459	136,150
Constant Currency Adjustment	**(2,828)**	—	(3,855)
Reinsurance in SLF Canada's GB Operations Adjustment	**(3,026)**	(2,758)	(4,684)
Adjusted premiums and deposits	**170,534**	161,217	144,689

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

After-tax profit margin for SLF U.S. Group Benefits. This ratio assists in explaining our results from period to period and is a measure of profitability that expresses SLF U.S. Group Benefits 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.

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

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

Assumption changes and management actions. In this MD&A, the impact of assumption changes and management actions on shareholders' net income (after-tax) is included in reported net income and is excluded in calculating underlying net income, as described in this MD&A under the heading D - Profitability - 2017 vs. 2016.

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

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

($ millions)	**2017**	2016	2015
Impact of method and assumption changes on Insurance Contract Liabilities (pre-tax)(1)	**173**	(35)	(311)
Less: Participating Policyholders(2)(7)	**181**	181	30
Impact of method and assumption changes excluding participating policyholders (pre-tax)	**(8)**	(216)	(341)
Less: Tax	**(51)**	(114)	(79)
Impact of method and assumption changes excluding participating policyholders (after-tax)	**43**	(102)	(262)
Add: Management Actions (after-tax)(3)	**(243)**	153	214
Other (after-tax)(4)	**(7)**	(6)	(2)
Assumption changes and management actions (after-tax)(5)(6)(8)	**(207)**	45	(50)

(1) Note 10.A of our Annual Consolidated Financial Statements shows the pre-tax impact of method and assumption changes on shareholder and participating policyholder Insurance contract liabilities net of reinsurance assets, excluding changes in other policy liabilities and assets. The amount shown in the table above is the shareholders' income impact related to the amount shown in Note 10.A of our Annual Consolidated Financial Statements.
(2) Adjustment to remove the pre-tax impact of method and assumption changes on amounts attributed to participating policyholders.
(3) Adjustment to include the after-tax impact of management actions on insurance contract liabilities and investment contract liabilities which include, for example, changes in the prices of in-force products, new or revised reinsurance on in-force business, and material changes to investment policies for assets supporting our liabilities. In the second quarter of 2017, management actions were mainly in SLF U.S., primarily comprised of the expected impact of recapturing certain reinsurance treaties and the expected cost of reinsurance in certain other treaties.
(4) Adjustments to include the after-tax impact of method and assumption changes on investment contracts and other policy liabilities.
(5) Includes the tax impacts of assumption changes and management actions on insurance contract liabilities and investment contract liabilities, reflecting the tax rates in the jurisdictions in which we do business.
(6) Assumption changes and management actions is included in reported net income and is excluded in calculating underlying net income, in this MD&A under the heading D - Profitability - 2017 vs. 2016.
(7) 2017 included an update to the SLF Canada participating individual life business to reflect mortality experience in first quarter of 2017 and $46 million decrease as a result of the U.S. tax reform in fourth quarter of 2017.
(8) During 2017, the impact on reported net income of an increase of $81 million is presented as an adjustment to arrive at underlying net income as Assumption changes and management actions. The impact on reported net income of a decrease of $288 million ($444 million pre-tax) related to the U.S. tax legislation changes enacted on December 22, 2017, included in the $(207) million above, is included as part of the U.S. tax reform impact that is reported separately as an adjustment to arrive an underlying net income (see section D - Profitability - iv - U.S. tax reform).

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) the value of new business, which is used to measure the estimated lifetime profitability of new sales and is based on actuarial calculations; and (iv) assumption changes and management actions, 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 Notes 1, 2, 3, 5, 6, 7 and 10 of our 2017 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.