

# Key Changes to Financial Supplement under IFRS 17/9

Sun Life Financial Inc. (“Sun Life”, “we”, and “our”) adopted IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* (“IFRS 17” and “IFRS 9”, respectively, and “IFRS 17/9”, collectively) on January 1, 2023. Restated 2022 IFRS 17 comparative period results will also be provided. For IFRS 9, we elected not to restate comparative period results, but will present comparative information on financial assets as if IFRS 9 were applicable during the 2022 comparative period (“classification overlay”).

IFRS 17/9 adoption does not change the fundamentals of our businesses, our core business strategies, how we serve our Clients, or the long-term value that Sun Life delivers for our Clients and shareholders. However, there will be an impact on the timing of income recognition and presentation of our financial results.

## **2022 restated results**

2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards. The majority of the actions taken to re-balance asset portfolios, and transition asset-liability management to an IFRS 17 basis occurred in Q1’23. Accordingly, analysis based on 2022 comparative results may not be indicative of future trends, and should be interpreted with this context. For example, using sensitivities to analyze the outlook for market risk and related impacts (e.g., interest rate sensitivities) will be more representative starting with the sensitivities disclosed for Q1’23. For additional information, refer to the Risk Management section in our Q1’23 MD&A, which will be released after market hours on May 11, 2023.

## **Key changes to financial supplement**

We have generally maintained the structure of the financial supplement. We have also included enhanced disclosures to support the understanding of our results. The following table outlines notable changes and updates to our financial supplement commencing Q1’23 and applicable to the 2022 restated comparative periods (unless otherwise noted). We will continue to review the financial supplement disclosures as we finalize our Q1’23 reporting.

<b>Business-driven &amp; other updates</b>	<b>Description</b>	<b>Page reference</b>
Reporting Periods	Initially, we will provide a five-quarter trend and one full year of financial results (i.e., 2022 and Q1’23) on an IFRS 17/9 basis. With each successive reporting period, the supplemental disclosures will expand by an additional quarter. Q1’24 will include a nine-quarter trend and two full years of IFRS 17/9 financial results.	Notes – page ii

Underlying Net Income by Business Type	To support users' understanding and analysis of our results in line with our diversified mix of businesses, we have enhanced our disclosures to include Underlying Net Income by Business Type: 1) Wealth & Asset Management; 2) Group – Health & Protection; and 3) Individual - Protection (refer to Appendix A for additional details).	SLF – Page 5 BG – Pages 15, 18/20, 23, 25
Business Unit Underlying Net Income	New disclosure to outline the performance in each of our business units.	Pages 10/11/12, 16, 21, 24
Asia Business Units	The business units in Asia have been updated from our previous Local Markets and International Hubs structure. Business units will now be disclosed as: ASEAN (Philippines, Indonesia, and Vietnam), Hong Kong, Joint Ventures (China, India, and Malaysia), High-Net-Worth (International and Singapore), and Regional Office.	Page 24
SLF LICAT	Sun Life's overall capital position is more meaningfully represented by the SLF LICAT ratio. Accordingly, we have replaced the composition of the SLA LICAT ratio in the financial supplement with the SLF LICAT ratio, and aligned our sensitivities disclosures in the financial statements accordingly.	Page 8
<b>IFRS 17/9 Updates</b>	<b>Description</b>	<b>Page reference</b>
Drivers of Earnings	Additional non-IFRS view, providing details on the drivers of shareholders' reported and underlying net income for the total company and for the Canada, US and Asia business groups.	SLF – Page 5 BG – Pages 15, 18/20, 23, 25
Contractual Service Margin (CSM) Movement Analysis	The CSM Movement Analysis provides the quarterly drivers for changes in the CSM balance.	Page 9
Total Capital	The definition of Total Capital will include the CSM balance, aligning with the update to the LICAT available capital definition as prescribed by our principal regulator, the Office of the Superintendent of Financial Institutions (Canada)	Page 8
Leverage Ratio	The calculation for financial leverage ratio will include the CSM balance in the denominator. This update reflects that the CSM represents unearned profit and available capital under LICAT.	Page 2

### **Updates to Underlying Net Income definition**

The Q1'23 financial supplement and MD&A will include an updated description of adjustments to Reported Net Income to derive Underlying Net Income, a non-IFRS financial measure. This is applicable as of January 1, 2023 and to the restated 2022 comparative periods. Overall, our principles for Underlying Net Income have not changed. Underlying Net Income continues to represent management's view of the expected long-term economics and earnings power of our businesses.

Underlying Net Income will continue to adjust for the following impacts that are included in Reported Net Income in the reporting period:

- Market-related impacts, where actual market returns in the current period are different than longer-term expected returns on assets and liabilities;
- Assumption changes and management actions that impact the measurement of assets and liabilities;
- Acquisition, integration and restructuring costs; and
- Other items that are unusual or exceptional in nature.

Refinements to our Underlying Net Income definition include:

- *Intangible asset amortization* – removal of intangible asset amortization associated with asset acquisitions and business combinations from Underlying Net Income, as the accounting treatment requiring the amortization does not reflect the ongoing benefits of these assets. Amortization for software and distribution agreements (i.e., bancassurance in Asia) will continue to be reflected in Underlying Net Income.
- *Management's ownership of MFS' shares* – currently, Underlying Net Income excludes the changes in fair value of MFS shares on both common shares owned by management and restricted share units issued for MFS employee remuneration. Effective 2023, the exclusion from Underlying Net Income will only relate to fair value changes in MFS common shares held by management. This approach is aligned with Sun Life's interest in MFS' underlying earnings as well as treatment for other share-based award plans across Sun Life.

## APPENDIX A – Underlying Net Income by Business Type

This appendix provides an overview of **Wealth & Asset Management, Group – Health & Protection** and **Individual - Protection** business types.

### Overview

Sun Life’s has a diversified mix of businesses, both globally and by type:

	Operating Segments			
Business Types	Asset Management	Canada	US	Asia
Wealth & Asset Management	MFS Investment Management SLC Management	Individual Wealth Group Retirement Services		Individual Wealth & Asset Management <sup>1</sup>
Group – Health & Protection		Sun Life Health	Group Benefits (Employee Benefits, Health & Risk Solutions) Dental	
Individual - Protection		Individual Protection	In-force Management	Individual Protection <sup>2</sup>

<sup>1</sup> Includes wealth & asset management businesses in the Philippines, Hong Kong, China and India

<sup>2</sup> Includes protection business in ASEAN, Hong Kong, Joint Ventures and High-Net-Worth

The following table provides a high-level overview of some of the key profitability drivers by business type:

Business Type	Key Profitability Drivers
Wealth & Asset Management	<ul style="list-style-type: none"> <li>• Sun Life’s wealth &amp; asset management businesses generate recurring fee income and/or spread on investment products</li> <li>• Average Net Assets (ANA) reflects the Assets Under Management (AUM) managed over the period and is an important driver of earnings</li> <li>• Net Flows represent total gross inflows less outflows</li> <li>• Market performance (equity markets and interest rates) can impact ANA (both through value of AUM as well as impact on net flows)</li> <li>• Margins reflect the net fees/spread after related costs to generate revenues</li> </ul>
Group – Health & Protection	<ul style="list-style-type: none"> <li>• Group businesses are generally more stable and more predictable given their shorter-term coverage periods, and more frequent repricing. These businesses also include fee-based earnings (i.e., Administrative Services Only plans, dental)</li> <li>• Profitability is primarily driven by: <ul style="list-style-type: none"> <li>○ premiums and fees in-force</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ premium persistency</li> <li>○ new sales</li> <li>● Period-to-period experience (i.e., mortality, morbidity) can also impact profitability</li> </ul>
Individual - Protection	<ul style="list-style-type: none"> <li>● Generally, individual protection business has a longer-term profitability profile and is more sensitive to experience trends. The premiums are invested to earn a return over the expected amounts required to fulfill the liability</li> <li>● It also includes some less interest sensitive products which have significant investment components that generate fee revenue (e.g., variable universal life products in Asia)</li> <li>● Profitability will be driven by:             <ul style="list-style-type: none"> <li>○ retention of in-force business</li> <li>○ new sales</li> <li>○ investment contribution</li> </ul> </li> <li>● Market experience will impact the net investment income earned on general account assets backing the protection business and revenue earned on pass through business (e.g., variable universal life)</li> <li>● Period-to-period experience (i.e. mortality, morbidity) can also impact profitability</li> </ul>