Drivers of Earnings

The Drivers of Earnings (DOE) is a non-International Financial Reporting Standard (IFRS) financial measure. The DOE analysis provides additional detail on the sources of earnings, primarily for protection and health businesses, and explains the actual results compared to the longer term expectations. The underlying DOE and reported DOE are both presented on a common shareholders' basis by removing the allocations to participating policyholders.

The terminology used in the discussion of DOE is described below:

Risk adjustment release

The compensation we require for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

Contractual service margin (CSM) recognized for services provided

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

Expected earnings on short-term (group) insurance business

Group – Health & Protection profits recognized over a short coverage period. Excludes Administrative Services Only (ASO) business, presented in the 'Other fee income' line.

Impact of new insurance business

Represents 'onerous' new business for the period. An onerous contract does not necessarily mean it is unprofitable business.

Experience gains (losses):

Gains and losses that are due to differences between the actual results during the reporting period and management's estimate of the expected longer-term returns liabilities (i.e. expected insurance earnings) at the start of the reporting period.

Expected investment earnings

Reflects the spread between the expected investment return on general account assets and the discount rate (net of margins for credit risk) on insurance contract liabilities and crediting rate of investment contract liabilities.

Credit experience

Impact of ratings changes, and impairments (net of recoveries) on FVTPL assets. Includes changes in expected credit loss provisions on FVOCI assets. Expected credit is reflected in the 'Expected investment earnings' line.

Earnings on surplus

Represents the net income earned on a company's surplus funds. Earnings on Surplus is comprised of realized gains on fair value through other comprehensive income assets, as well as net investment returns on surplus, such as investment income, gains (losses) on seed investments and investment properties mark-to-market, and also includes impacts from derivatives, currency and other items.

Joint Ventures & Other

Joint venture earnings from India, Malaysia and China. Other includes various smaller investment-related items that may arise from period to period.

Asset management - Underlying

Represents pre-tax earnings (net of expenses) for MFS and SLC Management.

Other fee income

Includes pre-tax earnings (net of expenses) for certain wealth businesses in Canada and Asia as well as Canada & U.S. fee-based businesses (e.g. ASO from Group - Health & Protection) and fee income from Open par account in Canada.

Expenses - other

Non-directly attributable contract expenses, corporate expenses, strategic initiatives and financing charges.

Market-related impacts

Market-related impacts represent the difference between actual versus expected market movements. Except for risk free rates which are based on current rates, expected market movements are based on our medium-term outlook which is reviewed annually.

Assumption Changes and Management Actions (ACMA)

Captures the impact of method and assumption changes, and management actions on insurance and reinsurance contracts.

Other adjustments

Income impact from items that are not operational or ongoing in nature:

i. Management's ownership of MFS shares – this adjustment removes the change in fair value and other activity related to MFS common shares owned by management.
ii. Acquisition, integration, and restructuring - expense and income related to acquisition or disposal of a business. Also includes expenses related to restructuring activities.
iii. Intangible asset amortization - removes the amortization expense associated with finite life intangible assets arising from acquisitions or business combinations excluding amortization of software and distribution agreements.
iv. Other – represents items that are unusual or exceptional in nature which management believes are not representative of the long-term performance of the Company.

For the Year Ended December 31, 2023 (in millions of Canadian dollars)	**Sun Life Asset Mgmt**	**Sun Life Canada**	**Sun Life U.S.**	**Sun Life Asia**	**Corporate**	**Total**
Risk adjustment release	**-**	**200**	**36**	**176**	**6**	**418**
Contractual service margin recognized for services provided	**-**	**346**	**79**	**354**	**11**	**790**
Expected earnings on short-term (group) insurance business	**-**	**557**	**964**	**4**	**-**	**1,525**
Expected insurance earnings	**-**	**1,103**	**1,079**	**534**	**17**	**2,733**
Impact of new insurance business	**-**	**(42)**	**-**	**(9)**	**-**	**(51)**
Experience gains (losses)	**-**	**207**	**143**	**(53)**	**-**	**297**
Net insurance service result - Underlying	**-**	**1,268**	**1,222**	**472**	**17**	**2,979**
Expected investment earnings	**-**	**673**	**142**	**66**	**5**	**886**
Credit experience	**-**	**(48)**	**(2)**	**3**	**-**	**(47)**
Earnings on surplus	**-**	**263**	**146**	**121**	**109**	**639**
Joint ventures & other	**-**	**7**	**13**	**206**	**6**	**232**
Net investment results - Underlying	**-**	**895**	**299**	**396**	**120**	**1,710**
Asset Management - underlying	**1,677**	**-**	**-**	**-**	**-**	**1,677**
Other fee income	**-**	**178**	**41**	**20**	**8**	**247**
Expenses - other	**-**	**(573)**	**(449)**	**(263)**	**(643)**	**(1,928)**
Income before taxes - Underlying	**1,677**	**1,768**	**1,113**	**625**	**(498)**	**4,685**
Income tax (expense) or recovery	**(371)**	**(392)**	**(223)**	**(25)**	**200**	**(811)**
Dividends, distributions, NCI	**(67)**	**-**	**-**	**-**	**(79)**	**(146)**
Underlying net income	**1,239**	**1,376**	**890**	**600**	**(377)**	**3,728**
Add: Non-underlying net income adjustments (post-tax):						
Market-related impacts	**(47)**	**(243)**	**(44)**	**(153)**	**33**	**(454)**
Assumption changes and management actions (ACMA)	**-**	**59**	**(65)**	**39**	**3**	**36**
Other adjustments:						
Management's ownership of MFS shares	**12**	**-**	**-**	**-**	**-**	**12**
Acquisition, integration and restructuring	**(114)**	**76**	**(120)**	**(18)**	**21**	**(155)**
Intangible asset amortization	**(23)**	**(16)**	**(85)**	**(8)**	**-**	**(132)**
Other	**(0)**	**-**	**-**	**51**	**-**	**51**
Reported net income - Common shareholders	**1,067**	**1,252**	**576**	**511**	**(320)**	**3,086**

For the Year Ended December 31, 2022 (in millions of Canadian dollars)	Sun Life Asset Mgmt	Sun Life Canada	Sun Life U.S.	Sun Life Asia	Corporate	Total
Risk adjustment release	-	204	32	127	29	392
Contractual service margin recognized for services provided	-	346	66	313	35	760
Expected earnings on short-term (group) insurance business	-	491	731	13	-	1,235
Expected insurance earnings	-	1,041	829	453	64	2,387
Impact of new insurance business	-	(68)	-	(23)	-	(91)
Experience gains (losses)	-	(5)	114	(81)	52	80
Net insurance service result - Underlying	-	968	943	349	116	2,376
Expected investment earnings	-	501	81	69	2	653
Credit experience	-	(33)	8	-	(1)	(26)
Earnings on surplus	-	165	105	146	75	491
Joint ventures & other	-	(10)	37	134	(42)	119
Net investment results - Underlying	-	623	231	349	34	1,237
Asset Management - underlying	1,651	-	-	-	-	1,651
Other fee income	-	181	38	55	24	298
Expenses - other	-	(465)	(332)	(210)	(428)	(1,435)
Income before taxes - Underlying	1,651	1,307	880	543	(254)	4,127
Income tax (expense) or recovery	(362)	(244)	(182)	(4)	155	(637)
Dividends, distributions, NCI	(51)	-	-	-	(70)	(121)
Underlying net income	1,238	1,063	698	539	(169)	3,369
Add: Non-underlying net income adjustments (post-tax):						
Market-related impacts	(22)	330	(35)	(332)	38	(21)
Assumption changes and management actions (ACMA)	-	(228)	53	1	6	(168)
Other adjustments:						
Management's ownership of MFS shares	115	-	-	-	-	115
Acquisition, integration and restructuring	(176)	(2)	(137)	(7)	(170)	(492)
Intangible asset amortization	(14)	(12)	(63)	(8)	-	(97)
Other	7	90	16	17	35	165
Reported net income - Common shareholders	1,148	1,241	532	210	(260)	2,871

Analysis of results

Expected Insurance Earnings of $2,733 million were $346 million higher than 2022, driven by business premium growth across U.S. and Canada group health & protection business and business growth reflecting good sales momentum in Asia, partially offset by lower earnings due to the sale of Sun Life UK[1].

Impact of new insurance business of $(51) million was $40 million higher than 2022.

Experience gains (losses) of $297 million were driven by favourable morbidity experience largely in Canada and in U.S. medical stop-loss, partially offset by unfavourable expense experience largely in Canada, U.S. Dental, and Asia.

Expected Investment Earnings of $886 million were $233 million higher than 2022 [2], reflecting higher investment contributions in Canada and the U.S.

Credit experience of $(47) million driven by unfavourable credit experience that impacted Canada results.

Earnings on Surplus of $639 million were $148 million higher than 2022 [2], driven by an increase in realized gains and net interest income from higher rates.

Joint Ventures & Other of $232 million reflecting joint venture earnings from India, Malaysia, and China and favourable Other experience reflecting various smaller items.

Asset management – underlying of $1,677 million was $26 million higher than 2022.

Other Fee Income of $247 million was $51 million lower than 2022, reflecting lower fee-related earnings in Canada and Asia.

Expenses – Other of $(1,928) million was $493 million lower than 2022, reflecting higher operating expenses reflecting volume growth and continued investments in the business.

The 2023 market-related impacts of $(454) million were primarily driven by unfavourable real estate experience[3].

The net impact of assumption changes and management actions (ACMA) was an increase of $36 million to reported net income and includes methods and assumptions changes on insurance contracts as well as related impacts. These included favourable impacts from modelling enhancements in Asia and financial-related assumptions, which were partially offset by unfavourable policyholder behaviour updates in Asia, mortality updates in the U.S., and refinements to Sun Life Health in Canada.

Other adjustments in 2023 decreased reported net income $224 million, reflecting DentaQuest integration costs and amortization of acquired intangible assets, and SLC Management acquisition-related costs[4], partially offset by gains on the sale of the sponsored markets business in Canada[5] and the sale of Sun Life UK[1], and the impact of the Bermuda Corporate Income Tax Change[6].

[1] On April 3, 2023 we completed the sale of SLF of Canada UK Limited to Phoenix Group Holdings plc ("the sale of Sun Life UK"). In Q3'22, we recognized an impairment charge of $170 million pertaining to the attributed goodwill that was not expected to be recovered through the sale.

[2] 2022 restated results may not be fully representative of our future earnings profile, as we were not managing our asset and liability portfolios under the new standards. See the heading "Note to Readers: 2022 Restated Results on Adoption of IFRS 17 and IFRS 9" in section A - How We Report Our Results of Management's Discussion and Analysis for the fourth quarter of 2023.

[3] Real estate experience reflects the difference between the actual value of real estate investments compared to management's longer-term expected returns supporting insurance contract liabilities ("real estate experience").

[4] Includes an increase in SLC Management's acquisition-related liabilities in Q3'23, which reflects the changes in estimated future payments for acquisition-related contingent considerations and options to purchase remaining ownership interests of SLC Management affiliates.

[5] On February 1, 2023, we completed the sale of the sponsored markets business from Sun Life Assurance, a wholly owned subsidiary of SLF Inc., to Canadian Premier Life Insurance Company (re-branded to Securian Canada) ("sale of the sponsored markets business").

[6] On December 27, 2023, Bermuda enacted its Corporate Income Tax Act 2023, which will apply a 15% income tax beginning on January 1, 2025. Bermuda Corporate Income Taxes are expected to be a covered tax and will reduce Pillar Two top-up taxes which would otherwise be payable to other jurisdictions. The benefit of this economic transition adjustment has been recognized in 2023.