

# Credit Rating Report

## Sun Life Financial Inc.

### Morningstar DBRS

November 27, 2024

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### Credit Ratings

Issuer	Obligation	Credit Rating	Credit Rating Action	Trend
Sun Life Assurance Company of Canada	Financial Strength Rating	AA	Confirmed Oct. '24	Stable
Sun Life Financial Inc.	Issuer Rating	A (high)	Confirmed Oct. '24	Stable

Note: A complete list of ratings is found on page 22 of this report.

### Credit Rating Drivers

#### Factors With Positive Credit Rating Implications

- Over the longer term, Morningstar DBRS could upgrade the credit ratings if the Company achieves sustained profitability and capitalization metrics that are consistent with a higher credit rating category while materially reducing its investment portfolio credit risk exposure.

#### Factors With Negative Credit Rating Implications

- The credit ratings would be downgraded if there were sustained and significant deterioration in the Company's risk profile or profitability combined with a material decline in capitalization buffers.

### Credit Rating Considerations

#### Franchise Strength (Very Strong/Strong)

- Sun Life Financial Inc. (SLF or the Company) has extensive operations in Canada, the United States, multiple countries in Asia and globally through its asset management businesses. The Company's franchise is underpinned by a well-articulated strategy and good operational capabilities. SLF has a well-diversified business model supported by very strong product distribution capabilities.

#### Earnings Ability (Strong)

- SLF has consistently generated strong return on equity which has been higher than the Company's peers. The Canadian and asset management operations are expected to remain the largest contributors to net earnings for the near term with the U.S. and Asian segments delivering strong results as well.

#### Risk Profile (Strong/Good)

- SLF has a comprehensive risk management framework with well-defined risk appetites and limits. The risk score also considers SLF's exposure to operational risk arising from operating in multiple jurisdictions and business lines, its guaranteed products in Canada, and the significant proportion of mortgages and BBB rated bonds in its investment portfolio.

#### Liquidity (Very Strong)

- SLF's maintains ample liquid assets, including a very large pool of high-quality government bonds, as well as access to committed lending lines. The Company has a substantial amount of cash and liquid assets at the Holdco level which further supports its liquidity position and provides additional flexibility for capital deployment.

#### Capitalization (Strong/Good)

- SLF has solid capitalization. The Company's LICAT ratio is higher than its direct peers which is positive for the credit rating. As of September 30, 2024, SLA's LICAT was 147%, and the LICAT ratio for SLF was even higher at 152%. SLF's leverage ratio has been moderate and has remained below that of its peers which supports capital flexibility.

## Financial Information

	For the Year Ended December 31 (IFRS)						
	9M 2024	9M 2023	2023	2022	2021	2020	2019
Net Premium Income (\$ millions)	n/a	n/a	n/a	26,863	23,053	23,738	20,288
Insurance Revenue	16,758	15,898	21,356	n/a	n/a	n/a	n/a
Fee Income (\$ millions)	6,231	5,767	7,832	8,046	8,002	6,881	6,251
Return on Equity* (%)	16.9	15.1	14.8	12.4	17.0	11.1	12.3
Total Debt, Hybrids, Preferred Shares, & Other Equity Instruments (\$ millions)	8,616	8,616	8,617	9,115	8,864	7,238	5,995
Financial Leverage Ratio (%)	26.7	28.6	28.2	25.1	25.5	23.5	21.2
Financial Leverage Ratio (%) - Q4 Rolling Average	28.0	28.5	29.3	25.8	23.8	22.2	21.4
Fixed-Charge Coverage Ratio (times)	7.7	7.0	6.9	8.1	11.9	8.2	9.3

\*As calculated by Morningstar DBRS.

Note: Reporting follows IFRS 17 as of Q1 2023, while 2022 and prior year results are based on IFRS 4 and not restated.

Sources: Morningstar DBRS, Company documents.

## Issuer Description

Headquartered in Toronto, SLF is a leading financial services company with extensive operations in Canada, the U.S., and multiple countries in Asia. SLF offers an array of products to individuals, businesses, and institutions. Insurance products include life, dental, health, wellness, disability, critical illness, stop-loss, and long-term care insurance. Wealth products and services include investments (mutual funds, segregated funds, annuities, and guaranteed investment products), financial advice (financial planning and retirement planning services), and global asset management (pooled funds, institutional portfolios, and pension funds). The Company's major insurance operating subsidiary, Sun Life Assurance, provides insurance protection products. Sun Life Global Investments Inc. houses wealth products and services, largely conducted by two asset management subsidiaries, MFS Investment Management (MFS) and SLC Management, a globally diversified alternatives asset manager.

## Credit Rating Rationale

The credit ratings and Stable trends reflect the Company's well-established global franchise, across Canada, the U.S., and multiple countries in Asia, underpinned by significant market shares in many of its business lines and excellent product and geographic diversification. The Company has an expanding footprint in the Asian life insurance market and in wealth management globally. SLF has demonstrated consistent profitability in recent years, with earnings benefitting from the Company's diversified business model as well as good expense and claims management processes. The Company has a solid risk management framework, as well as a high-quality invested assets portfolio mix. SLF has very strong liquidity profile including a significant amount of cash at the holding company level. SLF maintains appropriate regulatory capital levels and has manageable leverage. The Company's credit ratings also consider the complexities of operating a global insurance organization with an increasing exposure to emerging markets which may affect operational risk.

## Franchise Strength

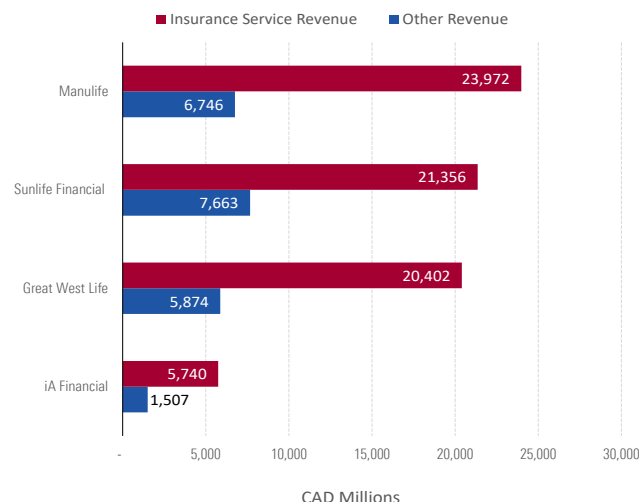
### Grid Grade: Very Strong/Strong

The Company has invested strategically in capital light businesses helping to unlock significant value creation. Specifically, SLF's estimates that the Company's strategic investments are valued higher than

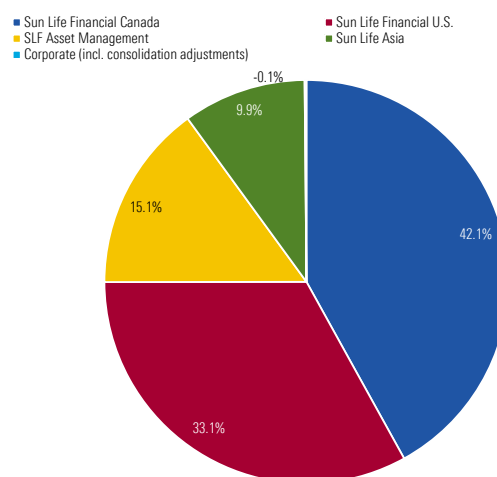
traditional North American life insurance companies and would be difficult to replicate organically. The Company has successfully invested in high growth areas, in Alternative Asset management, Health and Asia. SLF manages its operations via four key business segments: Asset Management, Canada, U.S., and Asia. The Company remains focused on further enhancing its market-leading positions in Canada, growing the Company's market presence in several segments of the U.S. employee benefits market, expanding in Asia, and growing its already substantial asset management businesses organically or through acquisitions.

SLF benefits from its strong global brand recognition, a well-diversified business model by geography and by product, and extensive product distribution capacity. SLF is one of Canada's top three life insurers, a market leader in the Philippines and in the Hong Kong Mandatory Provident Fund market. The Company is also a top 10 player in most of the other Asian countries that it operates in. Additionally, SLF has a strong presence in the U.S. group benefits market where it is a leading independent stop-loss insurance provider and a strong competitor in group life and disability. The Company's presence in the U.S. has been further strengthened by the completion of the Company's acquisition and integration of DentaQuest, a leader in the U.S. dental benefits market.

**Exhibit 1** Largest Canadian Life & Health Insurance Companies\*



**Exhibit 2** Summary of Operating Segments – Revenue Contribution (2023)



\*Based on 2023 data

Note: Reporting follows IFRS 17 as of Q1 2023, while 2022 and prior year results are based on IFRS 4.

Sources: Morningstar DBRS, Company documents.

SLF has accelerated its digital strategy in recent years. The Company is continuing to make significant investment in digital advisor tools, client-facing apps, and data analytics across all business lines. The Company intends to further digitize and streamline the sales process, increase advisor productivity, further strengthen client relationships, and reduce claims and administration expenses. The Company's

overall business mix balance and future growth of earnings contribution from each business segment remains an important consideration for the credit ratings.

### **Business Segments**

**SLF Canada:** SLF Canada is a leader in the Canadian health, wealth and asset management, and insurance sectors. The Company shares the leading market position with Great-West Lifeco Inc. and Manulife Financial Corporation as one of the three largest Canadian life insurers. SLF has a well-established and long-standing strong position in each of its core business segments. The Company is the number one provider of group retirement services and is also number one in the individual life segment, and number two in group benefits. SLF Canada offers individual life and health insurance; group life and health insurance; wealth products and services, such as mutual funds and segregated funds; and pension fund administration. The Canadian operations form a solid platform for earnings and cash flow generation, contributing more than 40% of SLF's total revenue for 2023.

The Company has the scale and market presence to generate a distribution and service cost advantage, especially with its data analytics tools and client-facing platforms with digital capabilities across the group protection and wealth management lines of business. In June 2023, SLF created a digital pharmacy application Lumino Health™ Pharmacy, provided by Pillway. This has resulted in the Company's clients benefiting from the convenience of having expedient access to pharmacists through the Lumino Health Pharmacy app when needed. On October 3, 2023, SLF acquired Dialogue Health Technologies Inc. (Dialogue) for cash proceeds of approximately \$272 million. As a result of this acquisition, the Company's ownership interest in Dialogue increased from approximately 23% to approximately 95%. Dialogue is a Canadian based health and wellness virtual care platform. SLF is also using artificial intelligence to assist disability case managers to support long term disability claims and ensuring that the Company's clients get needed support and expedites their return to work.

Although the Sun Life brand has one of the larger exclusive sales forces in the Canadian industry, the Company also uses other channels of distribution in Canada to broaden its market coverage by including investment dealers, insurance brokers, consultants, and managing general agents.

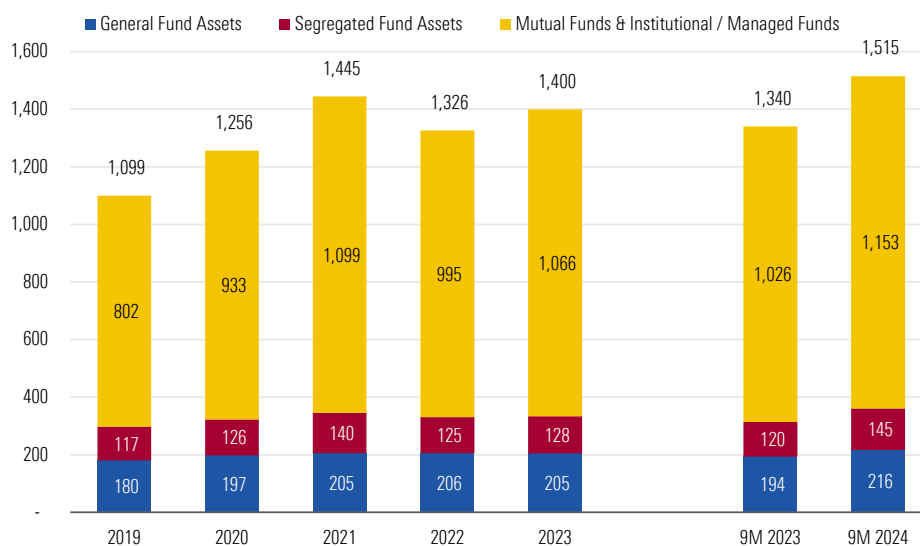
**SLF Asset Management:** The Company's asset management businesses provide an unrestricted (without regulatory capital restrictions) source of dividends to the holding company and increase the diversification of earnings. SLF Asset Management has a global investment platform with resilient long-term performance in a variety of investment management categories, including real estate investment. SLF's segregated fund general account assets are managed in-house under the asset management segment. The Company's total assets under management (AUM) increased to approximately \$1.5 trillion as at September 30, 2024, (\$1.3 trillion as at September 30, 2023) with the U.S. asset management subsidiary, MFS, reporting USD 645 billion in AUM as at September 30, 2024.

MFS is a strong strategic and financial contributor to SLF and a top quartile asset manager in terms of operating margin. MFS's business can be bifurcated into two broad categories, retail and institutional. The retail business accounts for almost 70% of its assets under management while the remaining is from the institutional business. MFS has strong brand awareness, technology infrastructure. MFS is focused

on public equities and fixed income. On February 1, 2023, SLF completed the acquisition of a majority stake interest in Advisors Asset Management, Inc., a leading independent U.S. retail distribution firm, with the option to acquire the remaining interest starting in 2028.

The SLC Management platform aims to provide alternative investment solutions to institutional investors, including liability-driven and alternative fixed-income investments and real estate, as well as infrastructure and below investment-grade credit. As at September 30, 2024, SLC Management had AUM of \$230 billion. SLC Management also manages the Company's general account assets. SLC Management is well positioned for the retail alternative market in the U.S, through Advisors Asset Management, Inc., and in Canada through its recent strategic partnership with Scotiabank (Canada's third-largest bank). Effective, October 10, 2023, Scotiabank and SLC Management announced plans to develop and provide private asset solutions to high-net-worth clients in the Canadian market through Scotia Global Asset Management. As part of the arrangement, SLC Management committed to invest \$100 million of seed capital for future funding opportunities.

**Exhibit 3** AUM Breakdown, Net of Consolidation Adjustments (CAD billions)



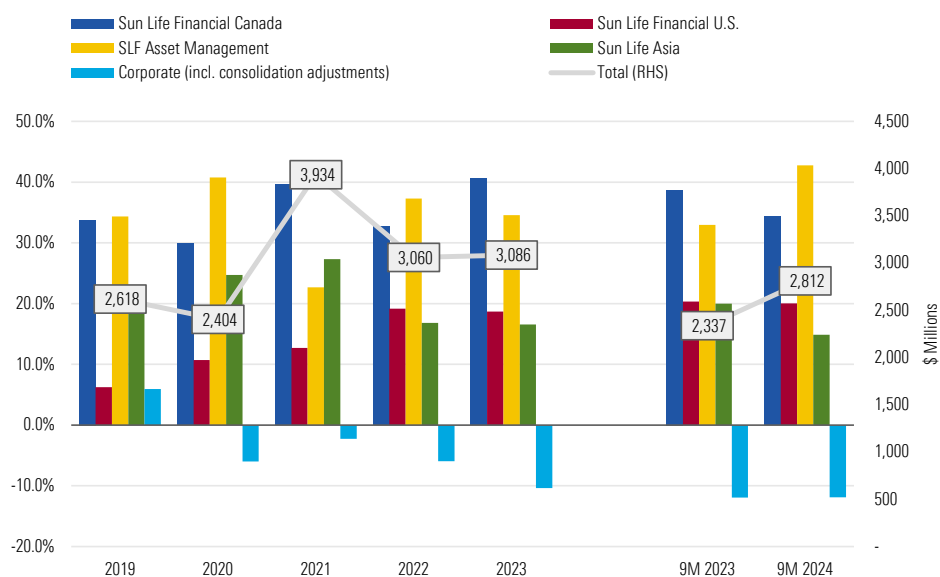
Note: Reporting follows IFRS 17 as of Q1 2023, while 2022 and prior year results are based on IFRS 4.  
Sources: Morningstar DBRS, Company documents.

**SLF U.S.:** Over the past several years, the Company has achieved significant profitable growth in the health insurance stop-loss segment and is the largest independent medical stop-loss provider in the U.S. SLF's group benefits business is composed of a complete suite of group products, including life and disability, medical stop-loss, dental and vision, and voluntary benefits. The growing stop-loss and the group benefits segments represent a significant portion of the U.S. segment earnings. The remainder of SLF's U.S. insurance operations comprise individual life insurance, including universal life. This block was placed in a runoff in 2011 but still contributes to earnings for the U.S. segment. SLF U.S. now manages the UK payout annuities business that was retained following the sale of SLF UK as part of the

In-Force Management segment. With the acquisition and integration of DentaQuest, SLF has created a leading U.S. dental business.

**SLF Asia:** SLF has a well trusted brand in Asia. The Company's Asian operations are bifurcated into eight strategically key markets as follows: Philippines, Indonesia, Vietnam, Hong Kong, India, China, Malaysia, and High-Net-Worth (HNW). SLF is a leader in Individual life insurance solutions for HNW clients outside the U.S. and Canada and in Asia. Overall, Asia represents an attractive growth market with good long-term earnings potential, especially considering North America's highly fragmented and competitive insurance and wealth management markets. The Company is expanding its footprint with growth in its distribution channels in nearly all regions. Asian life insurance sales are mainly driven by Hong Kong, India, and the Philippines with the other countries providing lower, but consistent, sales revenue. Aided by digital technology, the Company has a wide diversified distribution network in Asia consisting of agency (over 90 thousand advisors) channels, 26 bancassurance partnerships, and strong relationships with leading brokers, which are driving the HNW business. The Asian markets that SLF operates in have high growth potential with the Company expecting double digit sales growth across Asia. The Company enjoys market leadership in what it has identified as the Company's At-Scale-Businesses in Asia, namely Hong Kong, HNW, the Philippines, and India. SLF plans to accelerate growth in the Companies Scaling-Businesses which are the Indonesia, Vietnam, China, and Malaysia markets. The medium-term target is 15% plus underlying earnings growth per annum, and 15% plus underlying ROE for both at the At-Scale and Scaling Businesses.

**Exhibit 4** Summary of Operating Segments — Contribution to Shareholders' Net Income



Note: Reporting follows IFRS 17 as of Q1 2023, while 2022 and prior year results are based on IFRS 4.  
Sources: Morningstar DBRS, Company documents.

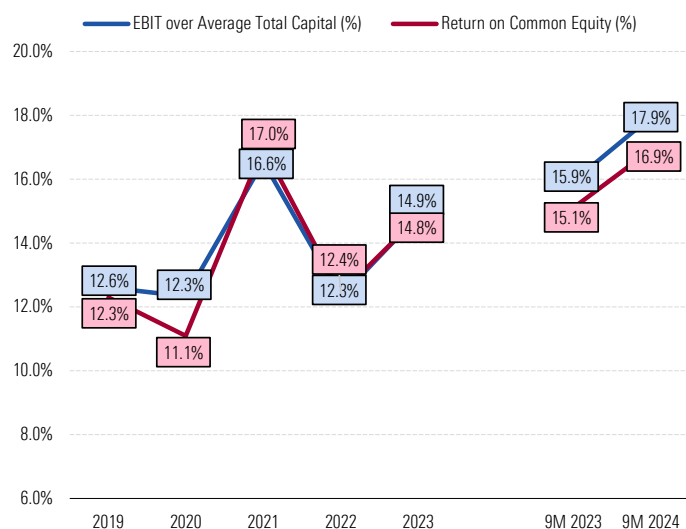
## Earnings Ability

### Grid Grade: Strong

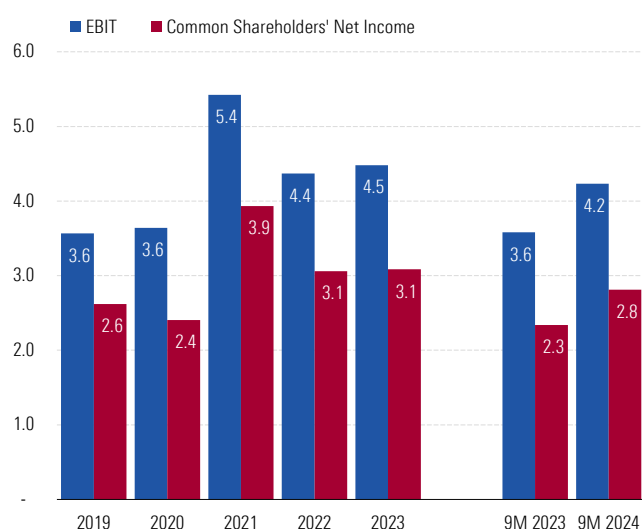
The Company continues to deliver solid earnings while maintaining strong capital and cash positions. SLF derives its strong earnings ability from its diversified but strategically complementary business segments. The Company's continued success on its four-pillar enterprise strategy has increased the diversity of earnings, positioning SLF well for consistent future growth, while maintaining resilient earnings stability. SLF is projecting continued growth in underlying net income from all the Company's major segments. Specifically, the Company expects the highest growth in underlying net income to be from SLC Management, Asia, and U.S. The Company's asset management segment is an important component in diversifying the Company's earnings from noninsurance business, generating about a third on average over the last three years (2020–23) of common shareholders' net income.

The asset management segment and the Canadian operations are expected to remain the larger net profit contributors in the near term, providing considerable earnings stability. Meanwhile, the contributions from SLF Asia and the U.S. businesses to common shareholders' net income have been consistently strong and steady. Overall, SLF generates a good return on equity with a three-year (ended 2023) weighted average of 14.5% (as calculated by us), which is higher than the Company's peers. The return on equity was 16.9% for Q3 2024 driven by strong financial performance across all of the Company's major business segments.

**Exhibit 5 Profitability Metrics**



**Exhibit 6 EBIT & Net Income Results (\$ billions)**



Note: Reporting follows IFRS 17 as of Q1 2023, while 2022 and prior year results are based on IFRS 4.  
Sources: Morningstar DBRS, Company documents.

SLF's asset management operations continue to perform very well, providing a source of steady fee income. We view SLF as being well positioned to take advantage of demographic trends through its suite of wealth and insurance products as the aging global population focuses on retirement and wealth-management needs.

SLF's U.S. net earnings and sales have been strong over several years. The trend has continued in 2024 with good net earnings driven by premium growth, favourable morbidity, and credit experience and higher investing activity. However, there have been some headwinds of recent in the U.S. dental business of DentaQuest because of Medicaid redeterminations following the end of the public health emergency program in the U.S in Q2 2023. In response, the Company has taken pricing and cost/expense management actions that are expected to preserve profitability and growth going forward.

Earnings contribution from SLF Asia has grown in the past few years as SLF increases scale in its chosen markets through consistent organic growth and disciplined merger and acquisition activity. Earnings in Asia depend largely on the strength of distribution channels with price competition of secondary importance as a driver of sales. Growth has been driven by the increasing volume of sales in nearly all markets. We expect returns on the Asian businesses to continue to improve steadily over time, which will translate into a higher contribution to SLF's total earnings as the Company's strategic investments in the region continue to yield positive results.

### **Risk Profile**

#### **Grid Grade: Strong/Good**

SLF's credit ratings benefit from the Company's comprehensive and well-developed risk management framework that ensures risk exposures are well understood and managed. Additionally, the Company's extensive hedging programs help to mitigate most of the volatility in earnings and regulatory ratios that may arise from adverse movements in equity markets or interest rates. Over time, SLF's product portfolio has shifted toward lower-risk and capital-light products.

SLF's highly developed risk management policies and procedures include adherence to risk limits and tolerances that put the Company in a good position to avoid writing businesses that may present undue risk, mitigate the risk that it does undertake, and identify areas of growth opportunities within its risk appetite. The Company continues to expand its market leadership in the defined benefit solutions pension market in Canada where it is executing large annuity and longevity transactions, which has SLA assuming more long-tail longevity risk. Some of this longevity risk can be offset with reinsurance programs. In the normal course of business SLF uses reinsurance to limit the Company's exposure to large losses. SLF has a retention policy that requires that such arrangements be placed with well-established highly rated reinsurers. The Company's exposure to equity-market and interest rate risks is tied to its product pricing and the performance guarantees embedded in many of its insurance and wealth management product liabilities, including variable universal life and segregated funds. Additionally, the Company is indirectly exposed to equity-market risk through its investments in asset management businesses, where management fees are tied to the market valuations of AUM.

The Company is focused on identifying and assuming risks only when these risks are consistent with SLF's earnings and capital risk targets. Risks are mitigated through product design, pricing, and hedging activities. SLF's business lines and products are tested for sensitivity to changes in interest rates and equity-price movements. Hedging is used as appropriate to maintain risks within tolerance limits. Product pricing and design are driven by extensive risk analysis. The product development process is



designed to mitigate risks exposures as much as possible while remaining competitive in the Company's chosen markets. SLF's risk assessments completed through the Company's key risk assessment process reflect a forward-looking view of risks across multiple time horizons. Specifically, the Company performs a separate evaluation of tail risks as part of the risk appetite process and the stress testing process. SLF uses Financial Condition Testing (FCT), as prescribed by the Canadian Institute of Actuaries to satisfy requirements under the Insurance Company Act (Canada) and the Office of The Superintendent of Financial Institutions Canada (OSFI) by stress testing selected adverse scenarios. The main objectives of the FCT are to identify possible threats to the Company's financial condition and the corrective management actions to mitigate those threats.

SLF's investment portfolio has generally been balanced across asset classes, except for a somewhat elevated exposure to lower-rated bonds in its bond portfolio. This exposure is partly mitigated by the Company's strong credit risk management approach to its privately placed bond holdings where it focuses on companies in stable industries and loans that have strong covenants. The general account assets are mainly investment grade; as of September 30, 2024, the bonds rated BBB and lower comprised approximately 25.0% (or \$20.5 billion) of the bond portfolio. The Company has invested in markets in which it has operations by purchasing sovereign BBB-rated debt under the rationale that it is investing the accumulating premiums generated from various regions locally.

SLF's invested assets portfolio has exposure to real estate through holdings of direct mortgages, asset-backed securities (including commercial mortgage-backed securities and residential mortgage-backed securities), and direct real estate holdings. However, a significant portion of SLF's mortgage portfolio is insured by the Canada Mortgage and Housing Corporation which mitigates SLF's credit risk exposure. The mortgage portfolio comprises entirely commercial mortgages. The Company's real estate holdings risk exposures to retail and the suburban office market are manageable. As at September 30, 2024, SLF's impaired mortgages and loans, net of allowances for losses, were \$31 million.

#### Exhibit 7: Fixed Income Portfolio

As at December 31 (IFRS)							
Bonds Rated (\$ Millions)	9M 2024	9M 2023	2023	2022	2021	2020	2019
AAA	17,293	13,582	15,226	15,262	18,105	17,604	17,727
AA	12,632	9,769	11,085	11,310	13,012	13,456	12,173
A	31,450	25,386	28,176	27,696	33,266	33,412	30,378
BBB	19,542	19,200	20,082	20,668	23,194	23,294	20,587
BB and Below	915	942	924	966	1,150	1,323	741
<b>Total Bonds</b>	<b>81,832</b>	<b>68,879</b>	<b>75,493</b>	<b>75,902</b>	<b>88,727</b>	<b>89,089</b>	<b>81,606</b>

As at December 31 (IFRS)							
Bonds Rated (%)	9M 2024	9M 2023	2023	2022	2021	2020	2019
AAA	21.1	19.7	20.2	20.1	20.4	19.8	21.7
AA	15.4	14.2	14.7	14.9	14.7	15.1	14.9
A	38.4	36.9	37.3	36.5	37.5	37.5	37.2
BBB	23.9	27.9	26.6	27.2	26.1	26.1	25.2
BB and Below	1.1	1.4	1.2	1.3	1.3	1.5	0.9
<b>Total Bonds</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Sources: Morningstar DBRS, Company documents.

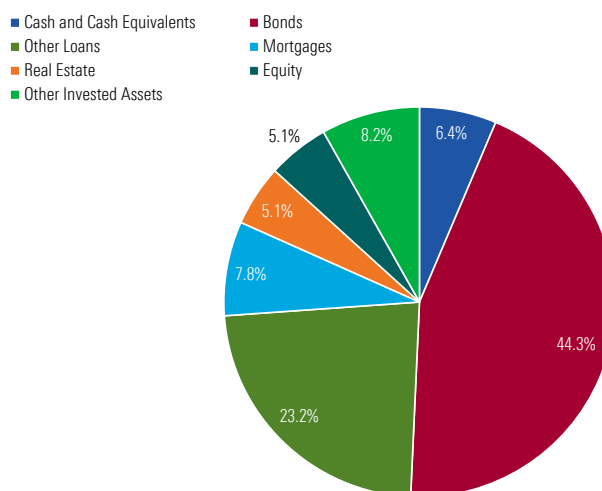
## Liquidity

### Grid Grade: Very Strong

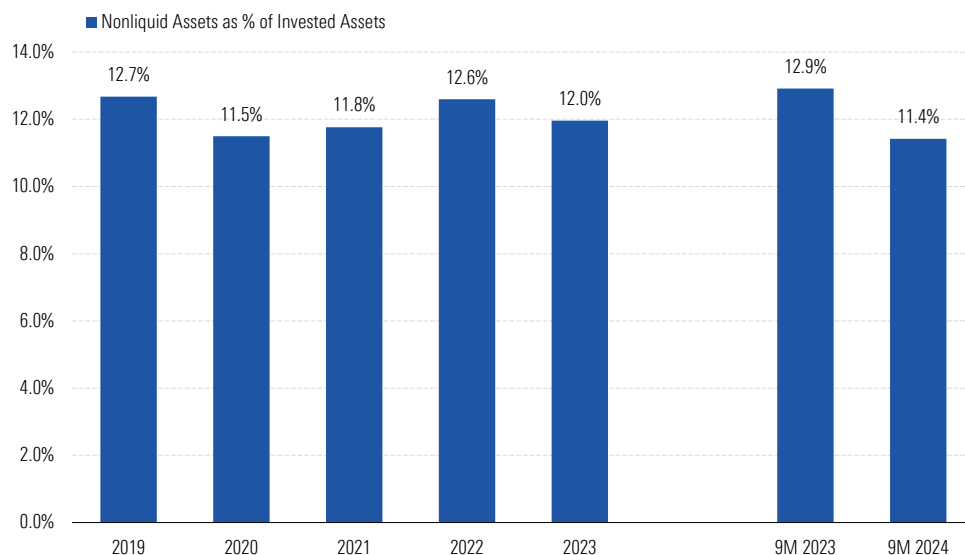
The Company's liquidity profile is supported by the significant amount of cash, cash equivalents, and short-term securities on SLF's balance sheet. The Company also has standby credit facilities, to meet financial obligations under adverse stress scenarios. SLF has sufficient resources to pay its near-term debt maturities without relying on raising additional debt to do so. The Company's investment portfolio comprises a high proportion of marketable bonds and equities with about 21.1% of its bond portfolio rated AAA as at September 30, 2024. The Company has a substantial amount of cash and other liquid assets held at SLF Inc. and its wholly owned holding companies which further supports its liquidity position (\$1.2 billion as of September 30, 2024). This also provides additional flexibility for capital deployment to support business growth.

Positively, the Company only has a limited amount of nonliquid assets in its investment portfolio. SLF's less-liquid assets consist of real estate holdings, below-investment-grade bonds, uninsured mortgages, private placements, alternative assets, and other financial invested assets, including the Company's investments in segregated funds, mutual funds, and limited partnerships. The proportion of less liquid assets in the investment portfolio compares favorably to its peers, which is a positive for the credit rating. The Company performs regular stress tests that assess the potential impact of various economic stressors, including adverse movements in equity markets and interest rates on earnings and regulatory ratios. SLF's claims profile is relatively predictable, with a very low probability of claims arising to a level that would cause a liquidity problem. Many of SLF's premium revenues are recurring, which provides a steady stream of cash flow. Some liquidity risk may arise from the the Company's hedging programs, which, while beneficial in managing interest rate, equity-market, and foreign-currency risks, may present some collateral posting requirements that can affect liquidity needs.

**Exhibit 8** Investment Portfolio Asset Class Mix as at September 30, 2024



Note: Reporting follows IFRS 17 as of Q1 2023, while 2022 and prior year results are based on IFRS 4.  
Sources: Morningstar DBRS, Company documents.

**Exhibit 9** Nonliquid Asset Concentration

Note: Reporting follows IFRS 17 as of Q1 2023, while 2022 and prior year results are based on IFRS 4.  
 Sources: Morningstar DBRS, Company documents.

**Capitalization****Grid Grade: Strong/Good**

SLF and its main operating insurance subsidiary, Sun Life Assurance Company (SLA), have consistently maintained appropriate regulatory capital ratios. With sizable buffers over regulatory targets under the Life Insurance Capital Adequacy Test (LICAT) framework. We view SLF's capitalization as very well positioned to navigate adverse scenarios. As of September 30, 2024, SLA's LICAT was 147%, and the LICAT ratio for SLF even higher at 152%. The strong LICAT ratios for both SLF and SLA was partly driven by the transition from IFRS 4 to IFRS 17. However, the Company's shift towards more capital light business, and consistent strong earnings generation have also contributed to SLF's capitalization level, supporting the Company's credit ratings and Stable trends. SLF's foreign subsidiaries are well capitalized to meet local regulatory capital rules of the jurisdictions where they operate. SLF's LICAT ratio is higher than its peers which is supportive of the Company's credit rating.

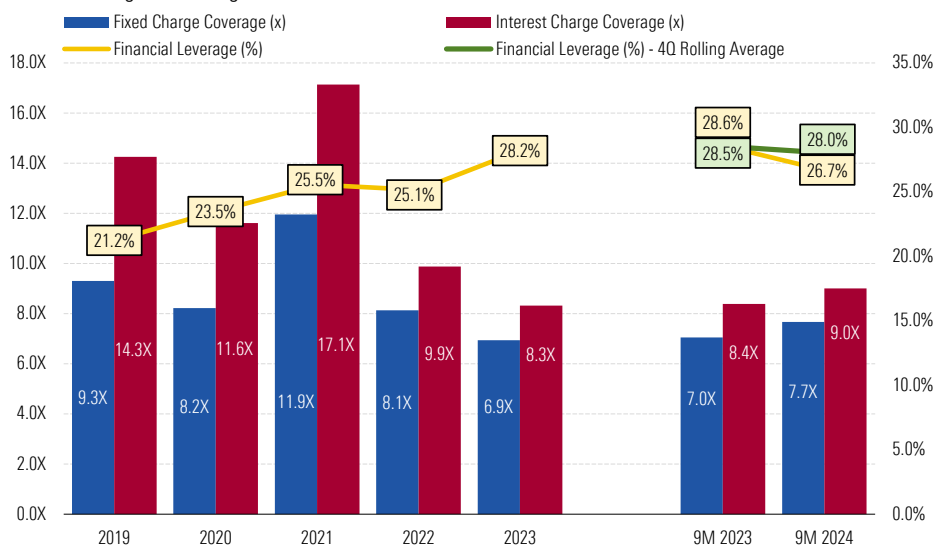
SLF's track record of strong capital generation supports the Company's capital deployment priorities which are as follows: Funding of organic growth, common share dividend increases, mergers and acquisitions and strategic investments, and, lastly, share buybacks. To further improve its capital position, SLF has also taken actions to de-risk its businesses in recent years, which include selling or placing into runoff some of its capital-intensive businesses, implementing hedging programs, and focusing on growth in less capital-intensive products. The Company's ongoing focus on a capital-light business mix supports its strong capital position.

We do not include the contractual service margin as part of total capital for the calculation of leverage. SLF's financial leverage ratio (including preferred shares and hybrids) as calculated by us under IFRS 17,

was 28% based on the four-quarter rolling average as at September 30, 2024. The Company has sound capital management capabilities, demonstrated by well-staggered debt maturities, and significant financial flexibility. SLF's leverage position remains conservative and has been consistently below its peers supporting our view that the Company has strong financial flexibility.

Earnings stability and stable debt levels have contributed to the Company's good fixed-charge coverage ratios in the last three years. SLF has a three-year weighted-average fixed-charge coverage ratio of 8.3 times (x) from year-end (YE) 2021 to YE2023. The fixed-charge coverage ratio was slightly higher as at September 30, 2024, at 7.7x compared with 7.0x for the same period in the prior year.

**Exhibit 10 Leverage & Coverage\***



\* Morningstar DBRS has recalculated the fixed-charge coverage ratio using the recalculated EBIT to only include the coupon interest on outstanding capital debt and dividends paid on preferred shares.

Note: Reporting follows IFRS 17 as of Q1 2023, while 2022 and prior year results are based on IFRS 4.

Sources: Morningstar DBRS, Company documents.

## Capitalization

	As at December 31						
(CAD millions)	9M 2024	9M 2023	2023	2022	2021	2020	2019
<b>Regulatory Capital Strength</b>							
<b>(Sun Life Assurance)</b>							
Required Capital	22,663	21,088	21,538	23,491	23,960	22,265	19,849
Available Capital — Tier 1	19,830	17,453	17,879	15,527	14,011	12,652	11,274
Available Capital — Tier 2	6,954	6,369	6,483	5,243	5,425	5,156	5,242
Total Available Capital	33,344	29,180	30,243	29,907	29,819	28,383	25,875
LICAT/MCCSR Ratio (SLA) (%)	147.0	138.0	141.0	127.3	124.5	127.5	130.4
LICAT/MCCSR Ratio (SLF) (%)	152.0	147.0	149.0	130.0	145.0	147.0	143.0
<b>Leverage (SLF)</b>							
Total Capital	32,305	30,144	30,578	36,253	34,698	30,843	28,246
Financial Leverage (%)	26.7	28.6	28.2	25.1	25.5	23.5	21.2
Financial Leverage Ratio (%) — 4Q Rolling Average	28.0	28.5	26.8	25.8	23.8	22.2	21.4

Intangibles/Common Equity (%)	61.7	67.2	66.3	53.3	41.1	38.5	37.4
Tangible Common Equity/Total Capital (%)	27.3	22.8	23.5	32.5	40.9	44.3	46.8

**Protection Ratios**

Quality Assets/Noncapital Liabilities (%)	43.7	41.2	43.2	45.3	51.1	53.3	52.8
Total Capital/Riskier Assets (%)	67.2	68.2	68.3	77.1	75.6	77.3	77.2

MCCSR = Minimum Continuing Capital and Surplus Requirements

Note: Reporting follows IFRS 17 as of Q1 2023, while 2022 and prior year results are based on IFRS 4.

Sources: OSFI Reports, Morningstar DBRS and Company documents.

**Sun Life Financial Inc.**  
**ESG Checklist**

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis: Y/N	Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*	
<b>Environmental</b>		<b>Overall:</b>	<b>N N</b>
<b>Emissions, Effluents, and Waste</b>	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuer's financial, operational, and/or reputational standing?	N	N
<b>Carbon and GHG Costs</b>	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long-term credit profile?	N	N
<b>Land Impact and Biodiversity</b>	Is there a financial risk to the issuer due to the loss of biodiversity and/or the mitigation of such loss, including land conversion and rehabilitation?	N	N
<b>Climate and Weather Risks</b>	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N
	In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by physical and/or transition risks under key IPCC climate scenarios?	N	N
<b>Climate and Weather Risks:</b>		N	N
<b>Passed-through Environmental credit considerations</b>	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N
<b>Social</b>		<b>Overall:</b>	<b>N N</b>
<b>Social Impact of Products and Services</b>	Do we consider that the social impact of the issuer's products and services pose a financial or regulatory risk to the issuer?	N	N
	Do changes in consumer behaviour or secular social trends pose a financial or regulatory risk to the issuer?	N	N
<b>Social Impact of Products and Services:</b>		N	N
<b>Human Capital and Human Rights</b>	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts, that could result in a material financial or operational impact?	N	N
	Do violations of rights create a potential liability that can negatively affect the issuer's financial wellbeing or reputation?	N	N
<b>Human Capital and Human Rights:</b>		N	N
<b>Product Governance</b>	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N
<b>Data Privacy and Security</b>	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	N	N
<b>Community Relations</b>	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N
<b>Access to Basic Services</b>	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	N	N
<b>Passed-through Social credit considerations</b>	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N
<b>Governance</b>		<b>Overall:</b>	<b>N N</b>
<b>Bribery, Corruption, and Political Risks</b>	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N
	Are there any political risks that could affect the issuer's financial position or its reputation?	N	N
<b>Bribery, Corruption, and Political Risks:</b>		N	N
<b>Business Ethics</b>	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N
<b>Corporate / Transaction Governance</b>	Does the issuer's corporate structure allow for appropriate board and audit independence?	N	N
	Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	N	N
	Does the board and/or management lack a formal framework to assess climate related financial risks to the issuer?	N	N
<b>Corporate / Transaction Governance:</b>		N	N
<b>Passed-through Governance credit considerations</b>	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	N	N
<b>Consolidated ESG Criteria Output:</b>		N	N

\* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.

A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

**Environmental, Social and Governance (ESG) Considerations****Environmental**

This factor does not affect the credit ratings or trend assigned to SLF. The Company does not directly sell any products that contribute to carbon or Green House Gas emissions. Any material impact from exposure to climate and weather risks is expected to be indirect in nature, primarily through the Company's investment portfolio. Integration of climate risk management across the enterprise is being implemented through various initiatives outlined in the Company's Sustainability report.

**Social**

Product governance and data privacy and security are important considerations for the Company. However, these factors did not have an impact on the assigned credit ratings or trends for SLF. The Company has not reported cases where it has been exposed to product governance or data privacy and security-related issues. However, shortcomings associated with these factors (should they manifest in the future) could damage SLF's reputation and its risk profile, potentially leading to future expenses, particularly given SLF's exposure to sensitive client information.

**Governance**

This factor does not affect the credit ratings or trends assigned to the Company. There have been no reported cases of failures in corporate governance. SLF has various board committees with complementary roles and responsibilities. These committees provide independent corporate governance and risk management (including climate risk) oversight to the executive leadership. The board of directors consists of 13 individuals including the chief executive officer (CEO). All directors are independent except for the CEO. The Company has adopted the three lines of defense model for managing corporate risk.





Common Shareholders' Equity	22,989	20,984	21,343	25,211	24,075	22,212	21,141
<b>Total Equity</b>	<b>25,928</b>	<b>23,767</b>	<b>24,200</b>	<b>29,377</b>	<b>28,073</b>	<b>25,862</b>	<b>24,508</b>
<b>Total Liabilities and Equity</b>	<b>361,252</b>	<b>313,846</b>	<b>333,241</b>	<b>330,906</b>	<b>345,370</b>	<b>323,011</b>	<b>297,202</b>

Sources: Morningstar DBRS, Company documents.

**Sun Life Financial Inc.**  
**Income Statement (As Reported)**

	For the Year Ended December 31 (IFRS)				
(\$ millions)	2022	2021	2020	2019	2018
Premiums—Life Insurance	11,395	10,925	11,812	9,470	8,677
Premiums—Health Insurance	13,820	10,664	10,649	9,908	9,121
Premiums—Annuities	3,945	3,917	3,729	3,302	3,183
<b>Gross Premiums</b>	<b>29,160</b>	<b>25,506</b>	<b>26,190</b>	<b>22,680</b>	<b>20,981</b>
Ceded Premiums	(2,297)	(2,453)	(2,452)	(2,392)	(2,339)
<b>Net Premiums</b>	<b>26,863</b>	<b>23,053</b>	<b>23,738</b>	<b>20,288</b>	<b>18,642</b>
Net Investment Income (Loss)		4,633	12,718	13,140	2,389
	(11,587)				
Fee Income	8,046	8,002	6,881	6,251	5,966
<b>Total Revenue</b>	<b>23,322</b>	<b>35,688</b>	<b>43,337</b>	<b>39,679</b>	<b>26,997</b>
Gross Claims & Benefits Paid	22,044	18,722	18,307	17,421	15,986
Change in Investment/Insurance Contract Liabilities & Reinsurance Assets		2,150	13,300	10,967	70
	(13,314)				
Operating Expenses, Commissions, and Other Expenses	12,364	11,817	10,441	10,189	9,451
Interest Expense	445	327	355	-	-
Reinsurance Expenses (Recoveries)	(2,140)	(2,425)	(2,353)	(2,131)	(2,021)
<b>Total Policy Benefits and Expenses</b>	<b>19,399</b>	<b>30,591</b>	<b>40,050</b>	<b>36,446</b>	<b>23,486</b>
<b>Income (Loss) Before Income Taxes</b>	<b>3,923</b>	<b>5,097</b>	<b>3,287</b>	<b>3,233</b>	<b>3,511</b>
Income Tax Expense (Benefit)	621	727	495	286	597
Participating Policyholders' Net Income (Loss) and Noncontrolling Interest	172	335	294	234	298
Preferred Shareholder Dividends	70	101	94	95	94
<b>Common Shareholders' Reported Net Income (Loss)</b>	<b>3,060</b>	<b>3,934</b>	<b>2,404</b>	<b>2,618</b>	<b>2,522</b>

Sources: Morningstar DBRS, Company documents.

**Income Statement (IFRS17)**

	For the Year Ended December 31 (IFRS 17)		
(\$ millions)	9M 2024	9M 2023	2023
<b>Insurance service result</b>			
Insurance revenue	16,758	15,898	21,356
Insurance service expenses	(14,575)	(13,647)	(18,450)
Reinsurance contract held net income (expenses)	84	(76)	(69)
<b>Net insurance service result</b>	<b>2,267</b>	<b>2,175</b>	<b>2,837</b>
<b>Net investment result</b>			
Investment result excluding result for account of segregated fund holders:			
Net investment income (loss)	8,135	425	11,586
Insurance finance income (expenses) from insurance contracts issued	(6,188)	1,307	(9,675)
Insurance finance income (expenses) from reinsurance contracts held	117	(119)	59
Decrease (increase) in investment contract liabilities	(301)	(235)	(331)
<b>Net investment result excluding result for account of segregated fund holders</b>	<b>1,763</b>	<b>1,378</b>	<b>1,639</b>
Investment income (loss) on investments for account of segregated fund holders	2,343	684	1,793
Insurance finance income (expenses)	(2,343)	(684)	(1,793)
Net investment result for insurance contracts for account of segregated fund holders	-	-	-
<b>Net investment result</b>	<b>1,763</b>	<b>1,378</b>	<b>1,639</b>
Fee income	6,231	5,767	7,832
Other expenses (income)	-	-	-
Other income	(161)	(169)	(169)
Operating expenses and commissions	6,190	5,909	7,995
Interest expenses	482	437	552
<b>Total other expenses (income)</b>	<b>6,511</b>	<b>6,177</b>	<b>8,378</b>
<b>Income (loss) before income taxes</b>	<b>3,750</b>	<b>3,143</b>	<b>3,930</b>
Income tax expense (benefit)	668	548	461
Net income (loss) allocated to participating account	157	121	178
Net income attributable to noncontrolling interest	53	78	126
Preferred shareholder dividends	60	59	79
<b>Common shareholders' reported net income (loss)</b>	<b>2,812</b>	<b>2,337</b>	<b>3,086</b>

Sources: Morningstar DBRS, Company documents.

**Peer Group Comparison — F2023**

	<b>Sun Life Financial Inc.</b>	<b>Manulife Financial Corporation</b>	<b>Great-West Lifeco Inc.</b>	<b>iA Financial Corporation Inc.</b>
Operating Company Financial Strength Rating	AA	AA	AA	AA (low)
Holding Company Issuer Rating	A (high)	A (high)	A (high)	A
Trend	Stable	Stable	Stable	Stable
Period Ended	12/31/2023	12/31/2023	12/31/2023	12/31/2023
<b>Financial Data (\$ millions)</b>				
Net Income to Common Shareholders	3,086	4,800	2,738	769
Net Premium Income	NA	NA	NA	NA
Fee Income & Other Revenue	7,832	6,746	5,874	1,507
Total Assets	333,241	875,574	713,230	93,846
AUM	1,399,605	1,206,715	1,095,374	110,535
Assets Under Administration (Only)	99,350	182,046	1,757,166	108,349
Total Common Equity	21,343	40,379	22,616	6,663
Total Equity	24,200	48,727	29,851	7,038
Total Capital	30,578	61,465	38,897	8,537
<b>Earnings Ability Ratios (%)</b>				
Return on Common Equity (Leveraged Returns)	14.8	11.9	11.6	11.6
Return on Common Equity (Leveraged Returns) (Three-Year WA)	14.5	12.9	12.6	12.1
EBIT/Total Capitalization	14.9	11.4	8.2	12.4
EBIT/Total Capitalization (Three-Year WA)	14.4	12.2	9.4	12.7
<b>Liquidity Ratios (%)</b>				
Nonliquid Asset Concentration	12.0	15.3	19.9	5.3
<b>Capitalization &amp; Asset Quality Ratios (%)</b>				
LICAT/CARLI	149.0	137.0	128.0	139.0
Intangibles & Goodwill/Common Equity	66.3	25.5	69.6	47.5
Tangible Common Equity/Total Capital	23.5	48.9	17.7	41.0
Par Capital/Par Liabilities	NA	NA	5.1	NA
Tangible Nonpar Capital/Nonpar Liabilities	NA	NA	12.7	14.4
Financial Leverage	28.2	31.6	34.1	22.0
Financial Leverage — 4Q Rolling Average	29.3	32.0	35.3	22.8
Fixed-Charge Coverage (Current Period; x)	6.9	8.2	5.6	11.4
Fixed-Charge Coverage (Three-Year WA; x)	8.3	10.1	6.6	10.3
Interest Charge Coverage (Current Period; x)	8.3	13.9	7.9	16.2
Interest Charge Coverage (Three-Year WA; x)	10.5	16.8	9.7	14.4
Quality Assets/Noncapital Liabilities	43.2	42.7	48.2	59.4
Total Capital/Riskier Assets	68.3	42.5	55.8	86.8
BBB and Lower Bonds/Total Bonds (Including Private Placements)	27.8	29.3	29.6	26.7

WA = weighted average.

CARLI = Capital Adequacy Requirements Guideline

Sources: Morningstar DBRS, Company documents.

**Peer Group Comparison – 9M 2024**

	Sun Life Financial Inc.	Manulife Financial Corporation	Great-West Lifeco Inc.	iA Financial Corporation Inc.
Operating Company Financial Strength Rating	AA	AA	AA	AA (low)
Holding Company Issuer Rating	A (high)	A (high)	A (high)	A
Trend	Stable	Stable	Stable	Stable
Period Ended	9/30/2024	9/30/2024	9/30/2024	9/30/2024

**Financial Data (\$ millions)**

Net Income to Common Shareholders	2,812	3,537	2,824	722
Fee Income & Other Revenue	6,231	5,585	5,272	1,273
Total Assets	361,252	952,630	779,741	105,720
AUM	1,514,570	1,339,858	1,004,183	124,050
Assets Under Administration (Only)	71,001	211,617	2,106,101	125,682
Total Common Equity	22,989	42,913	24,003	6,726
Total Equity	25,928	51,639	31,311	7,326
Total Capital	32,305	64,861	40,423	8,822

**Earnings Ability Ratios (%)**

Return on Common Equity (Leveraged Returns)	16.9	11.3	16.2	14.4
EBIT/Total Capitalization	17.9	11.3	12.8	15.5

**Liquidity Ratios (%)**

Nonliquid Asset Concentration	11.4	15.2	19.9	4.9
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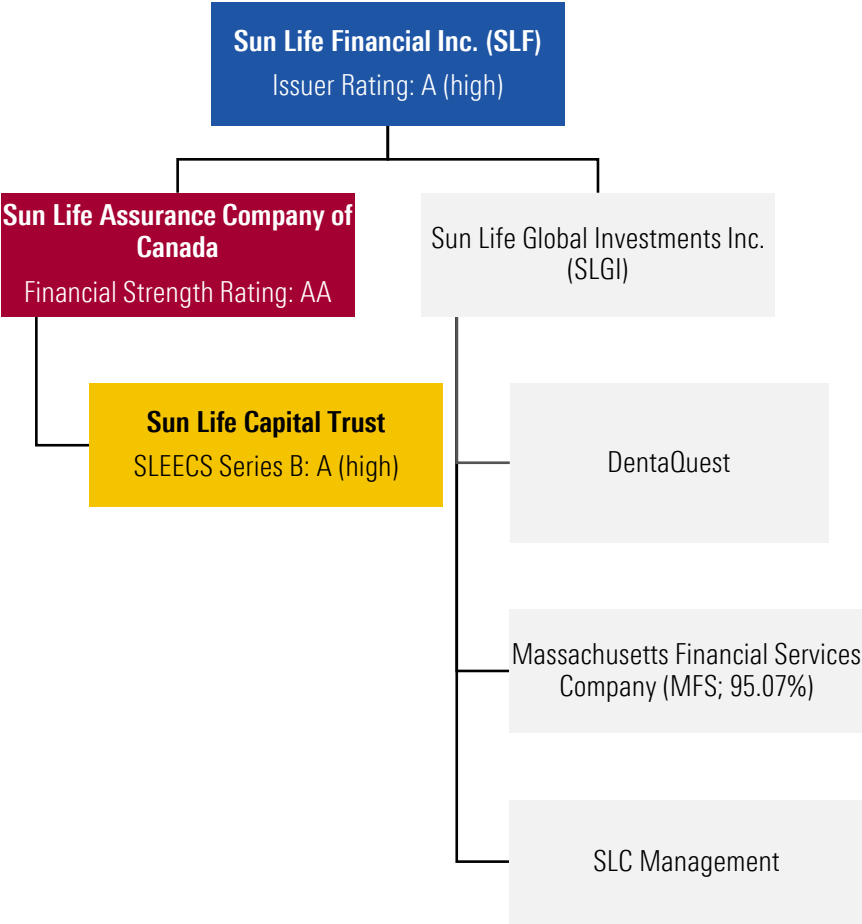
**Capitalization & Asset Quality Ratios (%)**

LICAT/CARLI	152.0	137.0	134.0	135.8
Intangibles & Goodwill/Common Equity	61.7	25.0	66.5	50.1
Tangible Common Equity/Total Capital	27.3	49.6	19.9	38.1
Financial Leverage	26.7	30.7	33.0	23.8
Fixed-Charge Coverage (Current Period; x)	7.7	8.4	8.8	14.2
Interest Charge Coverage (Current Period; x)	9.0	13.7	12.8	19.5
Quality Assets/Noncapital Liabilities	43.7	39.9	48.3	56.5
Total Capital/Riskier Assets	67.2	41.8	53.9	87.5
BBB and Lower Bonds/Total Bonds (Including Private Placements)	25.0	29.8	30.4	29.3

CARLI = Capital Adequacy Requirements Guideline

Sources: Morningstar DBRS, Company documents.

Simplified Corporation Organization Chart



Sources: Company documents; Morningstar DBRS.

### Credit Rating Methodology

The applicable methodologies are *Global Methodology for Rating Insurance Companies and Insurance Organizations* (September 10, 2024) and *Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* (August 13, 2024), which can be found on [dbrs.morningstar.com](https://dbrs.morningstar.com) under Methodologies & Criteria.

### Credit Ratings

Issuer	Obligation	Credit Rating Action	Credit Rating	Trend
Sun Life Assurance Company of Canada	Financial Strength Rating	Confirmed	AA	Stable
Sun Life Assurance Company of Canada	Issuer Rating	Confirmed	AA	Stable
Sun Life Assurance Company of Canada	Subordinated Debt	Confirmed	AA (low)	Stable
Sun Life Capital Trust	SLEECs Series B	Confirmed	A (high)	Stable
Sun Life Financial Inc.	Issuer Rating	Confirmed	A (high)	Stable
Sun Life Financial Inc.	Senior Unsecured Debentures	Confirmed	A (high)	Stable
Sun Life Financial Inc.	Subordinated Unsecured Debentures	Confirmed	A	Stable
Sun Life Financial Inc.	Limited Recourse Capital Notes	Confirmed	A (low)	Stable
Sun Life Financial Inc.	Preferred Shares	Confirmed	Pfd-2 (high)	Stable

Source: Morningstar DBRS.

### Credit Rating History

Issuer	Obligation	Current	2023	2022	2021
Sun Life Assurance Company of Canada	Financial Strength Rating	AA	AA	AA	AA
Sun Life Assurance Company of Canada	Issuer Rating	AA	AA	AA	AA
Sun Life Assurance Company of Canada	Subordinated Debt	AA (low)	AA (low)	AA (low)	AA (low)
Sun Life Capital Trust	SLEECs Series B	A (high)	A (high)	A (high)	A (high)
Sun Life Capital Trust II	SLEECs Series 2009-1	Discontinued	Discontinued	Discontinued	Discontinued
Sun Life Financial Inc.	Issuer Rating	A (high)	A (high)	A (high)	A (high)
Sun Life Financial Inc.	Senior Unsecured Debentures	A (high)	A (high)	A (high)	A (high)
Sun Life Financial Inc.	Subordinated Unsecured Debentures	A	A	A	A
Sun Life Financial Inc.	Limited Recourse Capital Notes	A (low)	A (low)	A (low)	A (low)
Sun Life Financial Inc.	Preferred Shares	Pfd-2 (high)	Pfd-2 (high)	Pfd-2 (high)	Pfd-2 (high)

Source: Morningstar DBRS.

### Previous Actions

- ["DBRS Morningstar Confirms Sun Life Financial Inc. at A \(high\) and Sun Life Assurance Company of Canada at AA, Stable Trends," October 24, 2023.](#)
- ["DBRS Morningstar Confirms Sun Life Financial Inc. at A \(high\) and Sun Life Assurance Company of Canada at AA, Stable Trends," October 27, 2022.](#)
- ["DBRS Morningstar Confirms Sun Life Financial Inc. at A \(high\) and Sun Life Assurance Company of Canada at AA, Stable Trends," October 29, 2021.](#)
- ["DBRS Morningstar Confirms Sun Life Financial Inc.'s Issuer Rating at A \(high\), Stable Trend, Following DentaQuest Acquisition Announcement," October 4, 2021.](#)
- ["DBRS Morningstar Finalizes Provisional Rating of A \(low\), Stable Trend, on Sun Life Financial Inc.'s Limited Recourse Capital Notes," June 25, 2021.](#)
- ["DBRS Morningstar Confirms Sun Life Financial Inc. at A \(high\) and Sun Life Assurance at AA; Stable Trends," October 15, 2020.](#)
- ["DBRS Morningstar Upgrades Sun Life Financial Inc. to A \(high\) and Sun Life Assurance to AA," October 16, 2019.](#)

### Related Research

- [Surplus Notes Remain an Attractive Source of Statutory Capital For U.S. Insurers](#), September 04, 2024.
- [Canadian Life Insurers Perform Well in H1 2024, Brush Off Impact of Weaker Real Estate Market](#), August 29, 2024
- [Liquidity Risk Under Scrutiny as Insurers Embrace Private Credit](#), May 30, 2024.
- [New Weight Loss Drugs Expensive For Insurers to Cover, But May Help Address Costs of Obesity](#), April 09, 2024.
- [Large Canadian Life Insurers' CRE Exposure Poses a Threat to Their Otherwise Positive Operating Environment](#), March 21, 2024.
- [Heightened Regulatory Risks for Life Insurers Focusing on Alternative Investments and Asset-Intensive Reinsurance](#), February 15, 2024
- [Canadian Insurers See Lower Debt Issuance in 2023, But Outlook Remains Broadly Stable for 2024](#), February 05, 2024

### Previous Reports

- [Sun Life Financial Inc.: Rating Report](#), November 27, 2023
- [Sun Life Financial Inc. & Related Entities: Rating Report](#), November 21, 2022.
- [Sun Life Financial Inc. & Related Entities: Rating Report](#), November 11, 2021.
- [Sun Life Financial Inc.: Rating Report](#), October 29, 2020.
- [Sun Life Financial Inc. and Affiliates: Rating Report](#), October 24, 2019.
- [Sun Life Financial Inc. and Affiliates: Rating Report](#), December 18, 2018.

#### Notes:

All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on [www.dbrsmorningstar.com](http://www.dbrsmorningstar.com).

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

### About Morningstar DBRS

Morningstar DBRS is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

Morningstar DBRS is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why Morningstar DBRS is the next generation of credit ratings.

Learn more at [dbrs.morningstar.com](https://dbrs.morningstar.com).



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