



# Understanding the Drivers of Earnings (DOE)

Key terms, definitions, and characteristics to aid in the interpretation of Sun Life's DOE



## The Drivers of Earnings (DOE)

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 DOE is presented on a reported and underlying common shareholders' basis. Within the net insurance service result, the underlying DOE provides detail on expected insurance earnings, impact of new insurance business and experience gains (losses). Within the net investment result, the underlying DOE provides detail on expected investment earnings, credit experience, earnings on surplus, and joint ventures & other.

Certain amounts in the DOE are presented on a net basis to reflect how the business is managed, compared to a gross basis in the Consolidated Financial Statements. Examples include: i) Net investment result and Other expenses of the Asset Management operating segment are combined with Fee Income to report the net contribution to earnings; ii) Income for fee-based businesses is reported net of the associated expenses; iii) Carried interest in SLC Management within Fee Income excludes the carried interest that Sun Life does not participate in economically, and nets the non-controlling interest portion of the carried interest against fee income and expenses of consolidated funds; iv) Net investment results include assets returns net of the crediting rate for investment contract liabilities and the unwinding of and changes in the discount rate for insurance contract liabilities; v) Earnings on surplus reflects net spread earned from investment strategies; and vi) Earnings attributable to the participating account are excluded.

For more information, refer to the "Earnings on surplus" and "Experience-related items attributable to reported net income and underlying net income" headings within the Non-IFRS Financial Measures, 2. Underlying Net Income and Underlying EPS section of the Company's [MD&A within the Shareholders' Report](#).

To view the full DOE, refer to the "Drivers of Earnings" section in the [Supplementary financial information](#).

# Understanding the DOE

DOE	Description	Characteristics <sup>(1)</sup>
<b>Risk adjustment release</b>	<p>Release of insurance risk margins into profit</p> <p>Risk adjustment release for Group – Health &amp; Protection is presented in the 'Expected earnings on short-term (group) insurance business' line</p>	<p>Stable and predictable period to period and grows with underlying business</p> <p>Risk adjustment release is not impacted by quarterly changes in discount rates</p>
<b>CSM recognized for services provided</b>	<p>Earned profit for the period released from the CSM</p>	<p>Stable and predictable period to period and grows with underlying business</p> <p>CSM balance will mostly be impacted by new business, insurance experience and market movements for some contracts</p> <p>8-10% of CSM balance recognized in shareholder net income annually</p>
<b>Expected earnings on short-term (group) insurance business</b>	<p>Group – Health &amp; Protection profits recognized over a short coverage period</p> <p>Excludes Administrative Services Only ("ASO") business, presented in the 'Other fee income' line</p>	<p>Grows with in-force premiums, new sales and underwriting margins</p>
<b>Expected insurance earnings</b>	<p>Represents 'onerous' new business for the period</p>	<p>We do not expect a significant amount of onerous contracts <sup>(2)</sup></p>
<b>Impact of new insurance business</b>	<p>An onerous contract does not necessarily mean it is unprofitable business</p> <p>Onerous contracts do not account for the following sources of profitability</p> <ul style="list-style-type: none"> <li>• Risk adjustment</li> <li>• Full benefit of reinsurance</li> <li>• Asset returns in excess of discount rates</li> </ul>	<p>We do not expect a significant amount of onerous contracts <sup>(2)</sup></p>
<b>Experience gains (losses)</b>	<p>Reflects actual vs. expected claims and expense cash flows (not reserves) for the current period, plus</p> <p>The impact to future cash flows (reserves) that do not adjust the CSM (e.g., Group – Health &amp; Protection businesses)</p>	<p>Mortality; Mostly Group and Individual – Protection experience. The majority of annuity experience (presented in Asset Management &amp; wealth) changes future cash flows that adjust the CSM</p> <p>Morbidity; Reflects both Group - Health and Individual – Protection experience</p> <p>Lapse and policyholder behaviour; not significant as experience changes future cash flows that adjust the CSM</p>
<b>ACMA (Non-financial)</b>	<p>Impact of change in assumptions that do not adjust the CSM (e.g., Group – Health &amp; Protection businesses)</p>	<p>Expenses; gain/loss related to maintenance expenses on insurance contracts</p> <p>Periodic, experience dependent</p> <p>Majority of ACMA are recorded annually in Q3</p>
<b>Total net insurance service result</b>		

<sup>(1)</sup> May not include all factors that can impact this line.

<sup>(2)</sup> Assuming stable macro-economic environment.

# Understanding the DOE, continued

DOE	Description	Characteristics <sup>(1)</sup>
<b>Expected investment earnings</b>	<p>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</p> <p>The weighted average expected return for non-fixed income assets is approximately 2% per quarter, including:</p> <ul style="list-style-type: none"> <li>• Equity investments (including derivatives) supporting insurance contracts; and</li> <li>• Investment properties supporting insurance contracts</li> </ul>	Grows with underlying business; may experience modest volatility period to period from changes in interest rates and investment actions
<b>Market-related impacts</b>	<p>Investment experience reflects variance between long-term expected returns and actual returns in the period</p> <p>Impact of period-to-period market fluctuations on assets and liabilities; expected to largely offset over the long-term</p> <p>Includes net equity and net fixed income impacts, impact of changes in the fair value of investment properties, and other market-related experience</p>	See market risk sensitivities in the MD&A for details
<b>Credit experience</b>	<p>Impact of ratings changes, and impairments (net of recoveries) on FVTPL assets</p> <p>Includes changes in expected credit loss provisions on FVOCI assets</p> <p>Expected credit is reflected in the 'Expected investment earnings' line</p>	Impacted by macro-economic environment and business fundamentals
<b>ACMA (Financial)</b>	<p>Primarily related to updates to economic assumptions for measuring liabilities (e.g., discount rates and cost of guarantees). Excludes pass through products where the CSM is sufficient</p> <p>Difference between changes in present value of future cash flows at locked-in and current rates for non-financial ACMA (for non-pass through products)</p>	<p>Periodic, experience dependent</p> <p>Majority of ACMA are recorded annually in Q3</p>
<b>Earnings on surplus</b>	Core investment income on surplus assets (i.e. coupons, dividends) and realized gains/losses	<p>Grows with surplus balance</p> <p>Core investment income will be impacted by yield/spread movement over time</p>
<b>Joint ventures &amp; other</b>	<p>Joint venture earnings from India, Malaysia and China</p> <p>Other includes various smaller investment-related items that may arise from period to period</p>	Grows with underlying business
<b>Total net investment result</b>		
<b>Other fee income</b>	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	Level of earnings will trend with assets under management for Wealth and premiums for ASO
<b>Expenses – other</b>	Non-directly attributable contract expenses, corporate expenses, strategic initiatives and financing charges	
<b>Asset management</b>	Represents pre-tax earnings (net of expenses) for MFS and SLC Management	Level of earnings will trend with AUM / fee-earning assets under management
<b>Income tax (expense) or recovery</b>		
<b>Dividends, distributions, NCI</b>		
<b>Common shareholders' net income (loss)</b>		

<sup>(1)</sup> May not include all factors that can impact this line.