Basel II, Pillar 3 Disclosures

FOR SUN LIFE FINANCIAL TRUST INC.

Introduction

Basel II is an international framework on capital that applies to deposit taking institutions in many countries, including Canada. The framework is intended to strengthen the capital adequacy of financial institutions through measurement and monitoring of risk sensitive capital requirements.

The Basel II Framework is made up of three pillars:

PILLAR 1 establishes rules for the calculation of minimum capital for credit, market and operational risk (capital adequacy requirements).

PILLAR 2 is an internal discipline to evaluate the adequacy of the regulatory capital requirement under Pillar 1 and other non-Pillar 1 risks. This pillar requires a supervisory review to assess the robustness of the regulated entity's internal assessment (supervisory review) by the Office of the Superintendent of Financial Institutions (OSFI).

PILLAR 3 complements the other pillars and affects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to better understand the risk profile of the individual deposit taking institution and to make comparisons (market discipline).

Capital Structure and Adequacy

Amount & types of Tier 1 capital:

The regulatory capital position of Sun Life Financial Trust Inc., referred to as the "Company" or SLFT was as follows:

	2022	2021
Regulatory capital		
Tier 1 and Total		
Common stock	$ 98,561	$ 98,561
Contributed surplus	38,050	38,050
Accumulated earnings (deficit)	(32,902)	(39,021)
Accumulated other comprehensive income	(5,168)	1,426
ECL Transitional Arrangement	-	10
Total Tier 1 and Total capital	**$ 98,542**	**$ 99,026**
Risk-weighted assets for		
Credit risk	$ 396,677	$ 431,389
Operational risk	28,450	29,850
Total risk-weighted assets	**$ 425,127**	**$ 461,239**
Regulatory ratios		
Tier 1 and Total	23.18%	21.47%
Tier 1 and Total (excluding ECL Transitional Arrangement)	23.18%	21.47%
Leverage ratio	10.28%	11.22%
Leverage ratio (excluding ECL Transitional Arrangement)	10.28%	11.22%

All figures presented are in thousands and Canadian dollars. The figures are as at December 31 of the year indicated.

All common stock is made up of common shares with no par value. The Company has no additional forms of capital.

As at December 31, 2022 and 2021, the Company was in compliance with the OSFI capital guidelines.

Sun Life

Life's brighter under the sun

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FOR SUN LIFE FINANCIAL TRUST INC.

ECL Transitional Arrangement

Effective in 2020 institutions are required to compare Stage 1 and 2 allowances allocated to exposures treated under the standardized approach or IRB approach at the end of the BCAR filing period to the baseline amount of State 1 and 2 allowances. The baseline amount is calculated at the quarter ending December 31, 2019. If there is an increase in allowances, this amount is multiplied by 1 – tax rate and the result is adjusted by a scaling factor. The scaling factor is set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022. In 2022, the ECL transitional arrangement adjustment resulted in no change to capital compared to 2021 ($10 thousand in 2021).

Approach to assessing capital:

Under the Company's capital risk policy and OSFI guidelines, the company is required annually to assess the adequacy of current and projected capital resources under expected and stressed conditions. This involves evaluating the Company's strategy, financial plan and risk appetite; assessing the effectiveness of its risk and capital management practices (including Board and management oversight); subjecting the Company's plans and /or actual results to a range of stress tests; and concluding on capital adequacy.

The Company is subject to the guidelines regarding capital framework for regulated financial institutions. These guidelines are consistent with international standards set by the Bank for International Settlements. The Company has adopted the capital framework issued by OSFI under the "International Convergence of Capital Measurement and Capital Standards – A Revised Framework" (Basel II). The Company follows the Standard Approach for calculating credit risk and the Basic Indicator Approach for operational risk, and is exempt from calculating market risk. The Company uses ratings from DBRS, Fitch Group, Moody's and Standard & Poor's, where available, to determine credit ratings for invested assets. In the absence of external ratings, the Company uses an internal quality rating system to assign appropriate credit ratings.

Risk Management Objectives and Policies

The Company is governed by the enterprise-wide risk management policies of its ultimate parent, Sun Life Financial (SLF). The Company also has its own portfolio policies and parameters which include specific risk management limits by asset class. These specific risk management limits include credit risk, liquidity risk, interest rate risk, and currency risk.

The role of the Board of Directors and Management in risk management

Risk management responsibilities of the Board of Directors (the "Board") and Management can be summarized as follows:

Board of Directors:

- The Board approves Company specific policies ensuring appropriate risk management is in place.
- The Board monitors the activities of the Company on a quarterly basis.
- The Board approves the appointment of all officers to the Company.
- The Board delegates authority for managing the key risk areas to appropriate personnel.
- The Audit Committee of the Company's parent, Sun Life Assurance Company of Canada (SLAC), performs the functions of an audit committee for SLFT, as permitted under the Trust and Loan Companies Act.

Management:

- Management implements risk management policies as approved by the Board.
- Management is responsible for identifying risks and estimating their likelihood of occurrence and the resulting impact on the Company's ability to achieve its business objectives.
- Management establishes policies, procedures and controls to ensure appropriate approval processes, mitigation of risks, complete and accurate accounting, safeguarding of assets, and segregation of duties for transaction processing.
- Management establishes management reporting information systems in order to manage the Company's operations and periodically reviews reporting mechanisms to ensure that systems and processes operate as designed.
- Management of the Company reports quarterly to the Board on the internal control practices in place to provide reasonable assurance that the financial and reporting information generated within the Company is accurate and reliable and that prescribed policies, procedures, laws and regulations are complied with throughout the Company.

Internal Audit:

- An internal audit function is responsible for assessing the adequacy of and adherence to the systems of internal control. The results of internal audit's reviews are reported to management and the Audit Committee of SLAC regularly throughout the year.

Alignment of operations with SLAC:

The Company's operations are highly integrated with those of SLAC, to maximize the efficiency of operations and the ability to maintain consistent management information systems and internal controls. The alignment of operations is evident in the Asset Liability Management and SLC Management departments. These departments manage the Company's investment risks.

Investment risk:

The Company manages its investments in accordance with its risk management framework and policies approved by the Board that establish aggregate limits and constraints for credit, interest rate, liquidity, and currency risks.

Liquidity risk:

Liquidity risk is "the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments." The Company generally maintains a conservative liquidity position and employs a wide range of liquidity risk management practices and controls, which are described below:

- Liquidity is managed in accordance with the Company's liquidity policies and guidelines.
- Stress testing of the Company's liquidity is performed by comparing liquidity coverage ratios under one-month, three-month and one-year stress scenarios to Company policy thresholds approved by Management and the Board.
- Cash management and asset liability management programs support the Company's ability to maintain its financial position by ensuring that sufficient cash flow and liquid assets are available to cover potential funding requirements. The Company invests in various types of assets with a view of matching them to the Company's liabilities of various durations.
- Target capital levels exceed regulatory minimums. The Company actively manages and monitors its capital and asset levels, and the diversification and credit quality of its investments.
- The Company maintains liquidity contingency plans for the management of liquidity in the event of a liquidity crisis.
- Reporting is submitted to the Board quarterly for oversight and monitoring.

Currency risk:

Foreign currency risk is the result of mismatches in the currency of assets and liabilities (inclusive of capital), and cash flows. This risk may arise from a variety of sources such as foreign currency transactions, foreign exchange hedging, and investments denominated in foreign currencies. Changes or volatility in foreign exchange rates could adversely affect our financial condition and results of operations.

Foreign exchange derivative contracts such as currency swaps and forwards are used as risk management tools to manage the currency exposure in accordance with the Company's asset-liability risk management policy.

Market risk:

The Company is exempt from the application of market risk according to Basel II, as the value of the Company's trading book does not exceed 10% of total assets, nor does it exceed $10 billion.

Interest rate risk is defined as the risk that a movement in interest rates will have an adverse effect on the financial condition of the Company. The Company manages the impact of interest rate changes within self-imposed limits established after careful analysis in order to keep disinvestments and reinvestment losses within acceptable limits. The primary approach for managing interest rate risk is management of the duration gap of assets and liabilities. Duration analysis measures the sensitivity of assets, liabilities and off-balance sheet instruments to changes in interest rates.

Credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Comprehensive Investment and Credit Risk Management Policy, guidelines and practices are in place. Specific investment diversification requirements are in place, such as defined investment limits for asset class, geography, and industry. Limits are set relative to the capital base of the Company and overall investment objectives.

SLAC's investment policy framework and governance defines required approval authority at various management levels for new loans and refinancing which are commensurate with the credit risk involved. Individuals involved in loan management have the appropriate level of experience and expertise.

Portfolio performance with respect to credit risk is monitored closely by management and the Board. Detailed reports are provided to the Board on a quarterly basis.

Loans are monitored on an on-going basis. The portfolio is stratified using a risk rating system.

Gross credit risk exposures:

Statement of financial position	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash held in trust	$ 91,819	$ 91,819	$ 67,956	$ 67,956
Cash, cash equivalents and short-term securities	65,082	65,082	52,591	52,591
Debt securities - FVPL	23,360	23,360	31,317	31,317
Debt securities - FVOCI	433,174	433,174	327,583	327,583
Mortgage and loans - amortized cost	312,270	309,742	371,820	374,300
Derivative assets	1,248	1,248	1,456	1,456
Deferred Tax Asset	157	157	120	120
Other assets	10,080	10,080	12,921	12,921
Total	**$ 937,190**	**$ 934,662**	**$ 865,764**	**$ 868,244**

All figures presented are in thousands and Canadian dollars. The figures are as at December 31 of the year indicated.

Geographic distribution of mortgage exposures:

Province	2022 (% of mortgages)	2021 (% of mortgages)
Ontario	**41%**	62%
Alberta	**0%**	2%
British Columbia	**59%**	36%
Quebec	**0%**	0%
Rest of Canada	**0%**	0%

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Maturity breakdown:

	Term to Maturity (2022)					
	On Demand	Within 1 Year	1 to 5 Years	Over 5 Years	No Specific Maturity	Total
Cash held in trust	$ 91,819	$ -	$ -	$ -	$ -	$ 91,819
Cash, cash equivalents and short-term securities	2,700	62,383	-	-	-	65,082
Debt securities	-	213,595	218,164	24,775	-	456,534
Mortgages and loans	-	168,219	122,970	21,081	-	312,270
Derivative related assets	-	1,175	74	-	-	1,248
Other assets	-	-	-	-	10,237	10,237
Total	**$ 94,519**	**$ 445,371**	**$ 341,208**	**$ 45,856**	**$ 10,237**	**$ 937,190**

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	Term to Maturity (2021)					
	On Demand	Within 1 Year	1 to 5 Years	Over 5 Years	No Specific Maturity	Total
Cash held in trust	$ 67,956	$ -	$ -	$ -	$ -	$ 67,956
Cash, cash equivalents and short-term securities	4,521	48,070	-	-	-	52,591
Debt securities	-	132,648	219,233	7,019	-	358,900
Mortgages and loans	-	130,031	227,815	13,974	-	371,820
Derivative related assets	-	-	1,456	-	-	1,456
Other assets	-	-	-	-	13,041	13,041
Total	**$ 72,477**	**$ 310,749**	**$ 448.504**	**$ 20,993**	**$ 13,041**	**$ 865,764**

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Impaired Assets:

Allowance on Performing Assets

The Company's allowance for credit losses (ACL) calculations are outputs of an Expected Credit Loss (ECL) model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

The ECL impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months (stage 1) or (ii) over the remaining expected life of the financial instrument (stage 2) depending on credit deterioration of the instrument since its inception. ACL is established for all debt instruments, except those classified or designated as FVTPL. ACL is recorded for expected credit losses on all these debt instruments regardless of whether there has been an actual loss event.

Measurement of ECL

ECLs are an unbiased, probability-weighted estimate of the present value of credit losses. These are measured as the present value of the expected cash shortfalls (defined as the difference between contractual cash flows and expected cash flows).

At each measurement date, ECL is calculated as the product of instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD) discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 project PD, LGD and EAD over the remaining lifetime of the instrument.

The key inputs in the measurement of ECL allowances are as follows:

- PD is an estimate of the likelihood of default over a given time horizon.
- EAD is the expected exposure in the event of default at a future default date.
- LGD is an estimate of the loss arising in case where a default occurs at a given time and is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the realization of any collateral.

The determination of the PD, LGD and EAD parameters can be quite complex, particularly the determination of PD. They incorporate both factors unique to the entity and macroeconomic factors that can be associated with increases or decreases in credit risk.

Significant increase in credit risk (SICR)

Upon initial recognition of financial assets, the Company recognizes a 12-month ECL allowance (Stage 1). If there has been a SICR, the Company then recognizes a lifetime ECL allowance resulting from possible default events over the expected life of the financial asset (Stage 2).

Our assessment of significant increases in credit risk is performed quarterly based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument is moved from Stage 1 to Stage 2:

- The SICR is based on the threshold determined using the internal credit risk ratings. Upon initial recognition, financial assets are Stage 1 and are considered to have low credit risk (Investment Grade) at the reporting date. Subsequently, the credit risk on a financial asset is assumed to have increased significantly since initial recognition, if it is downgraded to below investment grade (Stage 2).
- Additional qualitative reviews (monitoring activities) are performed to assess the staging results and make adjustments, as necessary, to better reflect the positions whose credit risk has increased significantly. All investments included in 'Watch list" assumed to have significant credit risk.
- Instruments which are 30 days past due are generally considered to have experienced a significant increase in credit risk.

If credit quality subsequently improves such that the increase in credit risk since initial recognition is no longer significant, the loss allowances will revert back to be measured based on a 12-month ECL, and the financial asset will transfer from Stage 2 back to Stage 1. Stages 1 and 2 comprise all non-impaired financial assets.

Forward-looking information ("FLI") and Macroeconomic factors

A base credit loss estimate is produced for each individual exposure using the ECL model. Relevant parameters are modelled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward-looking and macroeconomic information. To reflect forward looking information that are not already considered through ECL modelling, expert credit judgment is exercised by Credit Risk Review Committee in determining the final expected credit losses.

Our forecasting process leverages the internal process (Quarterly Investment Outlook) for the PiT adjustments and incorporation of forward looking information in the migration of the portfolio through stages and ECL estimation.

The emergence of new macroeconomic, microeconomic or political events, along with expected changes to parameters, models or data that are not incorporated in our base ECL model are examples of such circumstances. The macro or micro economic variables that are most closely correlated with the credit losses in the relevant portfolio include, but are not limited to, GDP growth, unemployment rates, central bank base rates, bond yields, equity return indices, commercial real estate indices, and commodity prices. Key economic variables used in the determination of the allowance for credit losses reflect the geographic diversity of our portfolios, where appropriate. The Company uses an analysis of historical data for estimating relationships between macroeconomic variables, credit risk and credit losses.

The use of management overlays requires the application of significant judgment that may impact the amount of ECL allowances recognized. The inputs used in the overlays may not always capture all characteristics of the market at the date of the financial statements.

Allowance on Impaired Assets for Stage 3

Management assesses debt securities and mortgages and loans for objective evidence of impairment at each reporting date. A portfolio monitoring process is employed to identify assets or groups of assets that have objective evidence of impairment, having experienced a loss event or events that have an impact on the estimated future cash flows of the asset or group of assets. There are inherent risks and uncertainties in the Company's evaluation of assets or groups of assets for objective evidence of impairment, including both internal and external factors such as general economic conditions, issuers' financial conditions and prospects for economic recovery, market interest rates, unforeseen events which affect one or more issuers or industry sectors, and portfolio management parameters, including asset mix, interest rate risk, portfolio diversification, duration matching, and greater than expected liquidity needs. All of these factors could impact the evaluation of an asset or group of assets for objective evidence of impairment.

Debt Securities

Objective evidence of impairment on debt securities involves an assessment of the issuer's ability to meet current and future contractual interest and principal payments. In determining whether debt securities have objective evidence of impairment, a screening process is employed. The process identifies securities in an unrealized loss position, with particular attention paid to those securities whose fair value to amortized cost percentages have been less than 80% for an extended period of time. Discrete credit events, such as a ratings downgrade, are also used to identify securities that may have objective evidence of impairment. The securities identified are then evaluated based on issuer-specific facts and circumstances, including an evaluation of the issuer's financial condition and prospects for economic recovery, evidence of difficulty being experienced by the issuer's parent or affiliate, and management's assessment of the outlook for the issuer's industry sector.

Management also assesses previously impaired debt securities whose fair value has recovered to determine whether the recovery is objectively related to an event occurring subsequent to the impairment loss that has an impact on the estimated future cash flows of the asset.

Asset-backed securities are assessed for objective evidence of impairment on an alternative basis. Specifically, the Company periodically updates the best estimate of cash flows over the life of the security. In the event that there is an adverse change in the expected cash flows, the asset is impaired. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third parties, along with assumptions and judgments about the future performance of the underlying collateral. Losses incurred on the respective mortgage-backed securities portfolios are based on loss models using assumptions about key systematic risks, such as unemployment rates and housing prices, and loan-specific information such as delinquency rates and loan-to-value ratios.

Mortgages and Loans

Objective evidence of impairment on mortgages and loans involves an assessment of the borrower's ability to meet current and future contractual interest and principal payments. In determining whether an individual mortgage or loan has objective evidence of impairment, a number of triggers are considered that cause management to reassess its creditworthiness and consequent cause for concern, generally based on a decline in the current financial position of the borrower and, for collateral-dependent mortgages and loans, the value of the collateral.

Mortgages and loans causing concern are monitored closely and evaluated for objective evidence of impairment. For these mortgages and loans, information is reviewed that is appropriate to the circumstances, including recent operating developments, strategy review, timelines for remediation, financial position of the borrower and, for collateral-dependent mortgages and loans, the value of security as well as occupancy and cash flow considerations.

In addition to specific allowances, circumstances may warrant a collective allowance based on objective evidence of impairment for a group of mortgages and loans. The Company considers regional economic conditions, developments for various property types, and significant exposure to struggling tenants in determining whether there is objective evidence of impairment for certain collateral dependent mortgages and loans, even though it is not possible to identify specific mortgages and loans that are likely to become impaired on an individual basis.

Management also assesses previously impaired mortgages and loans to determine whether a recovery is objectively related to an event occurring subsequent to the impairment loss that has an impact on the estimated future cash flows of the asset.

The Company has invested assets with allowances for credit losses as follows:

	2022			2021		
	Gross Invested Assets	Allowances for Losses	Net Invested Assets	Gross Invested Assets	Allowances for Losses	Net Invested Assets
Cash held in trust	$ 91,819	$ -	$ 91,819	$ 67,956	$ -	$ 67,956
Cash and cash equivalents	65,082	-	65,082	40,616	-	40,616
Short-term securities	-	-	-	11,975	-	11,975
Debt securities[1]	456,534	36	456,534	358,900	39	358,900
Corporate loans	308,441	8,429	300,012	356,838	5,830	351,008
Residential Mortgages	2,112	-	2,112	2,215	-	2,215
Commercial Mortgages	10,146	1	10,145	18,599	2	18,597
Total	**$ 934,135**	**$ 8,466**	**$ 925,705**	**$ 857,099**	**$ 5,871**	**$ 851,267**

All figures presented are in thousands and Canadian dollars. The figures are as at December 31 of the year indicated.
[1] Allowances for debt securities are recorded in OCI.

Changes in the allowances are as follows:

	2022			
	12 months ECL	Lifetime non-credit impaired	Lifetime credit impaired	
Debt securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	$ 38	$ 1	$ -	$ 39
Changes in the loss allowance[1]:	-	-	-	-
Transfer to (from) Stage 1	-	-	-	-
Transfer to (from) Stage 2	-	-	-	-
Transfer to (from) Stage 3	-	-	-	-
New financial assets originated or purchased	19	-	-	19
Financial assets that have been derecognised	(11)	(1)	-	(12)
Net remeasurements[2]	(9)	-	-	(9)
Other changes	(1)	-	-	(1)
Balance at December 31	**$ 36**	**$ -**	**$ -**	**$ 36**

All figures presented are in thousands and Canadian dollars. The figures are as at December 31 of the year indicated.

	2022			
	12 months ECL	Lifetime non-credit impaired	Lifetime credit impaired	
Mortgage and loans at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	$ 90	$ 103	$ 5,639	$ 5,832
Changes in the loss allowance[1]:	-	-	-	-
Transfer to (from) Stage 1	-	-	-	-
Transfer to (from) Stage 2	-	(4)	-	(4)
Transfer to (from) Stage 3	-	-	4	4
New financial assets originated or purchased	12	-	-	12
Financial assets that have been derecognised	(21)	(76)	-	(97)
Net remeasurements[2]	(23)	-	2,726	2,703
Other changes	(16)	(5)	-	(21)
Balance at December 31	**$ 42**	**$ 18**	**$ 8,369**	**$ 8,429**

All figures presented are in thousands and Canadian dollars. The figures are as at December 31 of the year indicated.

	2021			
	12 months ECL	Lifetime non-credit impaired	Lifetime credit impaired	
Debt securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	$ 356	$ 8	$ -	$ 364
Changes in the loss allowance[1]:	-	-	-	-
Transfer to (from) Stage 1	-	-	-	-
Transfer to (from) Stage 2	-	-	-	-
Transfer to (from) Stage 3	-	-	-	-
New financial assets originated or purchased	2	-	-	2
Financial assets that have been derecognised	(179)	-	-	(179)
Net remeasurements[2]	(134)	-	-	(134)
Other changes	(7)	(7)	-	(14)
Balance at December 31	**$ 38**	**$ 1**	**$ -**	**$ 39**

All figures presented are in thousands and Canadian dollars. The figures are as at December 31 of the year indicated.

	2021			
	12 months ECL	Lifetime non-credit impaired	Lifetime credit impaired	
Mortgage and loans at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	$ 447	$ 257	$ 5,639	$ 6,343
Changes in the loss allowance[1]:	-	-	-	-
Transfer to (from) Stage 1	(17)	-	-	(17)
Transfer to (from) Stage 2	-	17	-	17
Transfer to (from) Stage 3	-	-	-	-
New financial assets originated or purchased	33	75	-	108
Financial assets that have been derecognised	(164)	(217)	-	(381)
Net remeasurements[2]	(199)	2	-	(197)
Other changes	(10)	(31)	-	(41)
Balance at December 31	**$ 90**	**$ 103**	**$ 5,639**	**$ 5,832**

All figures presented are in thousands and Canadian dollars. The figures are as at December 31 of the year indicated.

[1] *Transfers between stages, which are presumed to occur before any corresponding remeasurement of the allowance.*

[2] *Includes changes in the measurement resulting from the significant changes in credit risk and from changes in credit risk that did not result in a transfer between stages, changes in model inputs and assumptions and changes in forward looking macroeconomic conditions.*

Past Due and Impaired Mortgages and Loans

The distribution of mortgages and loans past due or impaired is shown in the following tables:

	Gross Carrying Value			Allowance for Losses		
As of December 31, 2022	Mortgages	Corporate Loans	Total	Mortgages	Corporate Loans	Total
Not past due	$ 12,258	$ 299,313	$ 311,571	$ 1	$ 60	$ 61
Past due:	-	-	-	-	-	-
Past due less than 90 days	-	-	-	-	-	-
Past due 90 to 179 days	-	-	-	-	-	-
Past due 180 days or more	-	-	-	-	-	-
Impaired	-	9,128	9,128	-	8,369	8,369
Total	**$ 12,258**	**$ 308,441**	**$ 320,699**	**$ 1**	**$ 8,429**	**$ 8,430**

All figures presented are in thousands and Canadian dollars. The figures are as at December 31 of the year indicated.

	Gross Carrying Value			Allowance for Losses		
As of December 31, 2021	Mortgages	Corporate Loans	Total	Mortgages	Corporate Loans	Total
Not past due	$ 20,814	$ 350,440	$ 371,254	$ 2	$ 191	$ 193
Past due:	-	-	-	-	-	-
Past due less than 90 days	-	-	-	-	-	-
Past due 90 to 179 days	-	-	-	-	-	-
Past due 180 days or more	-	-	-	-	-	-
Impaired	-	6,398	6,398	-	5,639	5,639
Total	**$ 20,814**	**$ 356,838**	**$ 377,652**	**$ 2**	**$ 5,830**	**$ 5,832**

All figures presented are in thousands and Canadian dollars. The figures are as at December 31 of the year indicated.

Counterparty Credit Risk:

Counterparty credit risk arises from over-the-counter ('OTC') derivatives and securities financing transactions. It is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. An economic loss occurs if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default. In the instance of a credit rating downgrade applicable to the counterparty on our derivatives, the Company must hold more capital to address the increased risk.

The notional principal amount of derivative instruments represents an amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional principal amounts are frequently used as an indicator of business activity; however, they are not indicative of credit or market risk exposure.

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The notional principal amounts by remaining term to maturity are disclosed below:

	2022					2021
Derivative Type	**Within 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**	**Total**
Interest rate contracts	$ 20,000	$ -	$ -	$ -	$ 20,000	$ -
Foreign exchange contracts	123,161	22,991	19,319	-	165,471	171,101
Total	**$ 143,161**	**$ 22,991**	**$ 19,319**	**$ -**	**$ 185,471**	**$ 171,101**

All figures presented are in thousands and Canadian dollars. The figures are as at December 31 of the year indicated.

Credit exposure:

Current credit risk exposure represents the current replacement cost of all outstanding derivative contracts with a positive value.

Credit equivalent amount is a measure to approximate the potential credit exposure, determined as the replacement cost of derivatives with positive market value plus an amount for potential future credit exposure.

Risk-weighted balance represents the credit equivalent amount weighted according to the credit worthiness of the counterparty and effective maturity of exposure as prescribed by OSFI.

The following provides a summary of the Company's derivative portfolio and related credit exposure:

	2022				2021			
Credit Risk	**Notional Principal**	**Current Credit Risk Exposure**	**Credit Equivalent Amount**	**Risk Weighted Balance**	**Notional Principal**	**Current Credit Risk Exposure**	**Credit Equivalent Amount**	**Risk Weighted Balance**
Interest rate contracts	$ 20,000	$ 2	$ -	$ -	$ -	$ -	$ -	$ -
Foreign exchange contracts	165,471	214	2,181	1,091	171,101	7,517	4,039	2,020
Total by Maturity	**$ 185,471**	**$ 216**	**$ 2,181**	**$ 1,091**	**$ 171,101**	**$ 7,517**	**$ 4,039**	**$ 2,020**

All figures presented are in thousands and Canadian dollars. The figures are as at December 31 of the year indicated.

Increase/decline in earnings or economic value:

As at December 31, 2022, an immediate 1% increase in interest rates across the yield curve would have resulted in a decrease of $852 in the Company's income before income taxes (2021 – $654). An immediate and parallel decrease in interest rates of 1% would have resulted in an increase of $879 in the Company's income before income taxes (2021 – $680).

Remuneration

Governance structure over remuneration rests with the parent SLAC. SLFT has no employees and pays no remuneration to staff or directors; instead it is charged an administrative fee by the parent that would include, in part, compensation costs. In 2022, there were 16 officers and directors (2021– 15) with authority and responsibility for planning, directing, and controlling the activities of the Company, in addition to their responsibilities for SLAC. The aggregate fees charged by SLAC for the services performed for the Company is estimated to be less than $1,000 (2021 – less than $1,000).

Sun Life

Life's brighter under the sun