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Q3'18

# Financial & Operating results

For the period ended September 30, 2018

Sun Life Financial Inc.  
(unaudited)



**Forward-looking statements**

Certain statements in this presentation and certain oral statements made during the earnings conference call on November 8, 2018 (collectively, this “presentation”), including, but not limited to, statements that are not historical facts, are forward-looking and are subject to inherent risks, uncertainties and assumptions. The results or events predicted in these forward-looking statements may differ materially from actual results or events and we cannot guarantee that any forward-looking statement will materialize. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking statements made in this presentation.

**Non-IFRS Financial Measures**

The Company prepares its financial statements in accordance with international financial reporting standards (“IFRS”). This presentation includes financial measures that are not based on IFRS (“non-IFRS financial measures”). The Company believes that these non-IFRS financial measures provide information that is useful to investors in understanding the Company’s performance and facilitate the comparison of the quarterly and full year results from period to period. These non-IFRS financial measures do not have any standardized meaning and may not be comparable with similar measures used by other companies. For certain non-IFRS financial measures, there are no directly comparable amounts under IFRS. These non-IFRS financial measures should not be viewed as alternatives to measures of financial performance determined in accordance with IFRS.

**Sources of earnings**

Sources of earnings is based on the requirements of the Office of the Superintendent of Financial Institutions, Canada and guidelines of the Canadian Institute of Actuaries. It is used to identify the primary sources of gains or losses in each reporting period and is not based on IFRS. Additional information concerning our sources of earnings is included in the Company’s Annual Report.

**Additional information**

Additional information concerning forward-looking statements and non-IFRS financial measures is included at the end of this presentation.

**Currency**

Unless otherwise noted, all amounts are in Canadian dollars.

# DEAN CONNOR

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President and Chief Executive Officer

# STRONG PROGRESS ACROSS ALL FOUR PILLARS



## FINANCIAL HIGHLIGHTS

- **Q3'18** reported net income of \$567 million; underlying net income<sup>(1)</sup> of \$730 million
- Underlying EPS<sup>(1)</sup> growth of 14% over Q3'17; underlying ROE<sup>(1)</sup> of 14.0%
- Value of New Business<sup>(1)</sup> ("VNB") increased by 9% as compared to Q3'17
- Repurchased 3.8 million common shares and increased common share dividend by 5% to \$0.50



## KEY ACCOMPLISHMENTS

- Announced the launch of Lumino, a first of its kind digital network helping Canadians make more informed health-care decisions
- Hong Kong's Mandatory Provident Fund ("MPF") sales<sup>(1)</sup> grew 37% over Q3'17, leading the industry in net inflows
- SLF U.S. Group Benefits after-tax profit margin of 6.4%<sup>(1)(2)</sup>



## DOING MORE FOR CLIENTS

- Entered into a strategic relationship with Rise People Inc., Canada's first all-in-one digital HR, payroll and benefits administration solution
- In Hong Kong, the pension business earned the top ranking from Mercer's inaugural MPF Provider Satisfaction Rankings Report<sup>(3)</sup>
- 66%, 82% and 88% of MFS's U.S. retail fund assets ranked in the top half of their Lipper categories based on three-, five-, and ten-year performance, respectively

(1) Underlying net income, EPS, ROE, VNB, Sales, and SLF U.S. Group Benefits after-tax profit margin are Non-IFRS financial measures. See "Use of Non-IFRS Financial Measures" and "Reconciliation of Net Income measures" in the appendix to these slides.

(2) After-tax profit margin for SLF U.S. Group Benefits is calculated on underlying net income as a percentage of net premiums on a trailing four quarters basis.

(3) Sales growth in constant currency. Ranking is for the 12 months ended June 30, 2018. Based on a 12-month average of the Mercer's MPF Satisfaction Index (MPF SI), a monthly survey conducted by Nielsen, interviewing more than 2000 respondents in Hong Kong's working population per year.

# KEVIN STRAIN

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Executive Vice President & Chief Financial Officer

## Q3'18 RESULTS

C\$ millions (except EPS and ROE)	Q3'18	Q2'18	Q3'17
Reported net income	567	706	817
Underlying net income <sup>(1)</sup>	730	729	643
Diluted reported EPS (c\$)	0.93	1.16	1.32
Diluted underlying EPS <sup>(1)</sup> (c\$)	1.20	1.20	1.05
Reported ROE	10.8%	13.5%	16.2%
Underlying ROE <sup>(1)</sup>	14.0%	14.0%	12.7%

## Business Performance

- Assets under management<sup>(1)</sup> of \$984 billion up 5% from Q3 2017
- Underlying EPS growth of 14% over Q3 2017
- Book value per share of \$34.11 up 4% from Q3 2017

## Capital Management

- Strong capital position with a LICAT ratio for SLF of 145%, SLA LICAT ratio of 130%<sup>(2)</sup>
- \$2.7 billion of cash at SLF and its wholly-owned holding companies
- Re-purchased and cancelled approximately 3.8 million SLF common shares for \$200 million
- Financial leverage ratio<sup>(1)</sup> of 21.9%

(1) Underlying net income/ROE/EPS, assets under management and financial leverage ratio are Non-IFRS financial measures. See "Use of Non-IFRS Financial Measures" and "Reconciliation of Net Income measures" in the appendix to these slides.

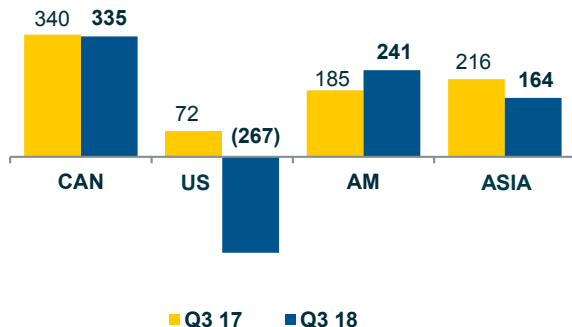
(2) Life Insurance Capital Adequacy Test ("LICAT") ratio of Sun Life Financial Inc. ("SLF") and of Sun Life Assurance Company of Canada ("SLA").

## Q3'18 BUSINESS GROUP PERFORMANCE

## REPORTED NET INCOME (LOSS)

(C\$ millions)

Impact of currency increased reported net income by \$6M



CAN

- Growth in fee income in wealth businesses and favourable investing activity
- Reported net income lower over the prior year from market related impacts

US

- SLF U.S. Group Benefits after-tax profit margin of 6.4%<sup>(1)(2)</sup>
- Favourable investing activity, improved policyholder experience and the lower tax rate in the U.S., partially offset by less favourable mortality
- Reported net loss in Q3 2018 reflects assumption changes in In-Force Management

AM

- MFS's earnings increased on higher average net assets, expense management and the lower tax rate in the U.S.
- MFS pre-tax net operating profit margin ratio of 40%<sup>(1)</sup>

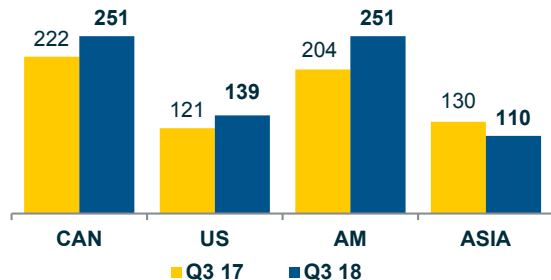
ASIA

- Higher levels of new business strain, investments in growth, and less favourable investing gains, partially offset by business growth in most markets
- Reported net income in prior year reflected more favourable market related impacts and assumption changes

UNDERLYING NET INCOME<sup>(1)</sup>

(C\$ millions)

Impact of currency increased underlying net income by \$18M



(1) Underlying net income, after-tax profit margin for SLF U.S. Group Benefits, pre-tax net operating profit margin for MFS, and underlying ROE are Non-IFRS financial measures. See "Use of Non-IFRS Financial Measures" and "Reconciliation of Net Income measures" in the appendix to these slides.

(2) After-tax profit margin for SLF U.S. Group Benefits calculated on underlying net income as a percentage of net premiums on a trailing four quarters basis.

## SOURCES OF EARNINGS VIEW

Sources of earnings Common shareholders C\$ millions	Q3'18	Q3'17
<b>Expected profit on in-force business<sup>(1)</sup></b>	<b>788</b>	<b>710</b>
Impact of new business <sup>(1)</sup>	(8)	21
Experience gains/(losses)	88	207
Assumption changes and management actions (ACMA)	(258)	93
Other	(40)	(69)
<b>Earnings from operations</b>	<b>570</b>	<b>962</b>
Earnings on surplus	119	102
<b>Earnings before income taxes</b>	<b>689</b>	<b>1,064</b>
Income tax (expense) or recovery	(98)	(223)
Non-controlling interest and preferred share dividends	(24)	(24)
<b>Reported net income</b>	<b>567</b>	<b>817</b>

(1) Q3'17 expected profit on in-force business and impact of new business have been updated to reflect a methodology change for the SLF U.S. Stop Loss business effective Q1'18. Amounts in expected profit on in-force business and impact of new business in Q3'17 were previously \$724 million and \$7 million, respectively.

**Expected profit:** 11% year-over-year increase driven by business growth across all four pillars

**New business strain:** higher strain in SLF Asia from lower sales in the International segment, and lower Group Retirement Services ("GRS") sales in SLF Canada

**Experience gains/(losses):** favourable net market related impacts, investment activity, credit experience, mortality and morbidity, partially offset by unfavourable lapse and policyholder behaviour experience

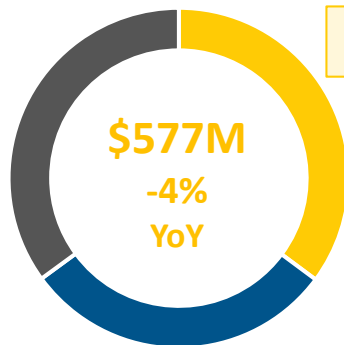
**ACMA:** favourable impact of updates to mortality and morbidity assumptions, more than offset by updates to lapse and other policyholder behaviour assumptions in SLF U.S. and SLF Asia International

**Other:** fair value adjustments on MFS's share-based payment awards, acquisition, integration and restructuring costs, and the impact of certain hedges in SLF Canada that do not qualify for hedge accounting

**Earnings on surplus:** higher levels of investment income on surplus assets



## SALES RESULTS BY BUSINESS GROUP

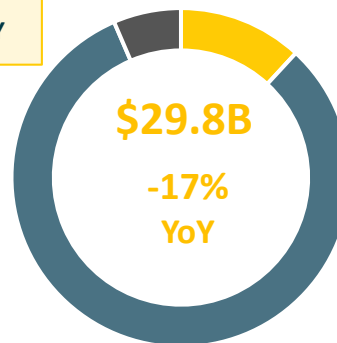
INSURANCE SALES<sup>(1)</sup> BY BUSINESS

■ SLF Canada ■ SLF U.S. ■ SLF Asia

- SLF Asia individual sales up 7% on a constant currency basis, led by growth in India and the Philippines
- SLF Canada sales down 6% primarily as a result of large case sales in Group Benefits in 2017
- Sales in SLF U.S. down 14% in local currency as a result of a decrease in medical stop-loss sales, partially offset by growth in employee benefits sales



VALUE OF NEW BUSINESS<sup>(1),(3)</sup> +9% YoY

WEALTH SALES<sup>(1)</sup> BY BUSINESS

■ SLF Canada ■ SLF Asset Management ■ SLF Asia

- SLF Asset Management sales down 18% in constant currency, primarily from lower managed fund sales at MFS
- SLF Canada Individual wealth sales up 15% on continued growth from wealth manufactured products<sup>(2)</sup>. Overall wealth sales down 2% mainly as a result of lower GRS sales due to lower market activity
- SLF Asia sales down 47%. Strong sales in Hong Kong MPF business were more than offset by lower sales in India and the Philippines from market volatility

Note: Sales for Asia joint ventures based on our proportionate equity interest.

(1) Sales and Value of New Business are a Non-IFRS financial measure. See "Use of Non-IFRS Financial Measures" in the appendix to these slides.

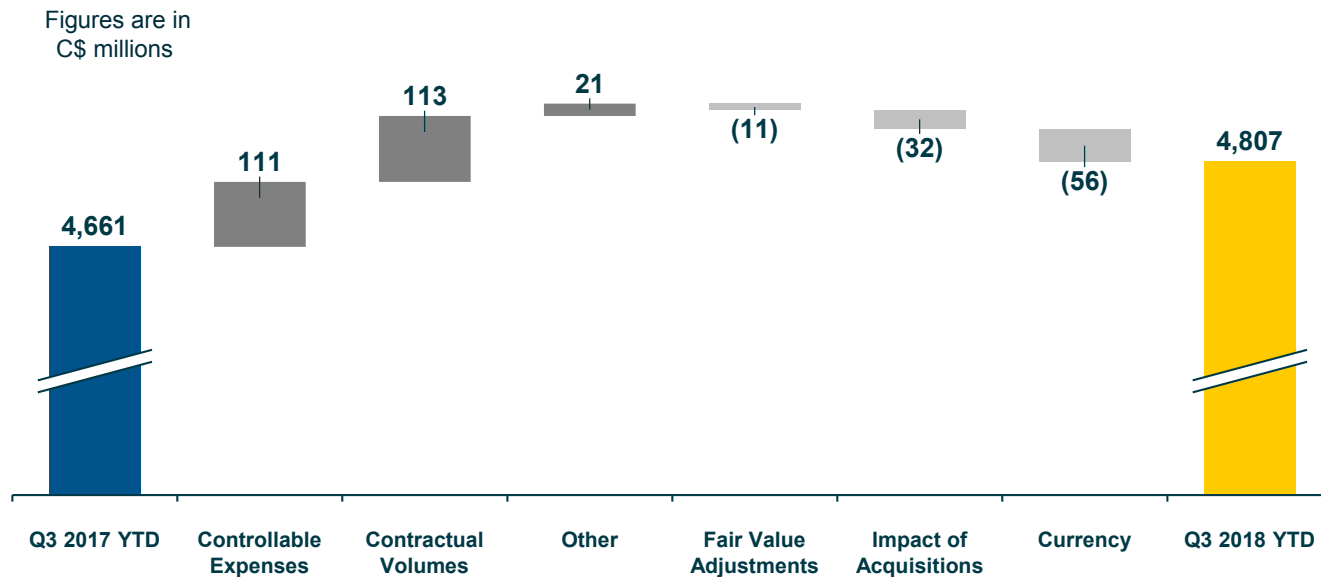
(2) Represents sales of individual wealth products developed by Sun Life Financial, which include Sun Life Global Investments mutual funds, Sun Life Guaranteed Investment Funds segregated funds, Guaranteed Investment Certificates, and Accumulation and Payout Annuities.

(3) Value of New Business represents the present value of our best estimate of future distributable earnings, net of the cost of capital, from new business contracts written in a particular time period, except new business in our SLF Asset Management pillar.

# APPENDIX

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## OPERATING EXPENSES



- Increase in controllable expenses reflects investments in growth partially funded through productivity gains

## RECONCILIATION OF UNDERLYING INCOME

C\$ millions	Q3'18 Pre-tax	Q3'18 After-tax
<b>Reported net income</b>		<b>567</b>
Net equity market impact (including basis risk impact of \$5 million) <sup>(1)</sup>	7	5
Net interest impact (including credit spread impact of \$(3) million and swap spread impact of NIL) <sup>(1)</sup>	27	14
Net impact of changes in the fair value of real estate	5	6
Assumption changes and management actions	(258)	(166)
Other <sup>(2)</sup>	(40)	(22)
<b>Underlying net income<sup>(3)</sup></b>		<b>730</b>

- Differences between pre and post-tax results reflect mix of business based on the Company's international operations

(1) Amounts provided for basis risk, credit spread and swap spread are after tax.

(2) Other includes: certain hedges in SLF Canada that do not qualify for hedge accounting, fair value adjustments on MFS's share-based payment awards and acquisition, integration and restructuring costs.

(3) Underlying net income is a Non-IFRS financial measure. See "Use of Non-IFRS Financial Measures" in the appendix to these slides.

## OTHER NOTABLE ITEMS

Impact of other items on our net income C\$ millions	Q3'18 Pre-tax	Q3'18 After-tax
<b>Experience related items</b>		
Impact of investment activity on insurance contract liabilities	34	29
Mortality	17	15
Morbidity	9	8
Credit	27	22
Lapse and other policyholder behaviour	(8)	(7)
Expense <sup>(1)</sup>	(4)	(6)
Other <sup>(1)</sup>	(24)	(11)
<b>Total other notable items</b>		<b>50</b>

- Differences between pre and post-tax results reflect mix of business based on the Company's international operations.

(1) Expense experience has been revised to exclude certain project spending, which is now presented in Other.

In this presentation, Sun Life Financial Inc., its subsidiaries and, where applicable, its joint ventures and associates are referred to as “we”, “us”, “our” and the “Company”.

## Use of Non-IFRS Financial Measures

We report certain financial information using non-IFRS financial measures, as we believe that these measure provide information that is useful to investors in understanding our performance and facilitate a comparison of our quarterly and full year results from period to period. These non-IFRS financial measures do not have any standardized meaning and may not be comparable with similar measures used by other companies. For certain non-IFRS financial measures, there are no directly comparable amounts under IFRS. These non-IFRS financial measures should not be viewed as alternatives to measures of financial performance determined in accordance with IFRS. Additional information concerning these non-IFRS financial measures and reconciliations to the closest IFRS measures are available in section M - Non-IFRS Financial Measures of the Earnings News Release. Non-IFRS Financial Measures and reconciliations are also included in our annual and interim MD&A and the Supplementary Financial Information packages that are available on [www.sunlife.com](http://www.sunlife.com) under Investors – Financial results & reports.

### Non-IFRS measures

Underlying net income (loss) and financial measures based on underlying net income (loss), including underlying EPS or underlying loss per share, and underlying ROE, are non-IFRS financial measures. Underlying net income (loss) removes from reported net income (loss) the impact of the following items that create volatility in our results under IFRS and when removed assist in explaining our results from period to period:

- (a) market related impacts, which include: (i) impact of returns in equity markets, net of hedging, above or below our best estimate assumptions of approximately 2% per quarter in the reporting period, and which also includes the impact of the basis risk inherent in our hedging program, which is the difference between the return on underlying funds of products that provide benefit guarantees and the return on the derivative assets used to hedge those benefit guarantees; (ii) the impact of changes in interest rates that differ from our best estimate assumptions in the reporting period and on the value of derivative instruments used in our hedging programs including changes in credit and swap spreads, and any changes to the assumed fixed income reinvestment rates in determining the actuarial liabilities; and (iii) the impact of changes in the fair value of investment properties in the reporting period;
- (b) assumption changes and management actions, which include: (i) the impact of revisions to the methods and assumptions used in determining our liabilities for insurance contracts and investment contracts; and (ii) the impact on insurance contracts and investment contracts of actions taken by management in the current reporting period, referred to as management actions which include, for example, changes in the prices of in-force products, new or revised reinsurance on in-force business, and material changes to investment policies for assets supporting our liabilities; and
- (c) other adjustments:
  - (i) certain hedges in SLF Canada that do not qualify for hedge accounting - this adjustment enhances the comparability of our net income from period to period, as it reduces volatility to the extent it will be offset over the duration of the hedges;
  - (ii) fair value adjustments on MFS's share-based payment awards that are settled with MFS's own shares and accounted for as liabilities and measured at fair value each reporting period until they are vested, exercised and repurchased - this adjustment enhances the comparability of MFS's results with publicly traded asset managers in the United States;
  - (iii) acquisition, integration and restructuring amounts (including impacts related to acquiring and integrating acquisitions); and
  - (iv) other items that are unusual or exceptional in nature.

Underlying EPS also excludes the dilutive impact of convertible instruments. All factors discussed in this presentation that impact our underlying net income are also applicable to reported net income.

All EPS measures in this presentation refer to fully diluted EPS, unless otherwise stated. As noted above, underlying EPS exclude the dilutive impact of convertible instruments.

Other non-IFRS financial measures that we use include reported ROE, adjusted revenue, administrative services only (“ASO”) premium and deposit equivalents, mutual fund assets and sales, managed fund assets and sales, insurance and health sales, premiums and deposits, adjusted premiums and deposits, assets under management (“AUM”), assets under administration, pre-tax net operating profit margin for MFS, measures based on a currency adjusted basis, financial leverage ratio, dividend payout ratio, impact of foreign exchange, real estate market sensitivities, assumption changes and management actions, value of new business, after-tax profit margin for SLF U.S. Group Benefits and effective income tax rate on an underlying net income basis.

Reconciliation of Select Net Income Measures	Q3'18	Q2'18	Q3'17
<b>Common shareholders' reported net income (loss)</b>	<b>567</b>	<b>706</b>	<b>817</b>
Impact of certain hedges that do not qualify for hedge accounting	(1)	1	(6)
Fair value adjustments on share-based payment awards at MFS	(10)	(2)	(19)
Acquisition, integration and restructuring	(11)	(31)	(17)
Net equity market impact	5	9	18
Net interest rate impact	14	(37)	69
Net increases (decrease) in the fair value of real estate	6	36	26
Assumption changes and management actions	(166)	1	103
<b>Common shareholders' underlying net income (loss)</b>	<b>730</b>	<b>729</b>	<b>643</b>

## Forward-Looking Statements

From time to time, the Company makes written or oral forward-looking statements within the meaning of certain securities laws, including the “safe harbour” provisions of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation. Forward-looking statements contained in this presentation include statements (i) relating to our strategies, (ii) relating to our growth initiatives and other business objectives, (iii) relating to our expected capital position under the new LICAT guideline, (iv) relating to our expected tax range for future years (v) that are predictive in nature or that depend upon or refer to future events or conditions, (vi) relating to the development of our high net worth insurance business in Asia, (vii) relating to the growth and development of SLF U.S., and (viii) that include words such as “achieve”, “aim”, “ambition”, “anticipate”, “aspiration”, “assumption”, “believe”, “could”, “estimate”, “expect”, “goal”, “initiatives”, “intend”, “may”, “objective”, “outlook”, “plan”, “project”, “seek”, “should”, “strategy”, “strive”, “target”, “will”, and similar expressions. Forward-looking statements include the information concerning our possible or assumed future results of operations. These statements represent our current expectations, estimates, and projections regarding future events and are not historical facts. Forward-looking statements are not a guarantee of future performance and involve risks and uncertainties that are difficult to predict. Future results and shareholder value may differ materially from those expressed in these forward-looking statements due to, among other factors, the matters set out in our interim Management’s Discussion and Analysis for the period ended September 30, 2018 under the headings, C - Profitability - 5 - Income taxes, E - Financial Strength and H - Risk Management and in SLF Inc.’s 2017 Annual Information Form under the heading Risk Factors and the factors detailed in SLF Inc.’s other filings with Canadian and U.S. securities regulators, which are available for review at [www.sedar.com](http://www.sedar.com) and [www.sec.gov](http://www.sec.gov), respectively.

## Risk Factors

Important risk factors that could cause our assumptions and estimates, and expectations and projections to be inaccurate and our actual results or events to differ materially from those expressed in or implied by the forward-looking statements contained in this presentation, are set out below. The realization of our forward-looking statements, essentially depends on our business performance which, in turn, is subject to many risks. Factors that could cause actual results to differ materially from expectations include, but are not limited to: **credit risks** - related to issuers of securities held in our investment portfolio, debtors, structured securities, reinsurers, counterparties, other financial institutions and other entities; **market risks** - related to the performance of equity markets; changes or volatility in interest rates or credit spreads or swap spreads; real estate investments; and fluctuations in foreign currency exchange rates; **insurance risks** - related to policyholder behaviour; mortality experience, morbidity experience and longevity; product design and pricing; the impact of higher-than-expected future expenses; and the availability, cost and effectiveness of reinsurance; **business and strategic risks** - related to global economic and political conditions; the design and implementation of business strategies; changes in distribution channels or Client behaviour including risks relating to market conduct by intermediaries and agents; the impact of competition; the performance of our investments and investment portfolios managed for Clients such as segregated and mutual funds; changes in the legal or regulatory environment, including capital requirements and tax laws; tax matters, including estimates and judgments used in calculating taxes; our international operations, including our joint ventures; market conditions that affect our capital position or ability to raise capital; downgrades in financial strength or credit ratings; and the impact of mergers, acquisitions and divestitures; **operational risks** - related to breaches or failure of information system security and privacy, including cyber-attacks; our ability to attract and retain employees; legal, regulatory compliance and market conduct, including the impact of regulatory inquiries and investigations; the execution and integration of mergers, acquisitions and divestitures; our information technology infrastructure; a failure of information systems and Internet-enabled technology; dependence on third-party relationships, including outsourcing arrangements; business continuity; model errors; information management; the environment, environmental laws and regulations and third-party policies; and **liquidity risks** - the possibility that we will not be able to fund all cash outflow commitments as they fall due.

The Company does not undertake any obligation to update or revise its forward-looking statements to reflect events or circumstances after the date of this presentation or to reflect the occurrence of unanticipated events, except as required by law.