

# 2019 Q3

## Financial & Operating Results

For the period ended  
September 30, 2019



Life's brighter under the sun

Sun Life Financial Inc. (unaudited)



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

#### **Forward-looking statements**

Certain statements in this presentation and certain oral statements made by senior management during the earnings conference call on November 7, 2019 (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 law, 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

| President and Chief Executive Officer

# PROGRESS ACROSS ALL FOUR PILLARS



## Financial highlights

- Q3 '19 reported net income of \$681 million; underlying net income<sup>(1)</sup> of \$809 million
- Reported ROE of 13.0%; underlying ROE<sup>(1)</sup> of 15.5%
- Wealth sales<sup>(1)</sup> of \$41 billion up 38%; insurance sales<sup>(1)</sup> of \$685 million up 19%
- Asia insurances sales up 45% in constant currency, with strong growth in most local markets as well as International
- Completed annual actuarial assumptions review, with a net nil impact after-tax



## Key accomplishments

- Asset Management net inflows of \$3.2 billion, including US\$1.3 billion at MFS and \$1.5 billion at SLC Management
- MFS pre-tax net operating profit margin ratio of 40%<sup>(1)</sup>
- Achieved an after-tax profit margin for U.S. Group Benefits<sup>(1),(2)</sup> of 7.2%
- Completed the acquisition of our majority stake in BentallGreenOak
- Issued our inaugural sustainability bond, the first issuance of its kind by a life insurance company globally



## Doing more for Clients

- Launched SunAccess in Malaysia, completing the rollout of mobile apps for Clients across all seven of our local markets in Asia
- In the U.S., employers on the Sun Life + Maxwell Health benefits administration platform are selecting nearly three times as many Sun Life products compared to our typical Clients
- In Canada, expanded our suite of healthcare innovations, including pharmacogenomics, to support the treatment of Clients and help them get back to work sooner<sup>(3)</sup>
- 92%, 93% and 94% of MFS's U.S. retail fund assets ranked in the top half of their Lipper categories for ten-, five- and three-year performance, respectively

# KEVIN STRAIN

Executive Vice President & Chief Financial Officer

# Q3'19 RESULTS

\$ millions (except EPS and ROE)	Q3'19	Q2'19	Q3'18
Reported net income	<b>681</b>	595	567
Underlying net income <sup>(1)</sup>	<b>809</b>	739	730
Diluted reported EPS (c\$)	<b>1.15</b>	1.00	0.93
Diluted underlying EPS <sup>(1)</sup> (c\$)	<b>1.37</b>	1.24	1.20
Reported ROE <sup>(1)</sup>	<b>13.0%</b>	11.0%	10.8%
Underlying ROE <sup>(1)</sup>	<b>15.5%</b>	13.7%	14.0%

<b>Business Performance</b>	<ul style="list-style-type: none"> <li>▪ Underlying EPS<sup>(1)</sup> up 14% from Q3 2018</li> <li>▪ Assets under management<sup>(1)</sup> of \$1.1 trillion up 8% from Q3 2018</li> <li>▪ Year-to-date operating expenses up 6% from 2018; up 4% on a constant currency basis</li> <li>▪ Book value per share of \$35.56 up 4% from Q3 2018; up 9% excluding equity impact from BentallGreenOak closing<sup>(2)</sup></li> </ul>
<b>Capital Management</b>	<ul style="list-style-type: none"> <li>▪ Strong capital position with a LICAT ratio for SLF of 146%, SLA LICAT ratio of 133%<sup>(3)</sup></li> <li>▪ \$2.8 billion of cash and other liquid assets at SLF and its wholly-owned holding companies</li> <li>▪ Re-purchased approximately 3.6 million SLF common shares for \$192 million</li> <li>▪ Increased common share dividend by 5% to \$0.55</li> <li>▪ Financial leverage ratio<sup>(1)</sup> of 22.8%</li> </ul>

(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) See note 3 in our Interim Consolidated Financial Statements for the period ended September 30, 2019

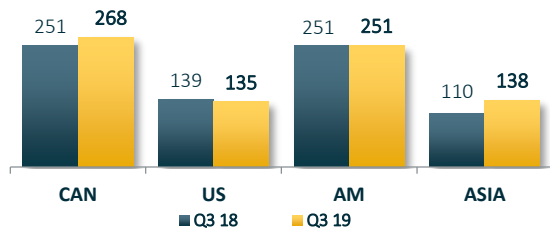
(3) Life Insurance Capital Adequacy Test ("LICAT") ratio of SLF and of Sun Life Assurance Company of Canada ("SLA").

# Q3'19 BUSINESS GROUP PERFORMANCE

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

(\$ millions)

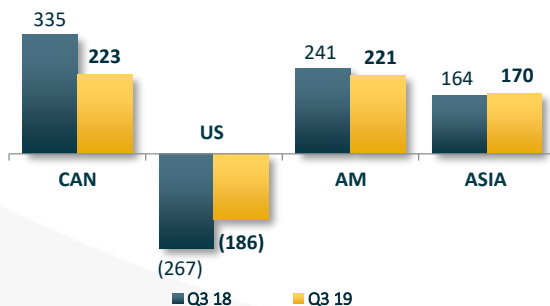
Impact of currency increased underlying net income by \$7M



## REPORTED NET INCOME (LOSS)

(\$ millions)

Impact of currency decreased reported net income by \$7M



CAN

- Underlying net income includes the favourable impact of tax matters from prior years<sup>(2)</sup> of \$20 million
- Business growth, higher available-for-sale (“AFS”) gains and favourable expense experience, offset by unfavourable morbidity experience and lower new business gains
- Reported net income lower than Q3 2018, reflecting unfavourable market related impacts, and less favourable ACMA impacts

US

- Favourable expense experience, a gain on a mortgage investment prepayment, and business growth, offset by unfavourable morbidity experience, and lower investing activity and AFS gains
- Reported net loss improved from Q3 2018, reflecting less unfavourable ACMA impacts, partially offset by unfavourable market related impacts
- After-tax profit margin for Group Benefits of 7.2%<sup>(1)(3)</sup>

AM

- MFS pre-tax net operating profit margin ratio of 40%<sup>(1)</sup>
- Underlying net income in line with prior year, reflecting consistent average net assets at MFS
- Reported net income includes acquisition costs in SLC Management related to the acquisition of a majority stake in BentallGreenOak

ASIA

- Higher AFS gains, favourable credit experience and business growth compared to Q3 2018
- Reported net income in line with prior year, including changes in underlying net income, partially offset by less favourable ACMA

(1) Underlying net income, after-tax profit margin for U.S. Group Benefits, and pre-tax net operating profit margin for MFS 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) Includes the favourable impact of the resolution of tax matters from prior years, including interest, and investment income tax allocation updates between the participating policyholders’ account and the shareholders’ account

(3) After-tax profit margin for 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 \$ millions	Q3'19	Q3'18
<b>Expected profit on in-force business</b>	<b>816</b>	<b>788</b>
Impact of new business	(22)	(8)
Experience gains/(losses)	(86)	88
Assumption changes and management actions (ACMA) <sup>(1)</sup>	(74)	(258)
Other <sup>(2)</sup>	(58)	(40)
<b>Earnings from operations</b>	<b>576</b>	<b>570</b>
Earnings on surplus	137	119
<b>Earnings before income taxes</b>	<b>713</b>	<b>689</b>
Income tax (expense) or recovery <sup>(3)</sup>	(9)	(98)
Preferred share dividends	(23)	(24)
<b>Reported net income</b>	<b>681</b>	<b>567</b>

**Expected profit:** continued business growth, with particular strength in Canada and the U.S.

**New business strain:** lower gains in Canada primarily as a result of declining interest rates

**Experience gains/(losses):**

- **Q3 2019:** unfavourable market related impacts, morbidity, lapse and other policyholder behaviour, and other experience, partially offset by favourable credit, mortality, investing activity, and expense experience
- **Q3 2018:** favourable market related impacts, investing activity, credit, mortality, and morbidity, partially offset by unfavourable lapse and policyholder behaviour, expense experience, and other

**ACMA:** favourable impact of updates to mortality assumptions, offset by various model enhancements and methodology changes (primarily reinsurance related), updates to lapse and policyholder behaviour assumptions, and the impact of updates to the promulgated ultimate reinvestment rates (“URR”)

**Earnings on surplus:** higher AFS gains, partially offset by lower investment income

(1) See “Use of Non-IFRS Financial Measures” and “Reconciliation of Net Income measures” in the appendix to these slides.

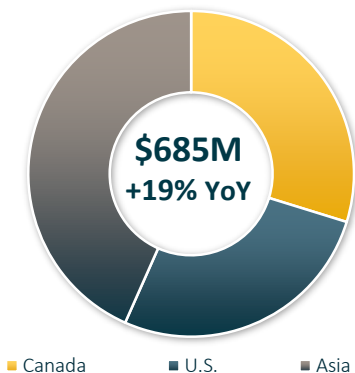
(2) Other includes: fair value adjustments on MFS’s share-based payment awards, acquisition, integration and restructuring costs, and the impact of certain hedges in Canada that do not qualify for hedge accounting

(3) Effective tax rate on underlying net income<sup>(1)</sup> was 9.2% in Q3 2019 (19.1% in Q3 2018)



# SALES RESULTS BY BUSINESS GROUP

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

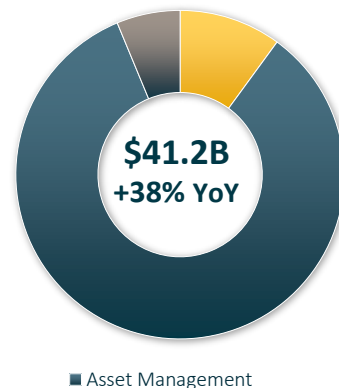


- Canada insurance sales in line with Q3 2018
- Asia sales up 45% on a constant currency basis, reflecting 49% growth in insurance sales across our local markets and 14% growth in International sales
- U.S. sales up 5% in local currency driven by increased medical stop-loss sales

VALUE OF NEW BUSINESS<sup>(1),(2)</sup>

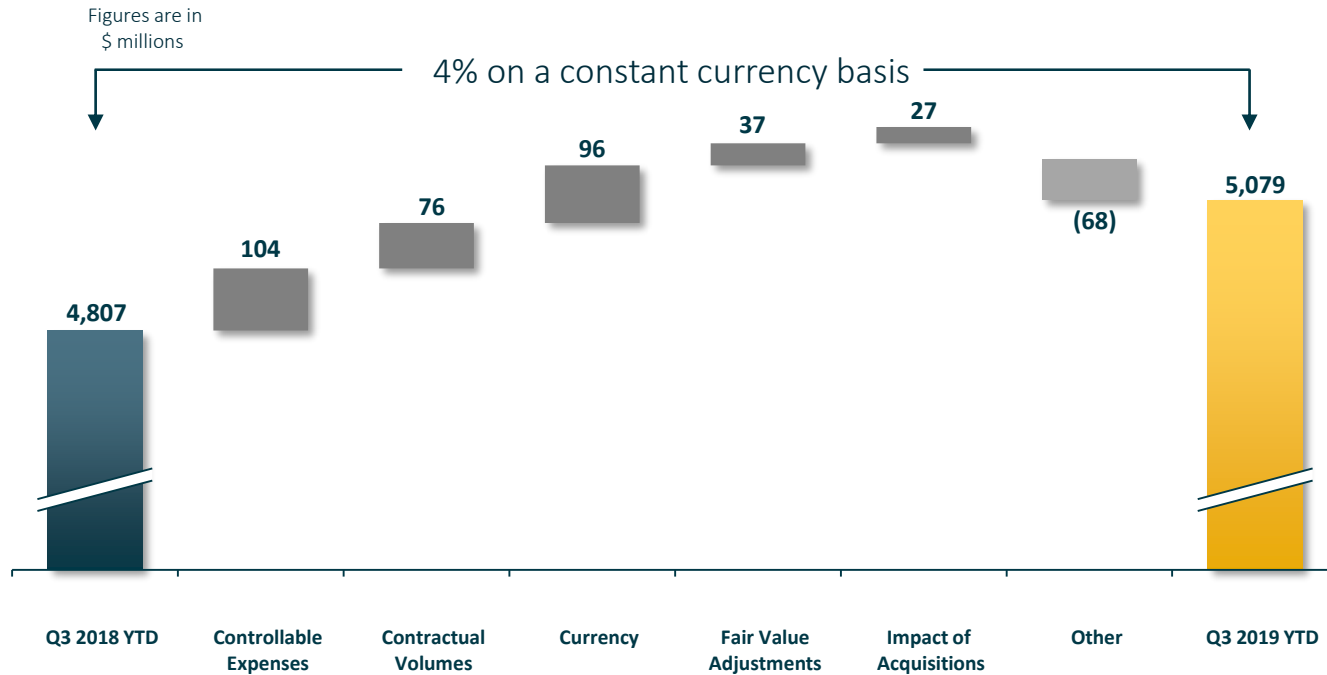
**+3% YoY**

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



- Canada wealth sales up 17% driven by Group Retirement Services
- Asia wealth sales up 31% on a constant currency basis, driven by elevated money market sales in the Philippines and growth of the pension business in Hong Kong, partially offset by lower mutual fund sales in India due to weak market sentiment and volatility
- Asset Management sales up 40% on a constant currency basis, driven by higher mutual and managed fund sales at MFS, and higher sales at SLC Management

# OPERATING EXPENSES



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

# | APPENDIX

## RECONCILIATION OF UNDERLYING NET INCOME

\$ millions	Q3'19 Pre-tax	Q3'19 After-tax
<b>Reported net income</b>		<b>681</b>
Net equity market impact (including basis risk impact of \$7 million) <sup>(1)</sup>	15	9
Net interest rate impact (including credit spread impact of \$4 million and swap spread impact of \$10 million) <sup>(1)</sup>	(95)	(90)
Impact of changes in the fair value of investment properties	(8)	(8)
Assumption changes and management actions <sup>(2)</sup>	(74)	0
Other <sup>(3)</sup>	(58)	(39)
<b>Underlying net income<sup>(2)</sup></b>		<b>809</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) Underlying net income and assumption changes and management actions are Non-IFRS financial measures. See "Use of Non-IFRS Financial Measures" in the appendix to these slides.

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

## OTHER NOTABLE ITEMS

Impact of other items on our net income \$ millions	Q3'19 Pre-tax	Q3'19 After-tax
<b>Experience related items</b>		
Impact of investment activity on insurance contract liabilities	11	8
Credit	47	44
Mortality	12	13
Morbidity	(61)	(45)
Lapse and other policyholder behaviour	(5)	(6)
Expenses	7	3
Other	(13)	4
<b>Total other notable items</b>		<b>21</b>

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

## 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 in isolation from or 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 impacts 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 that differ from our best estimate assumptions, which include: (i) impacts of returns in equity markets, net of hedging, for which our best estimate assumptions are approximately 2% per quarter. This also includes the impacts 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 impacts of changes in interest rates 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 impacts of changes in the fair value of investment properties in the reporting period;
- (b) assumption changes and management actions, which include: (i) the impacts of revisions to the methods and assumptions used in determining our liabilities for insurance contracts and investment contracts; and (ii) the impacts 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 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 costs (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 U.S. Group Benefits and effective income tax rate on an underlying net income basis.

Reconciliation of Select Net Income Measures	Q3'19	Q2'19	Q3'18
<b>Common shareholders' reported net income (loss)</b>	<b>681</b>	<b>595</b>	<b>567</b>
Impact of certain hedges that do not qualify for hedge accounting	(5)	(5)	(1)
Fair value adjustments on share-based payment awards at MFS	(8)	(11)	(10)
Acquisition, integration and restructuring	(26)	(11)	(11)
Net equity market impact	9	20	5
Net interest rate impact	(90)	(114)	14
Net increases (decrease) in the fair value of real estate	(8)	(3)	6
Assumption changes and management actions	0	(20)	(166)
<b>Common shareholders' underlying net income (loss)</b>	<b>809</b>	<b>739</b>	<b>730</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 the impact of the BentallGreenOak acquisition on Total Shareholders’ equity, (iv) relating to our expected tax range for future years, (v) set out in our interim management’s discussion and analysis for the period ended September 30, 2019 under the heading H - Risk Management - 1 - Market Risk Sensitivities - Interest Rate Sensitivities, (vi) that are predictive in nature or that depend upon or refer to future events or conditions, and (vii) 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, 2019 under the headings, C - Profitability - 5 - Income taxes, E - Financial Strength and H - Risk Management and in SLF Inc.’s 2018 AIF 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; the environment, environmental laws and regulations; 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, strategic investments 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; 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.