S&P Global Ratings

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Sun Life Financial Inc.

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Anchor	aa
Business Risk	**Excellent**
Competitive position	Excellent
IICRA	Very low
Financial Risk	**Very Strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

=

SACP	aa

+

Support	**0**
Group support	0
Government support	0

=

AA/Stable/--
Financial strength rating

A+/Stable/A-1+
Holding company ICR

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Top positions in various global markets	Capital adequacy at the 'A' level as of year-end 2020 per S&P Global Ratings' risk-based capital model as a result of successful organic growth
Strong, stable operating performance optimizes risk and reward	
Relatively low-risk liability profile with limited exposures to market-sensitive or long-duration liabilities	

S&P Global Ratings expects Sun Life Financial Inc. to continue its four-pillar strategy of focusing on its Canadian group and individual life, U.S. group, Asia, and asset management businesses. Since Sun Life announced its four-pillar strategy in 2012, it has grown across all four divisions. The company has exceeded its reported return on equity (ROE) medium-term objective of 10%-12% in recent years, with underlying ROE of 15.4% in 2021, and in third-quarter 2021 announced a new medium-term underlying ROE objective of 16% or more due to its success in achieving its objectives and the continued shift toward capital-light businesses.

Sun Life's earnings are likely to remain sound based on the strong operating performance and low risk of its divisions. Each of Sun Life's divisions--U.S. group business, Canadian insurance (individual and group), Asia, and asset management--continues to provide excellent risk-adjusted returns. The U.S. group and asset management businesses largely require very little capital (except for U.S. medical stop loss per S&P Global Rating's risk-based capital methodology) since both divisions are relatively low risk. Sun Life's Asian markets are higher growth and continue to perform well, and the company maintains its top market shares in the oligopolistic Canadian market.

Capitalization will likely remain a strength for Sun Life over the next two years. Sun Life's strong growth in recent years has led to deteriorating capital adequacy in our modeling. Over the next few years, we expect Sun Life to maintain 'AA' capital adequacy given its limited exposure to tail risks in its highly diversified and relatively shorter-duration insurance liability portfolio.

Outlook

Our outlook on Sun Life is stable, reflecting our expectation that the group will maintain its excellent business risk profile and very strong financial risk profile. We expect fixed-charge coverage above 8.0x and financial leverage below 35% in our base-case scenario. We also expect Sun Life to maintain its competitive position as a "big three" insurer in Canada, with consistent earnings from the asset management and U.S. and Asia insurance segments.

Downside scenario

We could lower the ratings if Sun Life's:

- Competitive position deteriorates owing to a longer-term decline in operating performance relative to peers, particularly in its core insurance operations;
- Market position or brand strength declines, particularly in its core Canadian market; or
- Capital weakens materially, and we expect the company not to recover to at least 'AA' capital adequacy over the ratings timeframe.

Upside scenario

While unlikely in the next two years, we could raise our ratings if capital redundancy at the 'AAA' level improves significantly and we believe management remains committed to maintaining capital at the 'AAA' level.

Assumptions

- Real Canadian GDP growth of 3.7% in 2022 and 2.6% in 2023
- Canadian core Consumer Price Index inflation of 3.4% in 2022 and 2.1% in 2023
- Canadian unemployment rate of 6.4% in 2022 and 2023
- Average 10-year U.S. Treasury note yield of 2.2% in 2022 and 2.8% in 2023

Sources: "Economic Outlook U.S. Q2 2022: Spring Chills," March 29, 2022 and "Economic Outlook Canada Q2 2022: Growth Forecasts Hold Up As Global Risks Rise," March 28, 2022.

S&P Global Ratings acknowledges a high degree of uncertainty about the extent, outcome, and consequences of the military conflict between Russia and Ukraine. Irrespective of the duration of military hostilities, sanctions and related political risks are likely to remain in place for some time. Potential effects could include dislocated commodities markets -- notably for oil and gas -- supply chain disruptions, inflationary pressures, weaker growth, and capital market volatility. As the situation evolves, we will update our assumptions and estimates accordingly. See our macroeconomic and credit updates here: Russia-Ukraine Macro, Market, & Credit Risks. Note that the timing of publication for rating decisions on European issuers is subject to European regulatory requirements.

Sun Life Financial Inc.--Key Metrics

	2023f	2022f	2021	2020	2019
Net income (mil. C$)	>2,800	>2,700	4,035	2,509	2,717
Fixed-charge coverage (x)	>8	>8	19.56	13.75	12.82
Financial leverage (%)	<35	<35	28.1	26.4	24.8
S&P capital adequacy/redundancy	AA	AA	AA	AA	AA
Return on revenue (%)	8-10	8-10	13.8	7.3	8.0
Return on assets (%)	>1	>1	1.5	1.0	1.1
Return on equity (%)	>10	>10	15.0	10.0	11.1

Business Risk Profile

Sun Life has an excellent competitive position, supported by stable operating performance, broad geographic and business diversity, and leading market positions in the group and individual businesses in Canada. It is within the top three Canadian life insurers and the brand is well-recognized in Canada, as evidenced by its 23% market share in the individual insurance segment.

Sun Life maintains high persistency among its group clients. The company has long-established top-ranked positions in the group retirement services and group benefits markets in Canada. Other segments include:

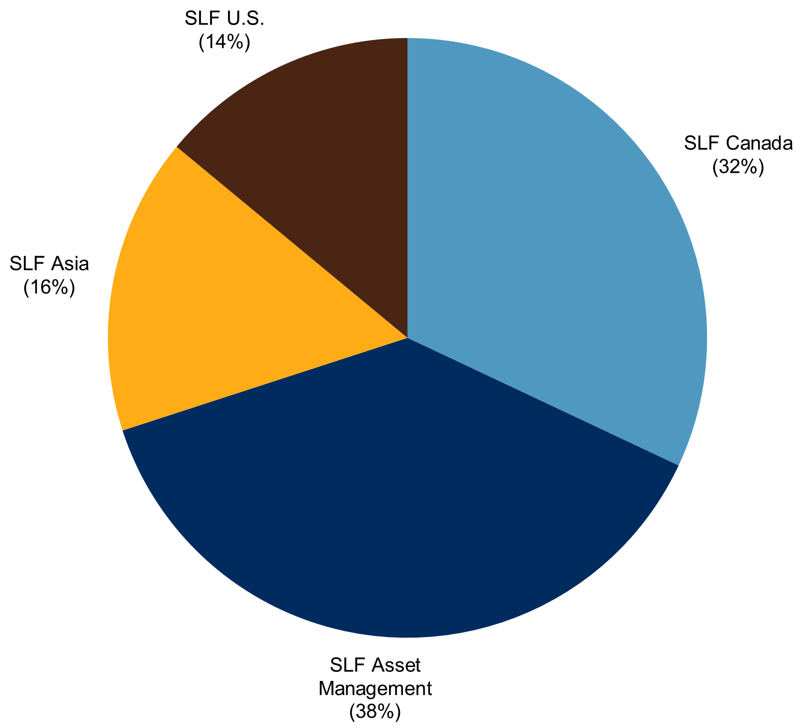
- U.S. group benefits;
- Asset management, which includes its third-party asset management business and its flagship Massachusetts-based manager MFS Investment Management; and
- The Asia business, which sells life insurance in Hong Kong, the Philippines, Indonesia, Malaysia, and elsewhere in the region.

In 2021, its regional segments SLF Canada, SLF U.S., and SLF Asia contributed 32%, 14%, and 16% of underlying net income, respectively. Individual insurance, wealth and asset management, and group insurance contributed 19%, 51%, and 30%, respectively. The company also has broad distribution, including a career sales force and third-party agents.

On Oct. 4, 2021, Sun Life announced that it will acquire DentaQuest for US$2.475 billion. DentaQuest is the second-largest national provider of dental benefits in the U.S., with 33 million members. The company focuses on the growing U.S. government programs space. The acquisition will more than double Sun Life's U.S. group benefit business based on pro forma 2020 revenue -- continuing the company's current strategy of being a leader in the U.S. group benefits business, one of Sun Life's four pillars.

Chart 1

Sun Life--Business Line Diversification (Underlying Net Income)



Note: Excludes corporate segment.

Sun Life's operating performance has been strong, with ROE (on a net income basis, unadjusted for preferred shares) consistently averaging 10%-12%. Reported ROE in 2021 was about 15%, reflecting higher income, largely from higher equity markets and increases in the value of real estate investments and interest rates during the year.

Sun Life's COVID-19 related mortality claims were elevated in 2021, owing to a higher COVID-19 impact on the working-age population in the U.S., but remained very manageable. Net premiums written slightly declined by 2.9%, largely due to 29% lower premiums in Asia, offset by a healthy increase of 6% in SLF Canada and SLF U.S. premiums in local currency. The decline in SLF Asia's premiums were mainly driven by the broker channel, which was impacted by the continued travel ban and increased competition in the Hong Kong market. We expect premiums to recover in this region overall as the risk of lockdowns abates.

The company's sources of earnings are diversified by geography and risk, which is a strength to the rating. Sun Life continues to grow its asset management business. SLC Management, which is also the company's in-house manager for its general account, has boosted its capabilities through acquisitions like Infrared in 2020 and Crescent Capital Group in 2021. MFS, the company's third-party asset manager, continued to be a solid contributor to SLF's margins in 2021, despite net outflows of US$9.2 billion, largely driven by institutional investors that needed to rebalance portfolios due to market appreciation. As an active asset manager, we expect MFS to continue to face headwinds as the market shifts to passive from active investing. Still, we believe MFS will remain a source of consistent dividends for Sun Life. The asset management businesses combined have consistently contributed more than 20% of EBIT over the past few years and we expect them to continue to do so.

Financial Risk Profile

As of year-end 2020, Sun Life's capital was marginally deficient at the 'AA' confidence level but significantly redundant at the 'A' confidence level, according to our risk-based capital model. This was mainly due to the success of its organic growth strategy and higher allocation to private debt, which we view as an asset class that garners higher capital requirements in our risk-based capital model. We expect capitalization to return to 'AA' over the next two years through the company's strong earnings generation capacity. The Life Insurance Capital Adequacy Test ratio was 145% on a consolidated basis (including the holding company, which is regulated by the Office of the Superintendent of Financial Institutions) as of Dec. 31, 2021.

Sun Life's overall risk exposure is moderately low, with generally lower risk and shorter duration products than many peers. We believe it benefits from strong risk controls and continues to monitor risk adequately, especially interest rate risk at the product, portfolio segment, business unit, legal entity, and enterprise levels. Sun Life uses a variety of metrics, techniques, instruments, and management actions--including extensive stress testing and stochastic analysis--that compare very favorably with peers.

Sun Life also has a diverse, highly-rated, and well-managed investment portfolio, with an average credit quality of 'A'. Its postretirement liabilities are well-funded and its exposure to foreign-exchange mismatches is moderate, but we believe its strong risk framework monitors these risks within tolerances.

Sun Life's funding structure remains neutral to the rating, with coverage exceeding 8x and leverage of less than 35%. We expect both metrics to remain stable.

Other Credit Considerations

Governance

In our view, Sun Life's governance practices are in line with public companies. It has clear performance and operational goals and strategies, which it lays out for the market and systematically tracks. The company has robust internal financial reporting and conservative risk tolerances that show a strong enterprise risk management program embedded throughout the organization.

The breadth and depth of management are strong, and the board regularly evaluates succession plans. Management has a record of converting strategic decisions into action and meeting its financial and operational goals.

Liquidity

Based on our assessment, Sun Life has adequate liquidity, with a liquidity ratio of 212% as of year-end 2020. In our liquidity analysis, we exclude holding company cash of more than C$500 million as we believe the excess will be deployed to fund opportunistic acquisitions. Including the full C$3.1 billion of holding company cash as of year-end

2020 would not change our liquidity assessment. Because of Sun Life's nonlife business (accident and health and notably the stop-loss), the proportion of stressed liabilities is higher than that of other life companies, as we charge the net claim reserves 100%, in addition to an 'A' confidence-level charge for reserves and premiums.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental, social, and governance (ESG) factors have no material influence on our credit rating analysis of Sun Life Financial Inc.

Sun Life's exposure to ESG risk factors is in line with other global life insurers. The primary ESG exposures for Sun Life as a life insurance, health solutions, and retirement services provider are social risk factors, such as mortality and morbidity trends, the shifting dynamics of the life and health insurance and retirement services markets in the U.S. and Canada, long-term demographic trends in Asia, and to a lesser extent, the management of human capital and customer relationships. We believe these risks are well reflected in our ratings.

In our view, the company's exposure to excess mortality and morbidity claims related to COVID-19 have slightly pressured its operating margins, however we believe this to be manageable due to its proactive claims management and diversified geographic and product profile, which positions the company to address these risks effectively. During the pandemic, the company had a number of initiatives across the globe that extended COVID-19 related support, such as its payment deferment program, vaccine complications fund, and medical assistance fund. We view these as positive steps in meeting customer expectations and addressing social risks, but we believe this to be consistent with a neutral social indicator (S-2) and embedded in Sun Life's financial strength. Like most companies in the life insurance sector, its exposure to environmental risks is minimal.

Accounting considerations

The company reports audited financial data prepared in accordance with International Financial Reporting Standards (IFRS) and will be required to implement IFRS 17, effective January 2023. Sun Life has established a transition program for IFRS 17 and will manage the associated risks regarding implementation. An accounting change should not change the fundamental risk of insurance operations and the ultimate impact is being assessed. We do expect additional disclosures around reported equity and liability valuation assumptions, such as those used for the contractual service margin and risk adjustment, for example, which could be considered in our analysis once the standard is implemented.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Sun Life Financial Inc. Increases Its U.S. Group Benefits Footprint Via Its Acquisition Of DentaQuest, Oct. 4, 2021

Appendix

Sun Life Credit Metrics History

Ratio/Metric	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	AA	AA	AA	AAA	AAA
Total invested assets (mil. C$)	322,935	301,673	277,044	253,676	251,053
Total shareholder equity (mil. C$)	28,073	25,862	24,508	24,570	22,971
Gross premiums written (mil. C$)	25,506	26,190	22,688	20,981	19,838
Net premiums written (mil. C$)	23,053	23,738	20,288	18,642	15,281
Reinsurance utilization (%)	9.62	9.36	10.55	11.15	22.97
EBIT (mil. C$)	5,089	3,359	3,336	3,518	2,847
Net income (attributable to all shareholders) (mil. C$)	4,035	2,509	2717	2616	2,242
Return on revenue (%)	13.78	7.27	8.00	12.68	9.44
Return on assets (excluding investment gains/losses) (%)	1.49	1.03	1.13	1.29	1.07
Return on shareholders' equity (reported) (%)	14.96	9.96	11.07	11.01	9.89
Life: Net expense ratio (%)	48.72	41.65	45.98	47.01	55.87
EBITDA fixed-charge coverage (x)	19.56	13.75	12.82	11.25	9.06
EBIT fixed-charge coverage (x)	17.96	12.18	11.46	10.55	8.43
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	18.58	12.98	12.04	10.84	8.67
Financial obligations / EBITDA adjusted	1.88	2.38	2.07	1.93	2.53
Financial leverage including pension deficit as debt (%)	28.10	26.40	24.81	23.99	26.64
Net investment yield (%)	2.58	7.57	8.46	1.62	5.75
Net investment yield including investment gains/(losses) (%)	2.27	7.63	8.34	1.96	5.31

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	**Very Strong**	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	**aa**	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of April 28, 2022)*

Sun Life Financial Inc.	
Issuer Credit Rating	A+/Stable/A-1+
Preferred Stock *Canada National Scale Preferred Share*	P-1(Low)
Preferred Stock	A-
Subordinated	A
Subordinated	A-
Related Entities	
Sun Life and Health Insurance Co. (U.S.)	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--
Sun Life Assurance Co. of Canada	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	AA/Stable/A-1+
Subordinated	AA-
Sun Life Assurance Co. of Canada (U.S. branch)	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--
Sun Life Capital Trust	
Preferred Stock *Canada National Scale Preferred Share*	P-1
Preferred Stock	A+

Ratings Detail (As Of April 28, 2022)*(cont.)	
Sun Life Hong Kong Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Domicile	Canada

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.