S&P Global
Ratings

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Sun Life Financial Inc.

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Sun Life Financial Inc.

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 market positions in multiple global markets	Strong organic growth that may strain capital adequacy per our risk-based capital model
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. Sun Life has consistently met our expectation of reported return on equity (ROE) of 10%-12% (per our calculations). At the same time, it has exceeded its own underlying ROE medium-term objective of 12%-14% in recent years. In 2022, it generated underlying ROE of 15.1%, which is trending toward its updated medium-term underlying ROE target of 16% or more (and is expected to increase to 18% or more following the adoption of IFRS 17). This has been the result of the company's 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 capital adequacy was redundant at the 'AA' level as of year-end 2021. Its private debt portfolio, a source of risk-adjusted return given the covenant and collateral protections of the company's allocation to this asset class, has grown to C$40.9 billion as of year-end 2022, from C$30.3 billion as of year-end 2018. In our capital analysis, we assess the capital charges on Sun Life's private debt investments by considering the credit characteristics and remaining tenors of the underlying securities, and apply an appropriate capital charge rather than treating the investment as a typical unsecured loan. We expect the company to maintain its '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 is committed to maintaining capital at the 'AAA' level.

Assumptions

- Real Canadian GDP growth of 0.8% in 2023 and 1.5% in 2024
- Canadian core Consumer Price Index inflation of 3.6% in 2023 and 1.6% in 2024
- Canadian unemployment rate of 5.5% in 2023 and 6.0% 2024
- Government of Canada 10-year note rates of 3.4% in 2023 and 3.1% in 2024

Source: "Economic Outlook Canada Q2 2023: A Dip Is Expected, Though Resilience Persists," March 27, 2023

Sun Life Financial Inc. key metrics

	2024f	2023f	2022	2021	2020	2019
Net income (mil. C$)	>2,800	>2,800	3,186	4,035	2,509	2,717

Sun Life Financial Inc. key metrics (cont.)						
	2024f	**2023f**	**2022**	**2021**	**2020**	**2019**
Fixed-charge coverage (x)	>8	>8	15.31	19.56	13.75	12.82
Financial leverage (%)	<30	<30	27.3	28.1	26.4	24.8
S&P capital adequacy/redundancy	AA	AA	AA	AA	AA	AA
Return on revenue (%)	8-10	8-10	17.2	13.8	7.3	8.0
Return on assets (%)	>1	>1	1.2	1.5	1.0	1.1
Return on equity (%)	>10	>10	11.1	15.0	10.0	11.1

f--Forecast.

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 life 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 and U.S dental and health insurance;
- 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 and health insurance, asset management and group retirement products in Hong Kong, the Philippines, Indonesia, Malaysia, and elsewhere in the region.

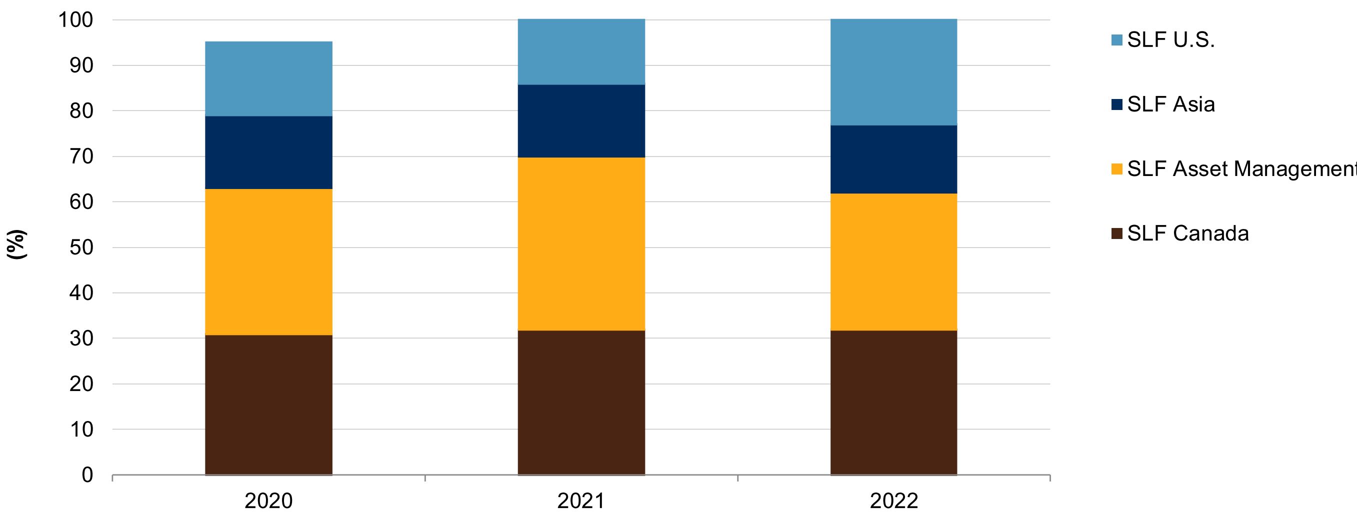
As a result of the company's continued focus on its four-pillar strategy, Sun Life completed the sale of SLF of Canada UK Ltd. (Sun Life UK; which represented a small part of group earnings) to Phoenix Group Holdings plc. As part of the sale, Sun Life entered into a long-term strategic partnership with Phoenix Group where Sun Life's asset management businesses will continue to manage the general account of Sun Life UK and a significant portion of Phoenix Group's asset allocation to North American public and private fixed income and alternative investments, which Phoenix Group expects to grow to US$25 billion over the next five years. This strategic partnership is consistent with Sun Life's asset management pillar above.

In 2022, its regional segments SLF Canada, SLF U.S., and SLF Asia contributed 32%, 23%, and 15% of underlying net income, respectively. Individual insurance, wealth and asset management, and group insurance contributed 21%, 40%, and 39%, respectively. The company also has broad distribution, including a career sales force and third-party agents.

On June 1, 2022, Sun Life announced the completion of its acquisition of DentaQuest, the second-largest dental benefits provider in the U.S. by membership. DentaQuest has about 36 million members in 36 states as of Jan 1, 2023. The company continues to focus on the growing U.S. government programs space. We expect the DentaQuest business to further Sun Life's foothold in U.S. group benefits and contribute about 2%-3% to Sun Life's earnings once fully integrated.

Chart 1

Sun Life business line diversification by contribution to underlying net income



Excludes Corporate segment. 2020 results exclude SLF UK. Source: Sun Life Q4 2022 results fact sheet.

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 2022 was about 11.09%, reflecting resilient and strong underwriting, but unfavorable market-related impacts were a drag, especially the change in the fair values of assets held and certain one-time expenses like acquisition, integration, and restructuring costs from the DentaQuest acquisition.

Sun Life's COVID-19-related morbidity and mortality moderated relative to 2021, especially toward the latter half of 2022. Net premiums written were up by about 17%, largely due to SLF's U.S. contribution increasing by 55%. We expect the re-opening of Sun Life's markets in Asia, such as that of Hong Kong, will help net premium growth in the next two years.

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, is slowly increasing its third-party reach, for example through its 2023 acquisition of Advisors Asset Management, which will distribute SLC's alternative investment strategies to the U.S. retail market. MFS, the company's third-party asset manager, remained a solid contributor to Sun Life's margins in 2022, despite net outflows of US$33 billion primarily due to macroeconomic volatility. 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 about one-third of EBIT over the past few years, and we expect them to continue to do so.

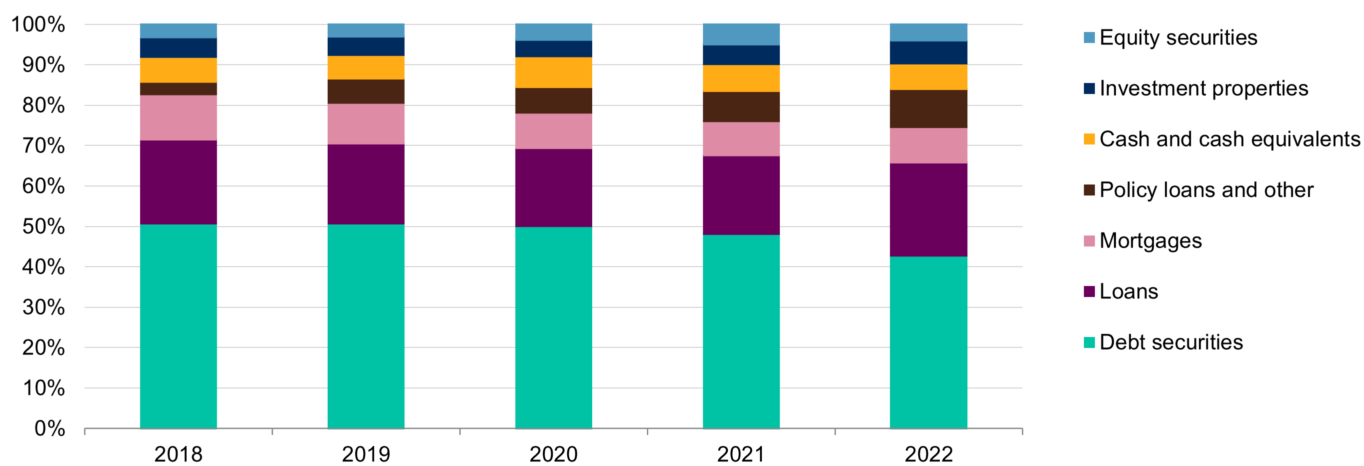
Financial Risk Profile

As of year-end 2021, Sun Life's capital was redundant at the 'AA' confidence level, according to our risk-based capital model. We expect capitalization to remain at the 'AA' level over the next two years through the company's strong earnings generation capacity. The life insurance capital adequacy test ratio was 130% on a consolidated basis (including the holding company, which is regulated by the Office of the Superintendent of Financial Institutions) as of Dec. 31, 2022.

Sun Life also has a diverse, highly-rated, and well-managed investment portfolio with an average credit quality of 'A'. Its private debt portfolio has grown since the 2008 financial crisis. As a percentage of total bonds, the allocation of public versus private debt has changed to 65%/35% as of year-end 2022 from 70%/30% as of year-end 2018, as Sun Life's private debt capabilities expanded through the years. The credit losses of its private debt portfolio have performed well over time. When analyzing the private debt portfolio within our capital analysis, we consider its underlying credit characteristics and the remaining tenor of the securities.

Chart 2

Sun Life's investment composition



Sources: Sun Life Q4 2022 results fact sheet and Sun Life annual reports.

Sun Life's 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 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'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 205% as of year-end 2021. 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$1.1 billion of holding company cash as of year-end 2021 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.

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 been proactive in communicating potential impacts of the standard upon implementation. An accounting change should not change the fundamental risk of insurance operations. 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

Appendix

Table 1

Sun Life Inc. credit metrics history

Ratio/Metric	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy	AA	AA	AA	AA	AAA
Total invested assets (mil. C$)	300,489	322,935	301,673	277,044	253,676
Total shareholder equity (mil. C$)	29,377	28,073	25,862	24,508	24,570
Gross premiums written (mil. C$)	29,160	25,506	26,190	22,688	20,981
Net premiums written (mil. C$)	26,863	23,053	23,738	20,288	18,642
Reinsurance utilization (%)	7.88	9.62	9.36	10.55	11.15
EBIT (mil. C$)	4,252	5,089	3,359	3,336	3,518
Net income (attributable to all shareholders; mil. C$)	3,186	4,035	2,509	2717	2616
Return on revenue (%)	17.24	13.78	7.27	8.00	12.68
Return on assets (excluding investment gains/losses) (%)	1.20	1.49	1.03	1.13	1.29
Return on shareholders' equity (reported) (%)	11.09	14.96	9.96	11.07	11.01
Life: Net expense ratio (%)	43.48	48.72	41.65	45.98	47.01
EBITDA fixed-charge coverage (x)	15.31	19.56	13.75	12.82	11.25
EBIT fixed-charge coverage (x)	13.53	17.96	12.18	11.46	10.55
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	14.31	18.58	12.98	12.04	10.84
Financial obligations / EBITDA adjusted (x)	2.24	1.88	2.38	2.07	1.93

Table 1

Sun Life Inc. credit metrics history (cont.)

Ratio/Metric	2022	2021	2020	2019	2018
Financial leverage including pension deficit as debt (%)	27.34	28.10	26.40	24.81	23.99
Net investment yield (%)	-6.47	2.58	7.57	8.46	1.62
Net investment yield including investment gains/(losses) (%)	-6.47	2.27	7.63	8.34	1.96

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 May 1, 2023)*

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/--

Ratings Detail (As Of May 1, 2023)*(cont.)	
Issuer Credit Rating	
Local Currency	AA/Stable/--
Sun Life Capital Trust	
Preferred Stock *Canada National Scale Preferred Share*	P-1
Preferred Stock	A+
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.