

Sun Life Financial Inc.

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Sun Life Financial Inc.

| | | | | | | | | |
|-----------------------|--------------------|---|-----------------------------|----------|---|--------------------|-----------|----------------------------------|
| Anchor | aa | + | Modifiers | 0 | = | SACP | aa | |
| | | | | | | | | AA/Stable/-- |
| Business Risk | Excellent | | | | | Support | 0 | Financial strength rating |
| Competitive position | Excellent | | Governance | Neutral | | | | |
| IICRA | Very low | | Liquidity | Adequate | | Group support | 0 | |
| Financial Risk | Very Strong | | Comparable ratings analysis | 0 | | Government support | 0 | A+/Stable/A-1+ |
| Capital and earnings | Very strong | | | | | | | Holding company ICR |
| Risk exposure | Moderately low | | | | | | | |
| Funding structure | Neutral | | | | | | | |

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

Credit Highlights

| Overview | |
|---|--|
| Key strengths | Key risks |
| Diversified business with top market positions across multiple global markets. | Strong organic growth that may strain capital adequacy per our risk-based capital model. |
| Strong, stable operating performance that optimizes risk and reward. | Uncertain macroeconomic conditions. |
| Relatively low-risk liability profile with limited exposures to market-sensitive or long-duration products. | |

S&P Global Ratings expects Sun Life Financial Inc. to continue focusing on its Canadian group and individual life, U.S. group, Asia, and asset management businesses. Sun Life's four-pillar strategy has been at the core of its strategy since its inception in 2012. Sun Life's diversified operations, each contributing meaningfully to underlying earnings, demonstrate its success.

The group's reported return on equity (ROE), with the adoption of IFRS 17, has been 13%-14% per our calculations. In 2024, Sun Life's underlying ROE was 17.2%, just shy of its previous 18% medium-term financial objective (updated to 20% at the company's investor day in November 2024), as the company achieved its objectives and continued to shift toward capital-light businesses.

Sun Life's earnings are likely to remain sound, based on its strong operating performance and the low risk of its divisions. Each of Sun Life's divisions 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 Ratings' risk-based capital methodology) since both divisions are relatively low risk. Sun Life's Asian markets are higher growth and continue to perform well, particularly the Hong Kong market as it reopened post pandemic. 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--per our revised capital model criteria--was redundant at the 99.95% confidence level as of year-end 2023. 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--grew to about C\$43 billion as of year-end 2024, from C\$30.3 billion as of year-end 2018.

When analyzing the private debt portfolio in our capital analysis, we consider its underlying credit and sector characteristics and the remaining tenor of the securities. We expect the company to maintain its redundancy at the 99.95% level, supported by strong earnings. Our forecast also accounts for its limited exposure to tail risks in its highly diversified and relatively shorter-duration insurance liability portfolio.

Outlook: Stable

Our outlook on Sun Life is stable, reflecting our expectation that it will maintain its excellent business risk profile and very strong financial risk profile. Our base-case scenario assumes fixed-charge coverage above 8x and financial leverage below 35%. 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 the U.S. and Asian 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;
- Noninsurance sources of earnings become the majority of the group's earnings profile; or
- Capital weakens materially, and we expect the company's capital adequacy to be below the 99.95% confidence level for a prolonged period.

Upside scenario

While unlikely in the next two years, we could raise our ratings if the company maintains capital redundancy at the 99.99% confidence level, and we believe management is committed to maintaining capital at that level.

Assumptions

- Real GDP growth of 1.7% in 2025 and 1.9% in 2026.
- Core Consumer Price Index growth of 2.7% in 2025 and 2.1% in 2026.
- Unemployment rate growth of 6.8% in 2025 and 6.5% in 2026.
- 10-year government bond yield of 2.8% in 2025 and 2.9% in 2026.

Source: "Economic Outlook Canada Q2 2025: Trade Tensions Disrupt Growth Improvement."

| Sun Life Financial Inc.--Key metrics | | | | | |
|---|--------|--------|--------|-------|-------|
| | 2026* | 2025* | 2024 | 2023 | 2022 |
| Net income | >3,400 | >3,200 | 3,257 | 3,291 | 2,997 |
| Fixed-charge coverage (x) | >8 | >8 | 16.00 | 14.80 | 14.77 |
| Financial leverage (%) | <30 | <30 | 29.3 | 31.6 | 33.2 |
| S&P Global Ratings capital adequacy/redundancy (confidence level %) | 99.95 | 99.95 | 99.95* | 99.95 | 99.95 |
| Return on revenue (%) | 8-10 | 8-10 | 11.9 | 10.2 | N.M. |
| Return on assets (%) | >1 | >1 | 1.3 | 1.3 | 1.2 |
| Return on equity (%) | >12 | >12 | 12.9 | 14.0 | 13.29 |

*Forecast data represent S&P Global Ratings' base-case assumptions. N.M.--Not meaningful.

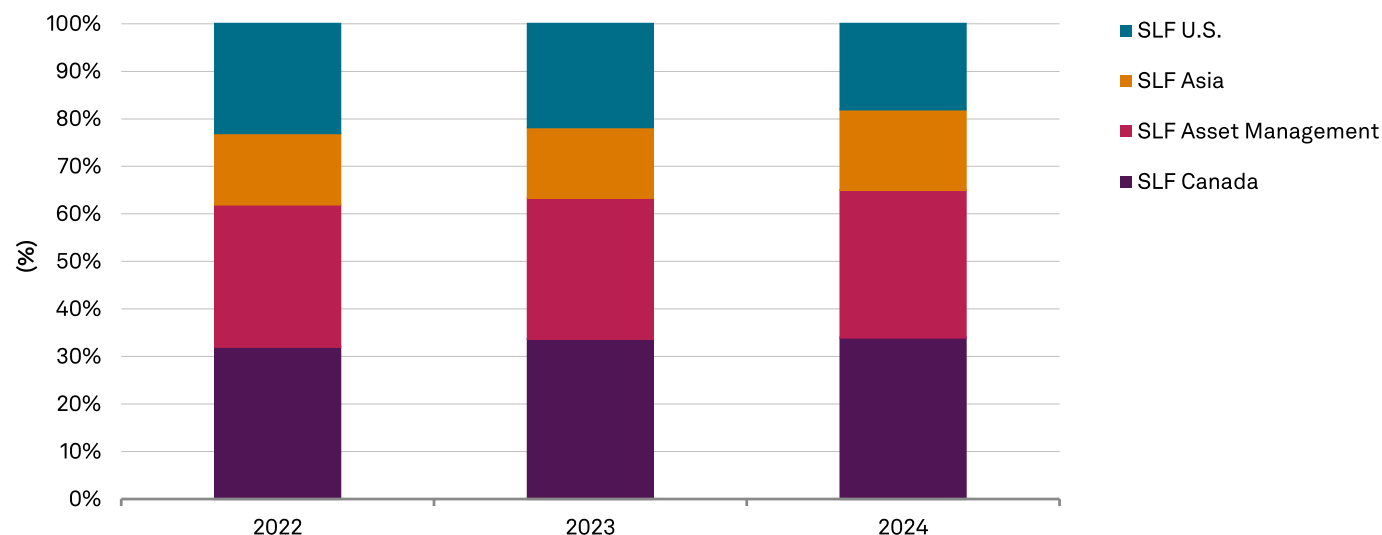
Business Risk Profile: Excellent

Sun Life has 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 27% market share in the individual life insurance segment. Outside of Canada, Sun Life also holds strong market positions in the U.S. and Asia.

The segments within other markets include:

- U.S. group benefits and U.S. dental and health insurance;
- Asset management, including its third-party asset management business and its flagship Massachusetts-based manager MFS Investment Management, and alternative asset manager SLC Management;
- The Asia business, which sells life and health insurance, asset management and group retirement products in Hong Kong, the Philippines, Indonesia, Malaysia, and other countries in the region.

In 2024, its regional divisions SLF Canada, SLF U.S., and SLF Asia contributed 34%, 18%, and 17% of underlying net income, respectively. Individual insurance, wealth and asset management, and group insurance contributed 30%, 42%, and 28%, respectively. The company also has broad distribution, including a career sales force and third-party agents.

Chart 1**Sun Life--Business line diversification**
(Underlying net income)

Note: Excludes corporate segment. 2020 results excludes SLF UK. Source: Sun Life MD&A, 2024.

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Sun Life's operating performance has been strong, with ROE (on a net income basis, unadjusted for preferred shares) consistently averaging 13%-14% on an IFRS 17 basis. Reported ROE in 2024 was about 12.9% based on our calculations, reflecting overall strong top-line growth and strong overall underwriting results across all its divisions. Sun Life faced unfavorable morbidity experience in the latter half of 2024 resulting from higher medical utilization and increased severity of the claims in the U.S. stop-loss business, as has been the case for the industry at large.

However, we believe Sun Life's diversification strength--complemented by solid growth across its other lines--helps minimize unfavorable impacts from a particular market. Also, the company's investments in digitization across the value chain, including customer health platforms, will increase expenses in the near term. But we think this will deliver both franchise and financial benefits over the longer term.

The company's sources of earnings are diversified by geography and risk, which is a strength to the rating. SLC Management, which is also the company's in-house manager for its general account, is an institutional asset manager focused on yield-oriented asset classes. Its assets under management (AUM) was C\$250 billion as of year-end 2024 and it contributed about 4.6% of the group's underlying income.

MFS, the company's third-party asset manager, remained a solid contributor to Sun Life's margins in 2024, despite net outflows of about US\$58 billion primarily due to macroeconomic volatility. Nonetheless, it ended the year with AUM of US\$606 billion. We expect MFS, as an active asset manager, to continue to face headwinds as the market shifts to passive from active investing.

Still, we believe MFS will remain a consistent source of dividends for Sun Life. The asset management businesses combined have contributed about one-third of EBIT over the past few years, and we expect them to continue to do so. We view the asset management earnings favorably as a source of noninsurance, diverse, and nonregulated cash flow, but this segment tends to be pro-cyclical. If most of the group's earnings come from asset management, this could be a negative for the ratings.

Financial Risk Profile: Very Strong

As of year-end 2023, Sun Life's capital was redundant at the 99.95% confidence level, according to our risk-based capital model. We expect capitalization to remain at the 99.95% level over the next two years through the company's strong earnings generation capacity.

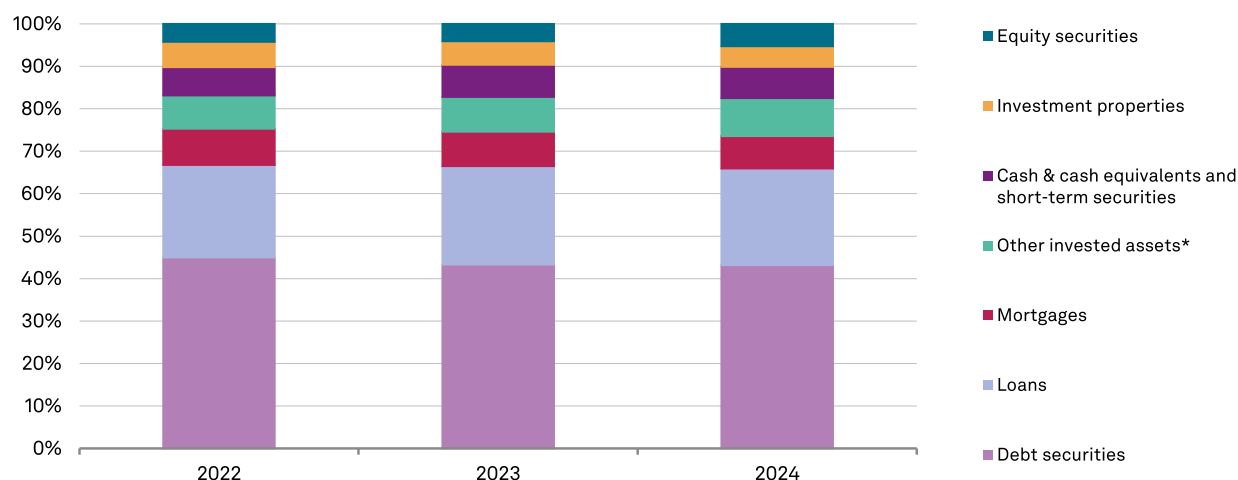
The Life Insurance Capital Adequacy Test ratio was 152% on a consolidated basis (including the holding company, which is regulated by the Office of the Superintendent of Financial Institutions) as of Dec. 31, 2024.

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 2024 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 and sector characteristics and the remaining tenor of the securities.

Chart 2

Sun Life--Investment composition
(Bil. C\$)



*Other invested assets include derivative assets; inputs presented on an IFRS 17 basis. Source: Sun Life's Q4'24, MD&A.
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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 has 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

Sun Life has adequate liquidity per our calculations. Because of Sun Life's non-life business (accident and health and notably the stop-loss), the proportion of stressed liabilities is higher than that of other life insurers, as we charge the net claim reserves 100%, in addition to a 99.5% confidence-level charge for reserves and premiums.

Accounting considerations

The company reports audited financial data prepared in accordance with IFRS 17.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- 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
- General Criteria: Guarantee Criteria, Oct. 21, 2016

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Appendix

Sun Life Financial Inc.--Credit metrics history

| | IFRS 17 | IFRS 17 | IFRS 17 |
|---|--------------|-------------|-------------|
| Ratio/Metric | 2024 | 2023 | 2022 |
| S&P Global Ratings capital adequacy | Very strong* | Very strong | Very strong |
| Total invested assets | 338,603 | 302,780 | 294,081 |
| Total shareholders' equity | 26,129 | 24,200 | 22,887 |
| Insurance revenue | 22,637 | 21,356 | 18,902 |
| EBIT | 5,003 | 4,482 | 4,071 |
| Net income (attributable to all shareholders) | 3,257 | 3,291 | 2,997 |
| Return on revenue (%) | 11.93 | 10.24 | N.M. |
| Return on assets (excluding investment gains/losses) (%) | 1.32 | 1.29 | 1.16 |
| Return on shareholders' equity (reported) (%) | 12.94 | 13.98 | 13.29 |
| EBITDA fixed-charge coverage (x) | 16.00 | 14.80 | 14.77 |
| EBIT fixed-charge coverage (x) | 13.77 | 12.96 | 12.99 |
| EBIT fixed-charge coverage including realized and unrealized gains/losses (x) | 15.04 | 13.97 | 13.77 |
| Financial obligations/EBITDA adjusted | 1.86 | 2.14 | 2.35 |
| Financial leverage including pension deficit as debt (%) | 29.29 | 31.62 | 33.19 |
| Net investment yield (%) | 4.07 | 6.75 | -11.63 |
| Net investment yield including investment gains/(losses) (%) | 4.05 | 6.67 | -11.41 |

*Forecast data represent S&P Global Ratings' base-case assumptions. N.M.--Not meaningful.

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 8, 2025)***Sun Life Financial Inc.**

| | |
|---|----------------|
| Issuer Credit Rating | A+/Stable/A-1+ |
| Preferred Stock <i>Canada National Scale Preferred Share</i> | P-1(Low) |
| Preferred Stock | A- |
| Senior Unsecured | A+ |
| Subordinated | A |
| Subordinated | A- |

Related Entities**Sun Life and Health Insurance Co. (U.S.)**

| | |
|--|--------------|
| Financial Strength Rating <i>Local Currency</i> | AA/Stable/-- |
| Issuer Credit Rating <i>Local Currency</i> | AA/Stable/-- |

Sun Life Assurance Co. of Canada

| | |
|--|----------------|
| Financial Strength Rating <i>Local Currency</i> | AA/Stable/-- |
| Issuer Credit Rating | AA/Stable/A-1+ |
| Subordinated | AA- |

Sun Life Assurance Co. of Canada (U.S. branch)

| | |
|--|--------------|
| Financial Strength Rating <i>Local Currency</i> | AA/Stable/-- |
| Issuer Credit Rating <i>Local Currency</i> | AA/Stable/-- |

Sun Life Capital Trust

| | |
|---|-----|
| Preferred Stock <i>Canada National Scale Preferred Share</i> | P-1 |
| Preferred Stock | A+ |

Sun Life Hong Kong Ltd.

| | |
|--|---------------|
| Financial Strength Rating <i>Local Currency</i> | AA-/Stable/-- |
| Issuer Credit Rating <i>Local Currency</i> | 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.

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