Rating Report

Sun Life Financial Inc. and Affiliates

DBRS

Insight beyond the rating.

Hema Singh
+1 212 806 3275
hsingh@dbrs.com

Marcos T. Alvarez, MBA
+1 416 597 7553
malverez@dbrs.com

Ratings

Issuer	Obligation	Rating	Rating Action	Trend
Sun Life Financial Inc.	Issuer Rating	A	Confirmed	Stable
Sun Life Assurance Company of Canada	Financial Strength Rating	AA (low)	Confirmed	Stable

*A complete list of the rated debt instruments appears on the last page of this report.

Rating Drivers

Factors with Positive Rating Implications

DBRS, Inc. (DBRS) views Sun Life Financial Inc. (SLF or the Company) as well placed in its current rating category and sees limited potential for positive rating action in the near term; however, positive ratings pressure may arise from:

(1) Significant progress in strengthening the Company's franchise by enhancing its market position in Asia and the United States while managing product and operational risk arising from operating in multiple jurisdictions with varying degrees of geopolitical risk;

(2) Continued success in managing policy lapse and market risk arising from product guarantees and legacy blocks of businesses; and

(3) Improved asset quality, including a reduction in the proportion of BBB-rated bonds and corporate loans as a percentage of its total bond portfolio.

Factors with Negative Rating Implications

Negative rating implications could arise from:

(1) Deterioration in the Canadian franchise strength or a sustained decline in this segment's profitability;

(2) A material decline in SLF's regulatory capital ratio caused by an adverse credit event or reserve strengthening;

(3) Significant cash flow declines from the Company's asset management segment; and

(4) A sustained increase in financial leverage above 30% and a decline in fixed-charge coverage ratios below 7.0 times (x).

Rating Considerations

Franchise Strength: SLF's well-diversified life insurance and asset management operations support its franchise strength. The Company is the second-largest Canadian life insurer based on gross written premiums with a 20% market share.	**Excellent**
Risk Profile: The Company has a comprehensive and well-developed risk management framework that encompasses its diverse businesses and operations in multiple countries. Its bond and corporate loan portfolio remain somewhat exposed to a high proportion of BBB rated bonds.	**Good**
Earnings Ability: SLF's well-diversified operations allow for overall stable earnings. The Company's Canadian and asset management operations are expected to remain the top profit contributors for the near future.	**Excellent**
Liquidity: DBRS views SLF's liquidity as excellent to meet financial obligations under reasonably adverse stress scenarios. The Company's investment portfolio comprises a high proportion of cash and readily marketable public bonds and equities.	**Excellent**
Capitalization and Asset Quality: SLF maintains high capital levels above the required level of regulatory capital, which provides ample cushion to absorb any unexpected losses. Financial leverage remains conservative at below 25%.	**Good**

Financial Information

	9 Mos. to Sept. 30						
	2018	2017	YE2017	YE2016	YE2015	YE2014	YE2013
Net premium income	13,329	11,203	15,281	15,048	10,395	9,996	9,639
Fee income	4,483	4,322	5,842	5,580	5,324	4,453	3,716
Return on equity	12.7%	13.0%	10.8%	12.8%	12.3%	11.3%	11.8%
Total debt, hybrids and preferred shares	5,995	5,993	6,393	6,791	5,446	5,122	5,602
Financial leverage ratio	21.9%	22.5%	23.6%	25.2%	22.1%	23.6%	27.4%
Fixed-charge coverage ratio	11.1X	10.5X	8.4X	10.0X	9.3X	7.2X	3.9X

Issuer Description

Headquartered in Toronto, Canada, SLF ranks as one of the largest Canadian financial services companies with extensive operations in Canada, the United States and multiple countries in Asia. Its major insurance operating subsidiary, Sun Life Assurance Company of Canada (SLA), provides financial protection products including life and health insurance for individuals and businesses in Canada, the United States and Asia. A second subsidiary, Sun Life Global Investments (Canada) Inc., houses wealth management operations, such as mutual fund and institutional investment management, largely conducted by two subsidiaries: MFS Investment Management (94% owned) and Sun Life Investment Management Inc. U.S., Inc. (SLIM). Consolidated total assets under management (AUM) grew by about 1% from YE2017 to $984 billion of as at September 30, 2018.

Rating Rationale

On December 5, 2018, DBRS confirmed SLF's Issuer Rating and Senior Unsecured Debentures rating at "A" as well as its Subordinated Unsecured Debentures rating at A (low) and Preferred Shares rating at Pfd-2. DBRS also confirmed SLA's Financial Strength Rating and Issuer Rating at AA (low) as well as its Subordinated Debt rating at A (high). At the same time, DBRS confirmed Sun Life Capital Trust's SLEECS Series B rating and Sun Life Capital Trust II's SLEECS Series 2009-1 rating at "A." All trends are Stable.

The Company's large insurance and asset management businesses provide strong and consistent revenue generation and earnings. Management operates a four-pillar strategy focusing on Canada, the United States, Asia and Asset Management. SLF aims to grow each of these segments and leverage its advantages in markets where it has a leading market position. The U.S. asset management subsidiary, MFS, has $626 billion in AUM as at Q3 2018. MFS has achieved good fund performance and fee income has been level despite net outflows and pricing pressures. The operating environment for mutual fund managers remains challenging as money continues to flow into passive funds from active funds in pursuit of lower fees.

SLF Asia has delivered robust growth in insurance and wealth solution sales over the last two years. The Company is focusing on strengthening its distribution capabilities in Asia where it operates in seven countries. This geographical segment presents an opportunity for higher growth and potentially significant product sales, especially considering North America's mature and well-saturated insurance markets. Net income in SLF's Asia market segment is expected to represent about 15% to 20% of total net income in the near term. While DBRS views the Company's business and earnings diversification as a positive for the rating, DBRS also recognizes that SLF is exposed to geopolitical risk through its operation in multiple jurisdictions outside North America.

The Company has a comprehensive and well-developed enterprise risk management framework that ensures that risks are well understood and controlled across its businesses. This framework guides product development and review. SLF aims to deploy its capital in areas that are aligned with its strategy of growing business lines that are generally less capital intensive and less exposed to market risk than previous product designs. The Company faces residual risks as a result of its sizable legacy businesses with runoff blocks of life insurance businesses in the United States and the United Kingdom. The U.S. legacy block had reserve strengthening in Q3 2018 while the U.K. block is currently profitable. SLF's investment portfolio has generally been balanced across asset classes, except for a somewhat elevated exposure to BBB-rated bonds and corporate loans in its bond portfolio. The Company's extensive hedging programs help to mitigate most of the volatility in earnings and regulatory ratios that may arise from adverse movements in equity markets or interest rates.

DBRS views SLF as having excellent earnings ability with well-diversified earnings across all four business segments. SLF Canada and SLF Asset Management are expected to remain the larger profit contributors in the near term, each generating about one-third of common shareholders' net income. The Asia and U.S. businesses each contributes about 15% to 20% of net income, but DBRS expects this contribution to grow over the medium term under the Company's current strategy. SLF generates a good overall return on equity (ROE) with a three-year average of 12% and 11% for F2017. The Company continues to experience some earnings volatility from its U.S. life runoff block and new business development in SLF Asia.

SLF is considered to have excellent liquidity, maintaining ample liquid assets to deal with potential cash demands. The Company's investment portfolio comprises a high proportion of marketable bonds and equities with about 60% of its investment portfolio in cash, public bonds or equities. Cash on hand of $2.7 billion as of Q3 2018 at the holding-company level and standby credit facilities are adequate to meet financial obligations under reasonably adverse stress scenarios. SLF has only a limited proportion of non-liquid assets in its investment portfolio.

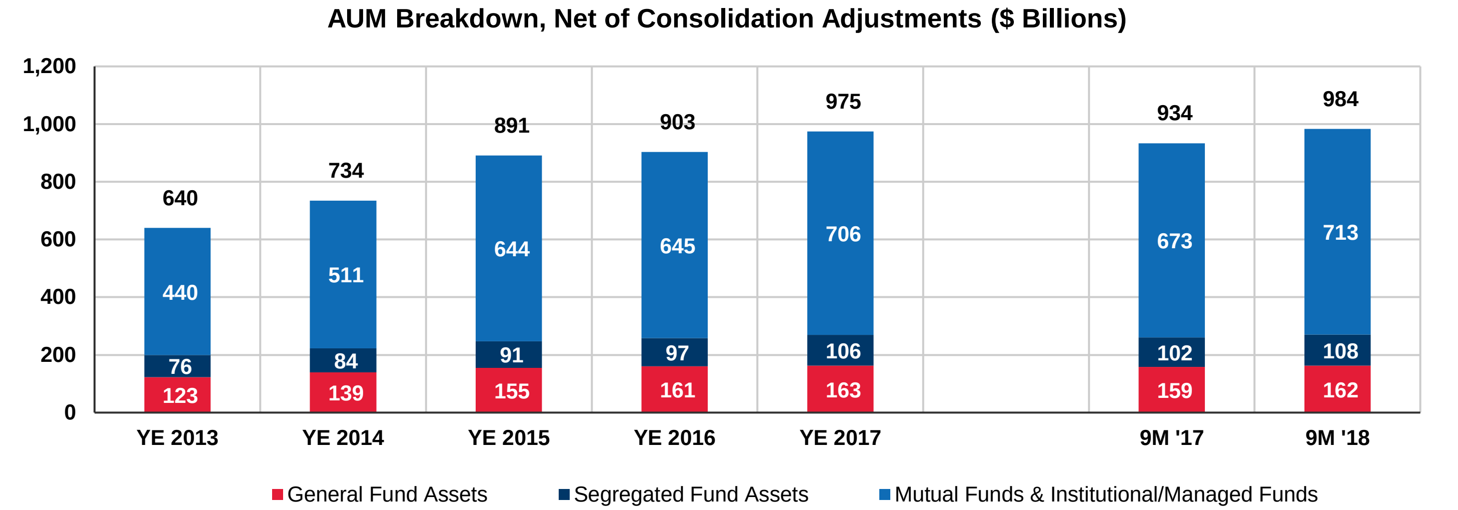
DBRS views the Company's capital position as good. SLF maintains high Canadian regulatory capital levels at the consolidated holding-company level with a LICAT ratio of 145% as of Q3 2018, which is well above the required level of regulatory capital and provides ample cushion to deal with a stressed scenario. Regulatory capital of the Company's major operating subsidiary, SLA, continues to be conservative with a LICAT ratio of 130% as of Q3 2018. DBRS expects that SLA will continue to meet or exceed a LICAT supervisory ratio of 100% and regulatory minimum of 90%. Its financial leverage remains conservative at 23.6% with a fixed-charge coverage ratio of 8.4x for F2017.

The Stable trend considers the Company's resilient fundamentals and its ability to adapt to the current challenging economic environment.

Franchise Strength

Grid Grade: Excellent

SLF has excellent franchise strength with operations that are well-diversified by product, geography and distribution channel. The Company is one of Canada's oldest and largest (third-largest by total assets) life insurance companies with general fund assets of $162 billion, segregated funds of $108 billion and other managed funds (mutual funds and managed institutional funds net of consolidation adjustments) of $713 billion as at September 30, 2018. Segregated fund assets and mutual fund assets comprise 11% and 35% of total AUM, respectively. To better leverage its product capabilities and manage operational complexity, SLF centralizes some of its areas of expertise, such as asset management and actuarial.

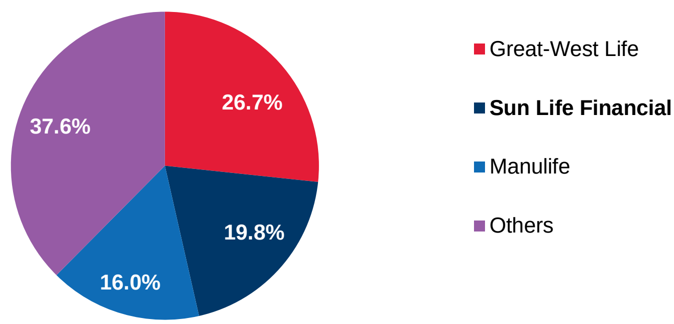


Business Segments:

SLF is focusing on its four-pillar strategy, including building on the Company's market leading positions in Canada; concentrating on improving earnings, scale and market position in the United States; realizing growth potential and increasing scale in Asia; and growing its asset management businesses, both organically and by acquisition.

(1) **SLF Canada** is a leader in each of its business segments. The Company offers individual life and health insurance; group life and health insurance; wealth management products, such as mutual funds and segregated funds; and pension fund administration. Representing about one-third of SLF's earnings, the Canadian operations form a solid platform for earnings and cash flow. The Company has the scale and market presence to provide a distribution and service cost advantage, especially with respect to web-based client services across the group protection and wealth management lines of business. A weakening of its position in Canada, resulting in loss of market share, would place negative pressure on the ratings, given the large proportion of earnings generated from the Canadian operations. While the Sun Life brand has one of the larger exclusive sales forces (approximately 4000 captive sales agents) in the Canadian industry, the Company is increasing its use of wholesale distribution in Canada to broaden its market coverage by including investment dealers and managing general agents (MGAs). Individual life and investment products in Canada are sold by a dedicated sales force, complemented by growing wholesale distribution channels. Group products are sold through a group field force as well as through insurance brokers, consultants and MGAs. The Company has its own line of mutual funds provided by Sun Life Global Investments (Canada) Inc. with fund management provided by MFS and other third-party subadvisors. While sales of mutual funds are still modest and the industry as a whole is facing competitive pressures and a downward trend in fees, the Company sees good potential to capture more third-party mutual funds sold through its distribution channels and to sell an investment product that does not directly expose SLF to equity-market risk other than through asset-based fees.

2017 Market Share – Canada
(based on 2017 gross written premiums)



Source: MSA Research, Inc., DBRS analysis.

(2) **Sun Life Financial U.S.** has a good market presence in several niche segments of the U.S. employee benefits market and continues to have good growth opportunities with a leading market position as one of the top-five insurers in the health insurance stop-loss segment. The Company's acquisition of Assurant, Inc.'s Employee Benefits (AEB) segment in 2016 resulted in a material boost to SLF's presence in the group benefits business, which now comprises a complete suite of group products, including life and disability, medical stop-loss, dental and vision (where it has the largest preferred provider dental network, Sun Life Dental Network) and voluntary benefits. SLF U.S. also has an individual life (including universal life) business that has been in runoff since December 2011.

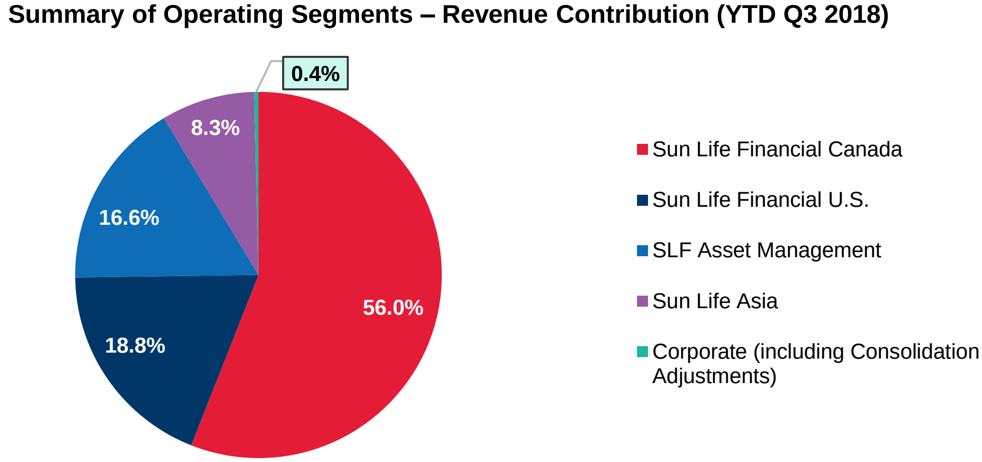
(3) **SLF Asset Management**, consisting of MFS and SLIM, is SLF's mutual fund and investment management subsidiary. Combined, MFS and SLIM have $626 billion in AUM as at Q3 2018 with MFS comprising the vast majority (91%). SLF Asset Management has a global investment platform with solid long-term performance in a variety of investment management styles, including real estate investment. Fund performance at MFS is strong with 82% of fund assets ranked in the top half of its Thomson Reuters Lipper peer category based on five-year performance as at Q3 2018. MFS is investing in marketing/brand awareness and technology infrastructure, increasing its wholesaling capabilities on a global basis as well as developing a fixed-income product suite and more competitively priced offerings to improve net sales and adapt to changing markets to counter the outflow of funds.

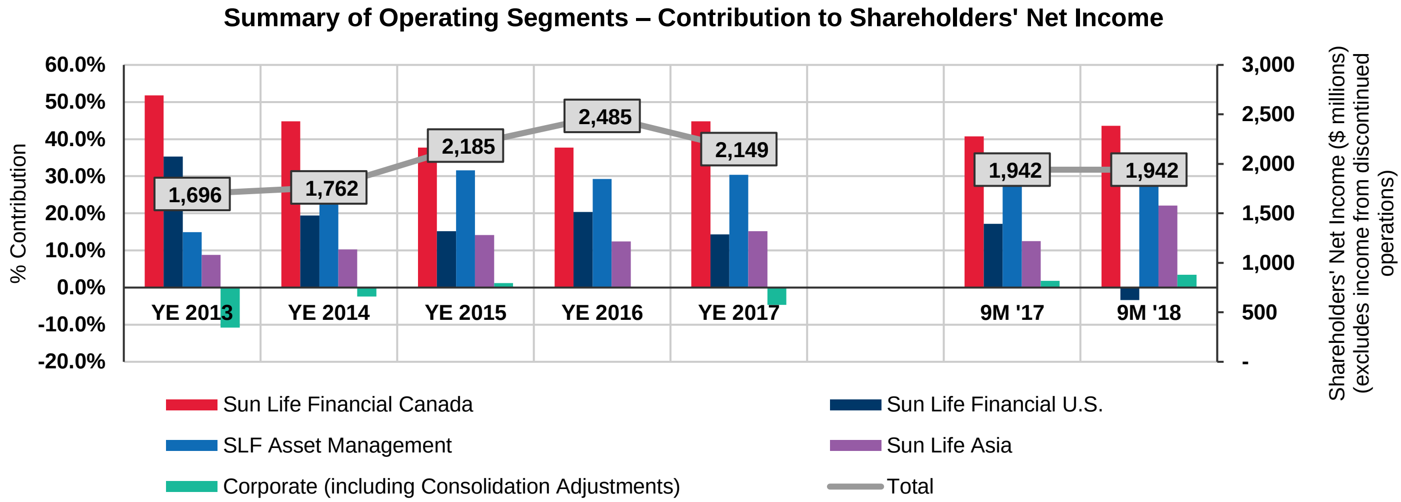
Through SLIM, the Company has four brands (Bentall Kennedy Group; Prime Advisors, Inc.; and Ryan Labs Asset Management Inc.) that manage a combined $62 billion in assets. The SLIM platform aims to provide investment solutions to institutional investors, including liability-driven and alternative fixed-income investments as well as real estate.

The asset management business segment is an important part of the Company's four-pillar enterprise strategy, providing an unrestricted source of dividends (without regulatory capital restrictions) to the holding company, increasing diversification of earnings.

(4) **Sun Life Asia** represents an attractive growth market with good long-term earnings potential, especially in light of North America's mature and saturated insurance and wealth management markets. The Company is expanding its footprint with growth in its distribution channels in Hong Kong, the Philippines, Indonesia, India, China, Vietnam and Malaysia. Asian life insurance sales are mainly driven by Hong Kong and the Philippines with the other countries providing lower, but consistent sales revenue. DBRS view the successful expansion of SLF's distribution channels as vital to its future success in Asia. Organic growth opportunities, combined with fewer market opportunities in North America, mean that the Company's Asian businesses may generate an increasing percentage of its revenues and earnings in the future, although Canada and the United States still generate the majority of earnings. With its capital position, SLF is in a good position to make further acquisitions to build scale should it choose to do so, although finding good value may prove to be difficult in the competitive environment.

(5) **Sun Life U.K.** (included in Corporate) is in runoff but is expected to provide a steady stream of earnings benefiting from no business development costs. In-force products include individual annuities and pensions as well as individual life insurance totaling over 633,000 policies. Retaining qualified staff and effectively managing key outsourcing activities, maintaining low or declining expense growth, maintaining portfolio investment returns to meet or exceed liability assumptions, managing longevity risks and managing capital requirements are key factors in sustaining profitability in this block.





Risk Profile

Grid Grade: Good

DBRS assess SLF's risk profile as good. The Company has devoted considerable resources to its risk management function and has sophisticated capabilities to analyze economic capital and the sensitivities of that capital to various stress scenarios. SLF has developed a hedging program to mitigate almost all of its equity and interest-rate risk; as a result, its income and capital are largely insensitive to this market volatility.

SLF has a comprehensive and well-developed risk management framework as risk management is well integrated in the Company's decision-making. SLF's highly developed risk management policies and procedures, including adherence to risk limits and tolerances that put the Company in a good position to (1) avoid writing businesses that may present undue risk, (2) mitigate the risk that it does undertake and (3) identify areas of growth opportunities within its risk tolerances. As an example of the Company pursuing growth in areas where it can assume more risk as identified by its risk management framework, SLF is expanding its market leadership in the defined benefit solutions pension market in Canada where it is executing large annuity and longevity transactions, which has SLA assuming more long-tail longevity risk. Some of this longevity risk can be offset with death benefit mortality risk and reinsurance programs.

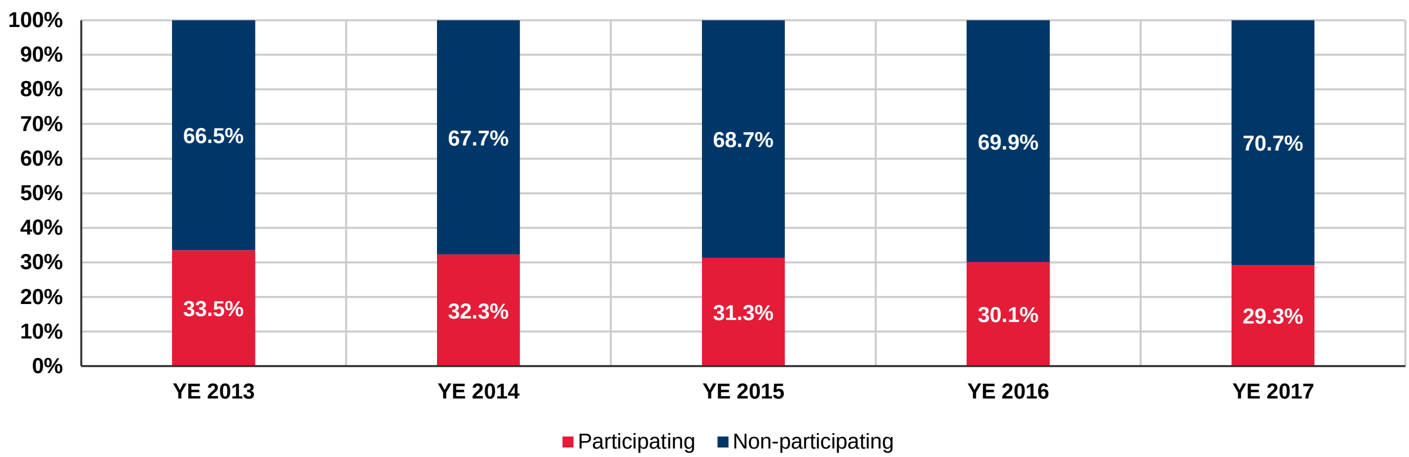
Management strives to identify and assume risk when these risks are consistent with the Company's earnings and capital risk targets. Risks are mitigated through product design, pricing and hedging activities. Business lines and products are tested for sensitivity to changes in interest rates and equity-price movements and hedged where necessary to maintain risks within tolerance targets. Product pricing and design are driven by extensive risk analysis and are manufactured to mitigate these risks as much as possible while remaining competitive in chosen markets.

The Company's strategy to reduce risk in its insurance portfolio over the past years has led to SLF exiting entire blocks of U.S. annuity and insurance businesses and putting the life block in runoff; however, in the future, a continued pattern of writing unprofitable blocks of business that are then exited to mitigate losses can have negative rating implications.

The capital freed from the sale of the U.S. annuity business in 2013 has helped the Company finance acquisitions in its asset management and in its U.S. employee benefits businesses. SLF has stayed focused on its prudent deployment of capital, focusing on acquisition activity in areas aligned with its risk appetite, such as the asset management sphere, the U.S. group benefits market or emerging markets in Asia. The Company is taking initiatives to continue ensuring a smooth integration of the AEB, but there remain potential risks arising from achieving its customer retention target, the additional volume of new clients and technology risks arising from integrating systems.

SLF's exposure to equity-market and interest-rate risks is tied to its product pricing and the performance guarantees embedded in many of its insurance and wealth management product liabilities, including variable universal life and segregated funds. Additionally, the Company is indirectly exposed to equity-market risk through its investments in asset management businesses, such as Sun Life Asset Management and Canadian Group Retirement Services, where management fees are tied to the market valuations of AUM. The potential earnings and capital volatility in certain individual insurance products has been dampened by hedging activities that are prompted by SLF's risk management processes and procedures.

Insurance and Investment Contract Liabilities, Net of Reinsurance



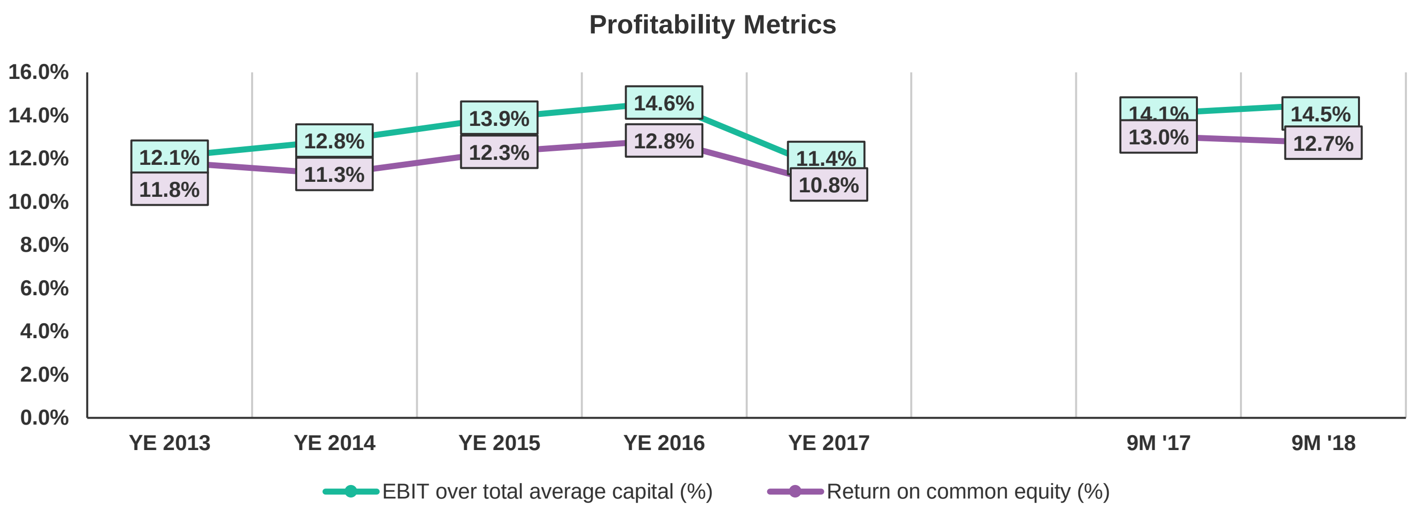
Fixed Income (Public Bonds Only) Portfolio

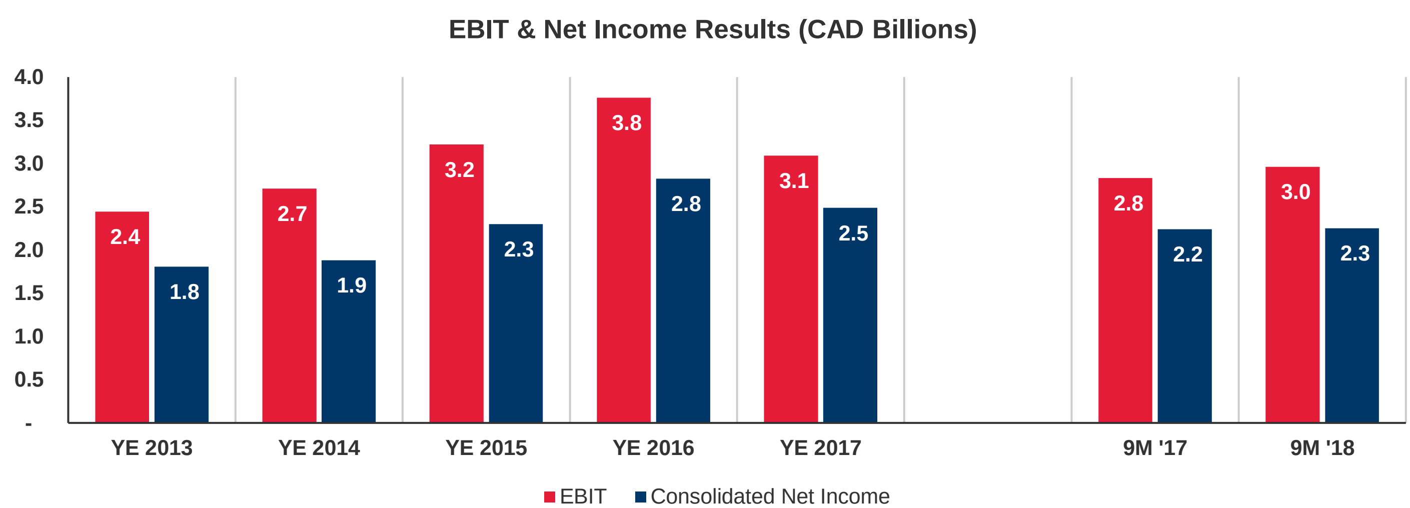
Bonds Rated (CAD Millions)	As at Sept. 30 2018	2017	YE2017	YE2016	YE2015	YE2014	YE2013
AAA	14,239	12,715	13,449	12,695	12,967	11,292	9,068
AA	16,019	15,088	15,815	13,632	11,235	11,821	9,877
A	21,215	22,003	22,603	23,712	23,235	21,854	18,060
BBB	18,734	19,540	19,568	20,125	20,290	19,477	16,175
BB and below	869	1,216	1,184	1,723	2,169	1,770	1,633
Total Bonds	**71,076**	**70,562**	**72,619**	**71,887**	**69,896**	**66,214**	**54,813**

Bonds Rated (%)	As at Sept. 30 2018	2017	YE2017	YE2016	YE2015	YE2014	YE2013
AAA	20.0%	18.0%	18.5%	17.7%	18.6%	17.1%	16.5%
AA	22.5%	21.4%	21.8%	19.0%	16.1%	17.9%	18.0%
A	29.8%	31.2%	31.1%	33.0%	33.2%	33.0%	32.9%
BBB	26.4%	27.7%	26.9%	28.0%	29.0%	29.4%	29.5%
BB and below	1.2%	1.7%	1.6%	2.4%	3.1%	2.7%	3.0%
Total Bonds	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Earnings Ability Grid Grade: Excellent

The Company has excellent earnings ability from its multiple business segments. In recent years, SLF's focus on improving earnings within its risk limits has resulted in significant acquisitions in the alternative and liability-driven asset management business lines. Through these acquisitions, the Company is seeking to achieve earnings growth combined with lower capital requirements than previous product designs. SLF is focused on investing in ways that ensure strong long-term growth to improve the ROE and strong capital generation in attractive global markets.





Supporting the Company's excellent earnings ability are SLF Canada and Sun Life Asset Management segments, which are expected to remain the main profit contributors for the near future. DBRS sees the Company as well positioned to take advantage of demographic trends through its suite of wealth and insurance products as the aging global population focuses on retirement and wealth management needs. However, as SLF remains focused on less capital-intensive products than previous products with the long-tailed guarantee features traditionally associated with life insurance and annuity products, the Company will be more vulnerable to competition from other financial service providers, such as banks and investment management companies. Maintaining its market share will be a challenge, requiring the Company to focus on cost efficiencies, distribution and product innovations. Maintaining added value in its asset management businesses – for example, through relatively strong fund performance and excellent customer service and advice – is key to the long-term success of those segments. This is especially important, given increasing competition from alternative investment products in both the retail and institutional markets as well as lower-cost forms of distribution and products than the traditional advisor-sold model.

The Company's U.S. group benefits operations overall earnings have turned around in 2017 and 2018, driven by good loss ratio improvements in stop-loss segment and benefits from the AEB acquisition in 2016. SLF has focused on improving profitability in the stop-loss segment by repricing large portions of the business, which has recently suffered from increased competition as well as poor experience partially because of higher drug costs. Margins in the group benefits business have been challenging and the Company has taken initiatives to reduce expenses, continue ensuring a smooth integration of AEB's business and improve its claim management practices. The scale achieved in group benefits as a result of the AEB acquisition could likely allow the Company to improve its earnings in the United States as synergies are realized. Offsetting good growth in income for its group benefits is the continued reserve strengthening in SLF's large, closed block of individual life insurance products resulting from unfavorable policyholder behavior experience in this segment in the last two years.

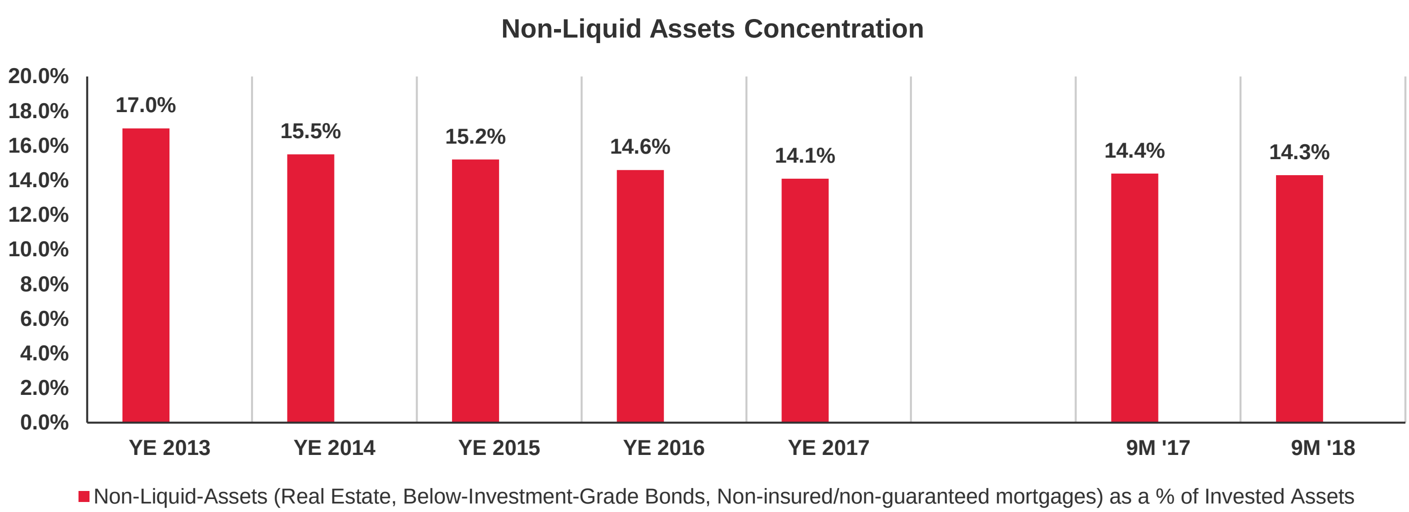
The Company's MFS segment continues to perform well with revenue generated primarily through stable fee income and asset appreciation. Although gross sales have been steady for the past few quarters, averaging about USD 20 billion per quarter, net sales have continued to be negative. The outlook will depend partly on consumer preferences and general economic conditions as well as the Company's product innovation. Headwinds remain in terms of fee pressure, increasing compliance costs and emerging competitors, such as roboadvisors. SLIM may be expected to grow at a faster pace than MFS because of higher institutional demand for alternative assets, although AUM for SLIM remains at $62 billion as at Q3 2018 compared with almost $626 billion for MFS.

Earnings contribution from SLF Asia has grown in the past few years as the Company increases scale in its chosen markets by increasing interests in its existing subsidiaries. Earnings in Asia depend largely on the strength of distribution channels with price competition of secondary importance as a driver of sales. Growth has been driven by the increasing volume of sales in well-established markets, such as Hong Kong and the Philippines, as well as growing sales in nearly all less-established markets. Sales growth in 2017-2018 has been driven primarily by a growing product mix in the health and accident segment. As local and foreign insurance competitors are also interested in expanding in Asian markets, the Company must selectively expand its profitable products while resisting the competitive pressures to match low-priced competitors. While returns on the Asian business have been low relative to the high pace of sales growth, DBRS expects these returns to steadily improve over time and translate into a higher contribution to total company earnings as SLF's investments in the region pay off.

Liquidity

Grid Grade: Excellent

DBRS considers the Company's liquidity to be excellent, given its business profile. SLF's investment portfolio comprises a high proportion of marketable bonds and equities with 60% of its portfolio consisting of cash, public bonds or equities. As of Q3 2018, the Company had ample resources, including $2.7 billion in cash at the holding-company level as well as standby credit facilities, to meet financial obligations under reasonably adverse stress scenarios. The Company has a USD 400 million committed bank syndicated credit facility maturing in 2021.



The Company performs regular stress tests that assess the potential impact of various economic stressors, including adverse movements in equity markets and interest rates, on earnings and regulatory ratios. SLF has reduced its ratio of non-liquid assets to total invested assets to just above 14%, which is a favorable level. The Company's hedging programs, while beneficial in managing interest-rate, equity-market and foreign-currency risks, also present some counterparty risk that can affect liquidity needs.

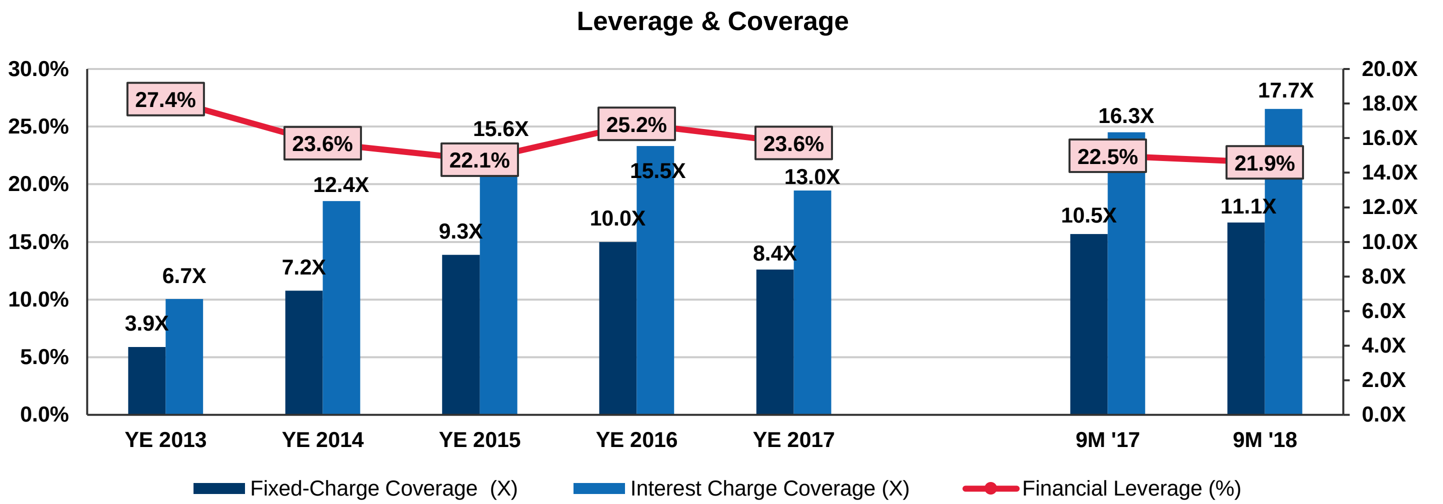
Capitalization and Asset Quality

Grid Grade: Good

The Company has consistently maintained its financial leverage ratio below 25% for the last four years. The Q3 2018 ratio was about 22.0%, considerably reduced from a high of 29.7% in 2012. This measure is the ratio of debt plus hybrids plus preferred to capitalization. DBRS regards a financial leverage ratio above 30% as limiting on financial flexibility. Under SLF's current strategy, DBRS expects SLF to maintain its financial leverage ratio below this 30% threshold for the intermediate term. DBRS does not include $600 million of SLF's senior debt outstanding as at Q3 2018 in its calculation of the Company's financial leverage ratio but, rather, treats it as operating debt. SLF has employed hybrid Tier 1 capital instruments, preferred shares and small amounts of capital trust securities in its capital structure. Currently, these instruments comprise 11% of the Company's total capital.

Earnings stability and stable debt levels have contributed to the Company's improved fixed-charge ratios in the last three years. SLF has a three-year fixed-charge coverage ratio of 9.2% for 2015-2017 and 8.4% as of YE2017, a value more in line with its current ratings than lower historical values (5.4x as at YE2012).

Also indicative of Company's good capitalization are its strong regulatory capital ratios with sizable cushions over regulatory minimums. SLF currently has additional capital (comprising cash and other liquid assets) of $2.7 billion in the holding company that could be invested in SLA. As of Q3 2018, the LICAT for the consolidated holding company is 145%, higher than SLA's LICAT of 130% because of additional assets held at the holding company. SLF has also taken actions to de-risk its businesses in recent years, including: selling the U.S. annuity business, placing other U.S. individual life businesses into runoff, implementing hedging programs and focusing on growth in less capital-intensive product.



SLF's investment portfolio has generally been balanced by asset classes. As of YE2017, the consolidated investment portfolio included 55.8% of cash and debt securities and only 4.1% invested in equities. Debt securities included about 55% corporate bonds and 36.7% in government bonds (comprising mainly Canadian bonds with the remainder largely U.S., U.K. and Philippines bonds). Although the debt securities portfolio is about 98% investment grade, the BBB proportion remains higher than peers at about 26.9%.

As of YE2017, bonds and corporate loans rated BBB and lower comprised approximately 32% (or $32 billion) of the bonds and corporate loans portfolio. Over the last five years, this ratio has remained constant in the 30% to 33% range. Private placements bonds represent most of the BBB bonds category. The Company has also invested in the markets in which it has operations by purchasing sovereign BBB-rated debt under the rationale that it is investing the accumulating premiums locally.

Through its holdings of direct mortgages, asset-backed securities (including commercial mortgage-backed securities and residential mortgage-backed securities) and direct real estate holdings, over 19% of the Company's total invested assets have exposure to real estate. SLF's loans (including mortgages) have excellent characteristics that display prudent underwriting, including low impairment and loan-to-value ratio levels. The mortgage portfolio comprises entirely commercial mortgages with the Company's real-estate holdings exposure to retail and the suburban office market presenting some manageable risk.

The Company currently has negligible levels of impaired assets. In the past few years, SLF has made efforts to de-risk the bond portfolio, including reducing exposures to the oil and gas, metals and mining and retail sectors as well as to Eurozone sovereign bonds. The net value of total impairments was $117 million as at September 30, 2018.

DBRS expects SLF to prudently manage its investment portfolio diversification strategy and exposures going forward. Extensive policies and monitoring procedures are in place to handle the risk management functions related to invested assets. The enterprise risk management and investment policy framework also ensures that the investment portfolio's asset mix supports the asset/liability management requirements for duration and cash flow matching.

Capitalization (CAD Millions)

	As at Sept. 30						
	2018	2017	YE2017	YE2016	YE2015	YE2014	YE2013
Regulatory capital strength							
Required Capital (Sun Life Assurance Company of Canada)	N/A	6,919	7,242	7,062	6,819	6,056	5,639
Available capital – Tier 1	N/A	11,843	11,786	11,846	12,513	10,550	10,102
Available capital – Tier	N/A	4,177	4,216	4,107	3,874	2,591	2,252
Total available capital	N/A	16,020	16,002	15,953	16,387	13,141	12,354
MCCSR ratio %	N/A	232%	221%	226%	240%	217%	219%
Risk-based capital ratio (Main U.S. subsidiary) %	N/A	N/A	260%	240%	379%	200%	170%
LICAT (Sun Life Assurance Company of Canada) (%)	130%	N/A	N/A	N/A	N/A	N/A	N/A
Total Capital	27,374	26,667	27,107	26,902	24,607	21,737	20,453
Goodwill & Intangibles/Common Equity	33.9%	33.6%	34.1%	35.6%	32.2%	30.4%	33.1%
Tangible Common Equity/Total Capital	49.7%	49.9%	48.7%	47.1%	52.3%	52.7%	48.2%
Tangible Non-Par Capital/Non-Par Liabilities	N/A	N/A	23.7%	24.7%	24.7%	24.5%	26.4%
Par Capital/Par Liabilities	N/A	N/A	1.9%	1.2%	0.5%	0.4%	0.4%
Total Capital/Net Policyholder Liabilities	23.5%	23.6%	23.2%	23.8%	22.8%	21.7%	23.3%
Protection Ratios							
Quality Assets/Non-Capital Liabilities	51.1%	51.2%	51.5%	51.0%	50.6%	51.0%	50.5%
Total Capital/Riskier Assets	76.8%	73.4%	74.2%	73.5%	68.7%	65.7%	67.8%

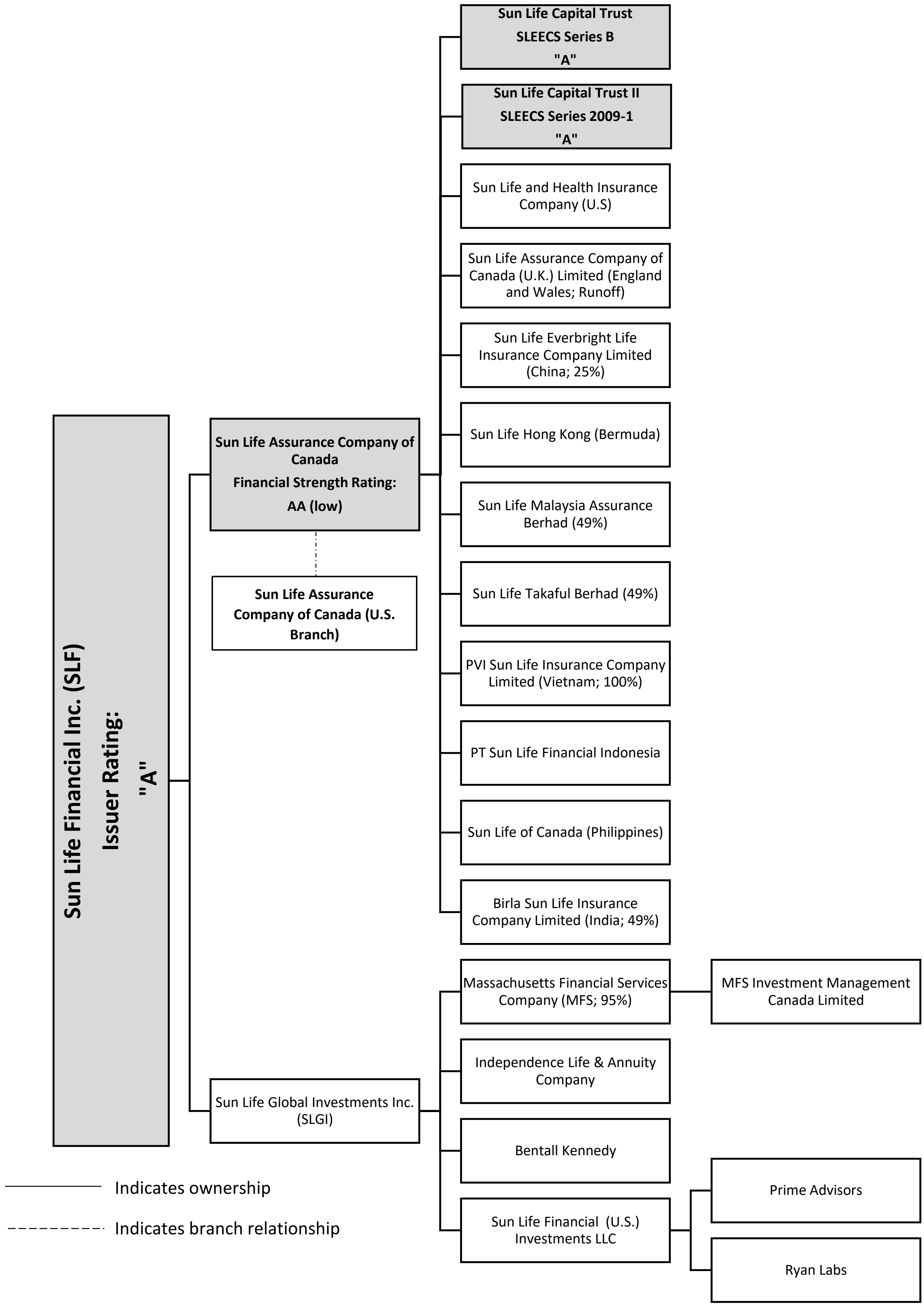
Sun Life Financial Inc. (TSX: SLF)
Balance Sheet (As-Reported) (CAD Millions)

	As at Sept. 30						
	2018	2017	YE2017	YE2016	YE2015	YE2014	YE2013
Assets							
Cash, cash equivalents and short-term securities	8,196	8,063	8,890	8,642	8,983	6,818	7,636
Debt securities	71,076	70,562	72,619	71,887	69,896	66,214	54,813
Equity securities	4,961	5,991	6,020	5,774	5,313	5,223	5,194
Mortgages and loans	45,207	41,226	42,805	40,775	39,103	33,679	30,313
Derivative assets	1,185	1,510	1,478	1,608	1,866	1,839	948
Other invested assets	4,546	4,020	4,154	3,931	3,111	2,375	1,855
Policy loans	3,141	3,066	3,106	3,141	3,151	2,895	2,792
Investment properties	7,270	7,034	7,067	6,592	6,540	6,108	6,092
Invested assets	145,582	141,472	146,139	142,350	137,963	125,151	109,643
Other assets	4,817	4,945	4,408	5,109	4,567	3,429	3,270
Reinsurance assets	3,937	4,124	4,028	5,144	5,386	4,042	3,648
Deferred tax assets	1,122	1,473	1,295	1,448	1,372	1,230	1,303
Property and equipment	NA	NA	NA	NA	NA	555	658
Intangible assets	1,705	1,598	1,667	1,703	1,479	895	866
Goodwill	5,276	5,145	5,183	5,317	4,646	4,117	4,002
Total general fund assets	162,439	158,757	162,720	161,071	155,413	139,419	123,390
Investments for account of segregated fundholders	108,298	102,737	106,392	97,167	91,440	83,938	76,141
Total assets	**270,737**	**260,994**	**269,112**	**258,238**	**246,853**	**223,357**	**199,531**
Liabilities and equity							
Liabilities							
Insurance contract liabilities	117,480	113,997	117,785	115,057	110,227	101,228	88,903
Investment contract liabilities	3,137	3,035	3,082	2,913	2,913	2,819	2,602
Derivative liabilities	1,676	1,823	1,756	2,512	3,378	1,603	939
Deferred tax liabilities	359	747	403	687	405	155	122
Other liabilities	11,813	11,887	11,987	12,399	12,332	9,725	8,218
Senior debentures	1,299	1,299	1,299	1,299	2,248	2,849	2,849
Subordinated debt	3,039	3,038	3,437	3,836	2,492	2,168	2,403
Total general fund liabilities	138,803	135,826	139,749	138,703	133,995	120,547	106,036
Insurance contracts for account of segregated fundholders	101,500	95,282	99,121	90,388	83,670	76,736	69,088
Investment contracts for account of segregated fundholders	6,798	6,955	7,271	6,779	7,770	7,202	7,053
Total liabilities	**247,101**	**238,063**	**246,141**	**235,870**	**225,435**	**204,485**	**182,177**
Equity							
Issued share capital and contributed surplus	10,822	10,926	10,911	10,943	10,900	10,805	10,902
Shareholders' retained earnings and accumulated other comprehensive income	12,012	11,372	11,410	11,013	10,350	8,067	6,452
Total shareholders' equity	22,834	22,298	22,321	21,956	21,250	NA	NA
Participating policyholders' equity	802	633	650	412	168	NA	NA
Total equity	**23,636**	**22,931**	**22,971**	**22,368**	**21,418**	**18,872**	**17,354**
Total liabilities and equity	**270,737**	**260,994**	**269,112**	**258,238**	**246,853**	**223,357**	**199,531**

Sun Life Financial Inc. (TSX: SLF)
Income Statement (As-Reported) (CAD Millions)

	9 Mos. to Sept. 30						
	2018	2017	YE2017	YE2016	YE2015	YE2014	YE2013
Revenue							
Premiums							
Gross	15,046	14,530	19,838	19,427	16,824	15,499	15,072
Less – Ceded	1,717	3,327	4,557	4,379	6,429	5,503	5,433
Net premiums	13,329	11,203	15,281	15,048	10,395	9,996	9,639
Net investment income (loss)							
Interest and other investment income	4,166	4,014	5,413	5,489	5,288	4,941	4,594
Fair value and foreign-currency changes on assets and liabilities	(3,257)	993	2,603	2,233	(1,961)	6,172	(4,220)
Net gains (losses) on available-for-sale assets	96	154	195	223	228	202	145
Net investment income (loss)	1,005	5,161	8,211	7,945	3,555	11,315	519
Fee income	4,483	4,322	5,842	5,580	5,324	4,453	3,716
Total revenue	**18,817**	**20,686**	**29,334**	**28,573**	**19,274**	**25,764**	**13,874**
Benefits and expenses							
Gross claims and benefits paid	11,884	11,463	15,353	15,210	14,086	12,816	11,876
Increase (decrease) in insurance contract liabilities	(1,329)	2,189	5,327	5,391	1,261	8,920	(1,204)
Decrease (increase) in reinsurance assets	189	798	821	133	(505)	13	(254)
Increase (decrease) in investment contract liabilities	(34)	40	41	(13)	(29)	70	85
Reinsurance expenses (recoveries)	(1,523)	(3,291)	(4,373)	(4,313)	(6,146)	(5,411)	(5,098)
Commissions	1,736	1,772	2,403	2,372	2,100	1,889	1,669
Net transfer to (from) segregated funds	(156)	(56)	(119)	(307)	(43)	(30)	(19)
Operating expenses	4,807	4,661	6,410	6,000	5,037	4,537	4,139
Premium taxes	280	279	379	339	292	251	235
Interest expense	226	222	303	316	322	336	353
Total benefits and expenses	**16,080**	**18,077**	**26,545**	**25,128**	**16,375**	**23,391**	**11,782**
Income (loss) before income taxes	2,737	2,609	2,789	3,445	2,899	2,373	2,092
Less – Income tax expense (benefit)	485	368	302	619	599	491	283
Total net income (loss) from continuing operations	NA	NA	NA	NA	NA	NA	1,809
Total net income (loss)	**2,252**	**2,241**	**2,487**	**2,826**	**2,300**	**1,882**	**NA**
Less – Net income (loss) attributable to participating policyholders	239	229	245	245	15	9	(5)
Shareholders' net income (loss) from continuing operations	NA	NA	NA	NA	NA	NA	1,814
Shareholders' net income (loss)	**2,013**	**2,012**	**2,242**	**2,581**	**2,285**	**1,873**	**NA**
Less – Preferred shareholders' dividends	71	70	93	96	100	111	118
Common shareholders' net income (loss) from continuing operations	NA	NA	NA	NA	NA	NA	1,696
Common shareholders' net income (loss) from discontinued operations	NA	NA	NA	NA	NA	NA	(754)
Common shareholders' net income (loss)	1,942	1,942	2,149	2,485	2,185	1,762	942

Simplified Corporate Organizational Chart (September 30, 2018)



Peer Group Comparison – FY2017

	Sun Life Financial Inc.	Great-West Lifeco Inc.	Manulife Financial Corporation	Industrial Alliance Insurance and Financial Services Inc.
Operating Company Financial Strength Rating:	**AA (low)**	**AA**	**AA (low)**	**A (high)**
Holding Company Issuer Rating:	**A**	**A (high)**	**A**	**n/a**
Trend:	**Stable**	**Stable**	**Stable**	**Stable**
Period Ended:	12/31/2017	12/31/2017	12/31/2017	12/31/2017
Financial Data (CAD millions)				
Net Premium Income	15,281	33,947	28,210	7,254
Fee Income & Other Revenue	5,842	5,454	10,746	1,441
Total Assets	269,112	419,838	713,376	61,906
Assets Under Management	974,785	698,792	952,562	88,753
Assets Under Administration (only)	-	651,121	87,929	80,787
Total Common Equity	20,064	19,887	37,436	4,720
Total Equity	22,971	25,536	42,163	5,136
Total Capital	27,107	34,084	55,335	6,132
Earnings Ability Ratios				
Return on Common Equity (levered returns)	10.8%	10.9%	5.1%	11.4%
Return on Common Equity (levered returns) (3-year average)	12.0%	13.1%	6.1%	11.6%
EBIT/Total Capitalization	11.4%	9.3%	5.7%	12.6%
EBIT/Total Capitalization (3-year average)	13.3%	11.3%	6.5%	12.3%
Non-Liquid Asset Concentration	14.1%	14.1%	16.0%	6.4%
Capitalization & Asset Quality Ratios				
LICAT – Operating Company (Q3 2018)	130%	134%	134%	120%
RBC	260%	502%	425%	n/a
Intangibles & Goodwill/Common Equity	34.1%	49.8%	26.3%	27.6%
Tangible Common Equity/Total Capital	48.7%	29.3%	49.9%	55.7%
Par Capital/Par Liabilities	1.9%	5.6%	0.4%	0.7%
Tangible Non-Par Capital/Non-Par Liabilities	23.7%	20.0%	20.1%	25.0%
Financial Leverage	23.6%	24.9%	30.3%	22.4%
Fixed Charge Coverage (Current Period)	8.4X	6.4X	3.6X	8.7X
Fixed Charge Coverage (3-year average)	9.2X	7.4X	4.6X	7.2X
Interest Charge Coverage (Current Period)	13.0X	10.1X	4.8X	11.7X
Interest Charge Coverage (3-year average)	14.7X	11.6X	6.2X	9.8X
Quality Assets/Non-Capital Liabilities	51.5%	66.6%	48.3%	73.2%
Total Capital/Riskier Assets	74.2%	91.9%	52.2%	86.4%
BBB and Lower Bonds/Total Bonds (including private placements)	32.4%	18.8%	24.0%	17.3%

Source: Company Reports; DBRS Analysis.

Holding Company Notching

The senior-most debt of the holding company, Sun Life Financial Inc., is two notches below the Financial Strength Rating of its major operating subsidiary, Sun Life Assurance Company of Canada. The notching reflects the structural subordination of the holding company's creditors to the operating company's creditors in an insolvency situation and recognizes the Company's reliance on the upstreaming of earnings from its operating companies, among other factors.

Rating Methodology

The principal methodologies are *Global Methodology for Rating Life and P&C Insurance Companies and Insurance Organizations* (January 2018) and *DBRS Criteria: Preferred Share and Hybrid Security Criteria for Corporate Issuers* (November 2018), which can be found on dbrs.com under Methodologies.

Ratings

Issuer	Obligation	Rating	Rating Action	Trend
Sun Life Assurance Company of Canada	Financial Strength Rating	AA (low)	Confirmed	Stable
Sun Life Assurance Company of Canada	Issuer Rating	AA (low)	Confirmed	Stable
Sun Life Assurance Company of Canada	Subordinated Debt	A (high)	Confirmed	Stable
Sun Life Capital Trust	SLEECS Series B	A	Confirmed	Stable
Sun Life Capital Trust II	SLEECS Series 2009-1	A	Confirmed	Stable
Sun Life Financial Inc.	Issuer Rating	A	Confirmed	Stable
Sun Life Financial Inc.	Senior Unsecured Debentures	A	Confirmed	Stable
Sun Life Financial Inc.	Subordinated Unsecured Debentures	A (low)	Confirmed	Stable
Sun Life Financial Inc.	Preferred Shares	Pfd-2	Confirmed	Stable

Rating History

Issuer	Obligation	Current	2017	2016	2015
Sun Life Assurance Company of Canada	Financial Strength Rating	AA (low)	AA (low)	AA (low)	AA (low)
Sun Life Assurance Company of Canada	Issuer Rating	AA (low)	AA (low)	AA (low)	AA (low)
Sun Life Assurance Company of Canada	Subordinated Debt	A (high)	A (high)	A (high)	A (high)
Sun Life Capital Trust	SLEECS Series B	A	A	A	A
Sun Life Capital Trust II	SLEECS Series 2009-1	A	A	A	A
Sun Life Financial Inc.	Issuer Rating	A	A	A	A
Sun Life Financial Inc.	Senior Unsecured Debentures	A	A	A	A
Sun Life Financial Inc.	Subordinated Unsecured Debentures	A (low)	A (low)	A (low)	A (low)
Sun Life Financial Inc.	Preferred Shares	Pfd-2	Pfd-2	Pfd-2	Pfd-2

Previous Report

Sun Life Financial Inc. and Affiliates: Rating Report, January 23, 2018