SUN PAR PROTECTOR II

CLIENT GUIDE

a solution that works for you

Life's brighter under the sun

Sun Life Financial

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This guide provides you with an overview of Sun Par Protector II. It summarizes many of the product's features and benefits, but isn't part of your Sun Par Protector II policy.

Sun Par Protector II – a solution that works for you

Sun Par Protector II is a permanent participating life insurance product that can protect your family and assets to help you reach your long-term financial goals. Your decision to purchase Sun Par Protector II can play an important part in your financial future. With a permanent participating life insurance policy, you have the opportunity to participate in policy owner dividends. Sun Par Protector II may be the right solution for you if you:

- ✓ Want long-term cash value and death benefit growth,
- ✓ Are interested in ensuring your estate transfers to your beneficiaries intact,
- ✓ Are interested in the opportunity to earn policy owner dividends, or
- ✓ Would like to access cash values in the future for life's unforeseen changes.

With Sun Par Protector II you can:

- ✓ Protect your family today and in the future,
- ✓ Maximize your estate for your beneficiaries,
- ✓ Create a financial foundation for your children or grandchildren,
- ✓ Supplement your retirement income tomorrow,
- ✓ Provide a gift to your favourite charity or alma mater, and
- ✓ Address your business planning needs.

Sun Par Protector II can help you meet your key financial planning objectives now and in the future. The choice is yours.

Benefits for you

Protection for Life: Sun Par Protector II will give you peace of mind knowing that money will be available for your family when it's needed the most. It can provide a great opportunity to establish a strong financial foundation for your children or grandchildren – putting them on the right track for the future. If you own a business, Sun Par Protector II can help you meet your business protection needs. Permanent participating life insurance provides you with a combination of permanent life insurance protection and the opportunity for tax-preferred investment growth.

An investment for your future: With Sun Par Protector II, your policy may be credited with policy owner dividends determined by Sun Life Financial's Board of Directors. You can use these dividends to buy additional coverage, receive a cash payment, reduce your annual premium or leave them on deposit with Sun Life Financial – it's up to you.

Savings opportunities: Sun Par Protector II has cash value that will grow over time on a tax-preferred basis. Cash values will start after your policy has been in force for five years. Whether you need it in an emergency or to support your retirement dreams, Sun Par Protector II provides you with access to cash when you need it most.

Guarantees: Sun Par Protector II provides you with guarantees. This plan has guaranteed premiums, a guaranteed death benefit and guaranteed cash values. Life doesn't always offer guarantees, but with Sun Par Protector II, you have the guarantees you need to help you meet your future financial goals.

Did you know? *Your advisor can help you select the right combination of features and benefits for your Sun Par Protector II policy so that it's truly a solution that works for you.*

How your plan works

When you purchase a Sun Par Protector II participating life insurance policy from Sun Life Financial, you have the opportunity to participate in any policy owner dividends. Your policy comes with guaranteed lifetime protection and cash values for which you pay a guaranteed premium. Your premium and other basic values are determined using long-term conservative assumptions for death claims, investment returns, expenses (including taxes), lapses and other factors. Talk with your advisor to learn more.

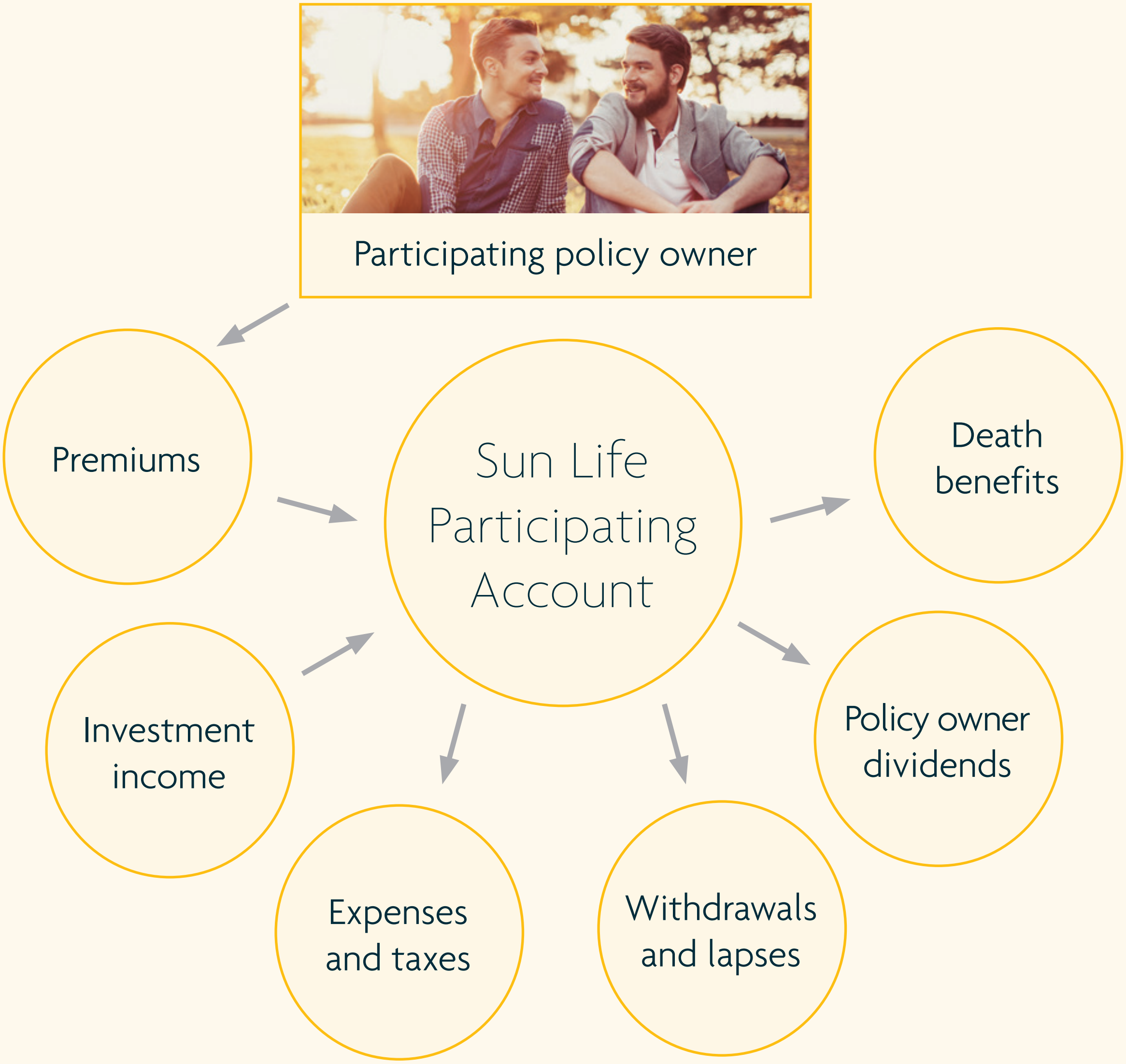
Life insurance involves the transfer of risk from an individual to a life insurance company. With participating life insurance, a portion of the risk is shared among the policy owners and the company.

As part of this risk-sharing relationship, participating (Par) policy owners may also share in policy owner dividends. Dividends may be credited to your policy when the experience in the Sun Life Participating Account is better than the assumptions we made for factors such as: investment returns, death benefits and expenses to support the guaranteed values in your policy. If the Board of Directors determines there's a surplus, a portion of this may be credited to your policy in the form of policy owner dividends.

The amount available for dividends will increase or decrease depending on how the actual experience differs from what we assumed. The amount available depends on a number of other factors, such as:

- The need to keep earnings as surplus to:
  - Support the financial security and stability of the participating account,
  - Finance new participating business growth, and
  - Smooth fluctuations in experience, investment returns, death claims, expenses (including taxes), lapses and other factors.
- Other practical considerations and limits.
- Legal requirements and industry practices.

It's important to note that the *Insurance Companies Act (ICA) Canada* contains a number of provisions about managing the participating account that we must follow.


Participating policy owner
Premiums
Sun Life Participating Account
Death benefits
Investment income
Policy owner dividends
Expenses and taxes
Withdrawals and lapses

Did you know? *Policy owner dividends are based on the experience of a company's Par account. Shareholder dividends are based on a company's overall performance, including earnings from all lines of business. Earnings from the Par account that can be paid to shareholders are restricted by insurance regulations.*

There's no direct relationship between these two types of dividends. That's why it's possible for policy owner dividends to decrease in the same year that the company's shareholder dividends have increased. Consequently, it's also possible for policy owner dividends to increase the same year that shareholder dividends have decreased.

Creating your plan

Selecting your basic life insurance coverage amount

With Sun Par Protector II, you select the amount of coverage you need today and for the future.

The minimum basic insurance coverage amount for Sun Par Protector II is $50,000 for adults ages 18+, and $25,000 for children ages 0-17. The maximum insurance coverage amount for Sun Par Protector II is $15,000,000.

Did you know? *The maximum insurance amount includes all term insurance benefits you may choose to customize your policy.*

Policy types

With Sun Par Protector II, you choose the policy type to meet your protection needs. You can choose to provide protection for one or two people.

Single life

This policy type insures one person and pays a tax-free death benefit on the death of the insured person.

Joint first-to-die

This policy type insures two people and pays a tax-free death benefit on the first death of the insured persons. This policy type includes a survivor benefit that will allow the surviving life insured to apply for a new policy within 90 days, without providing evidence of insurability.

- This option may be an excellent solution for couples who want to make sure their family is taken care of in the event that one of them dies.
- If you're a small business owner, this policy type may be ideal where the surviving partner needs money to purchase the deceased partner's interest in the business.

Joint last-to-die

Premiums to the first death

This policy type insures two people and pays a tax-free death benefit on the last death of the insured persons. It's available with the life pay premium option only. With this policy type, the premiums for the basic insurance amount become paid-up on the first death of the insured persons.

Premiums to the second death

This policy type insures two people and pays a tax-free death benefit on the last death of the insured persons. The premiums for this policy type are payable until the last death of the insured persons, the paid-up date, or their joint age 100, whichever comes first.

- This policy type is a great solution to create or protect your estate for your beneficiaries.
- If charitable giving is important to you, this policy type can provide an effective way of leaving money to your favourite charity or alma mater.

Dividend options

With Sun Par Protector II, you can choose from five dividend options. This will determine how any policy owner dividends will be used. Your advisor can help you choose the best one for you today. If in the future your circumstances change, you may be able to change your dividend option.

Paid-up additional insurance

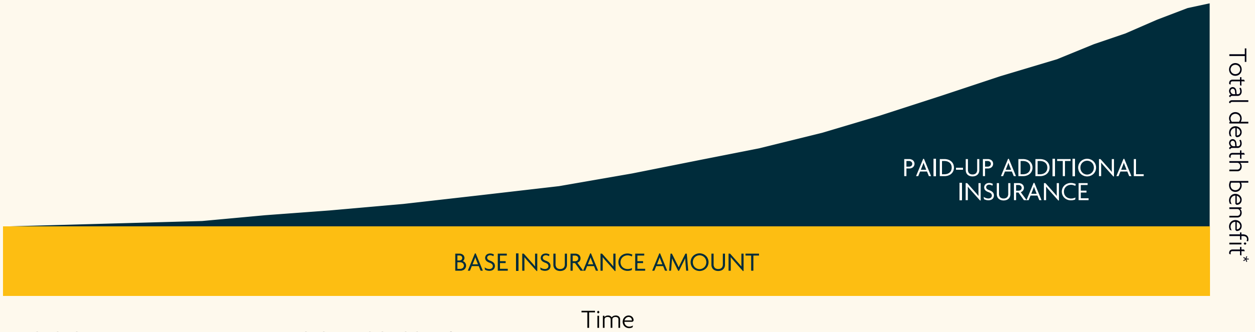
Features

- Any dividends credited to your policy are used to purchase additional insurance that's paid up, which means you don't have to pay additional premiums for this extra insurance. This additional amount of insurance is also participating, so it can earn dividends and has a cash value. With this compounded growth, your death benefit and cash values can increase over time.

Solution

- Provides you with a death benefit that can grow in the future.

How it works



* Only the base insurance amount is guaranteed. The total death benefit is not.

Enhanced insurance

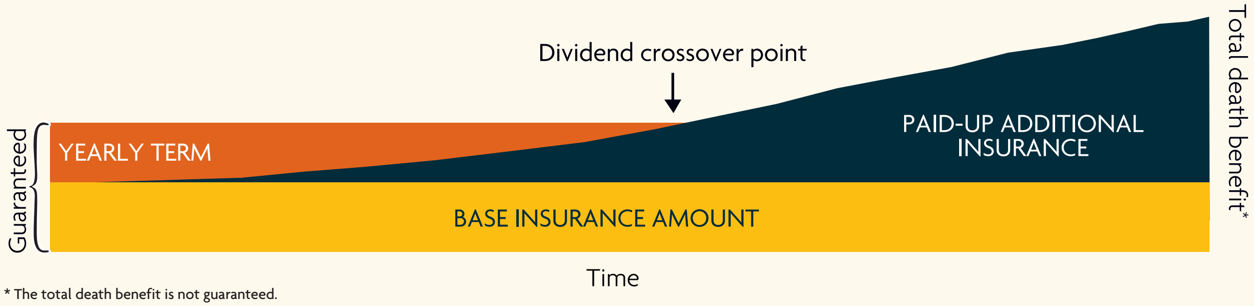
Features

- With this dividend option, on each policy anniversary, any dividend we credit to your policy is used to purchase a combination of yearly term insurance and paid-up additional insurance. This combined amount is equal to the enhanced insurance amount in your policy.
- Over time, the yearly term insurance is replaced by permanent paid-up additional insurance.
- In the future, once all of the yearly term insurance has been replaced, any dividends credited to your policy will be used to buy more paid-up additional insurance. At this point, your death benefit will begin increasing.
- The enhanced insurance amount is guaranteed for life. This means that we'll guarantee both the enhanced insurance amount and the base insurance amount even if dividends in the future aren't enough to pay for the yearly term insurance. It's important to remember that even with this guarantee you must pay all required premiums for your policy.
- The enhanced insurance dividend option gives you the flexibility to convert the yearly term insurance portion of the enhanced insurance to a permanent insurance policy. After you convert all of your yearly term insurance, the dividend option automatically changes to paid-up additional insurance. At this point, we'll use any future dividends credited to your policy to purchase more paid-up additional insurance.

Solution

- Provides you with a greater death benefit today in exchange for some growth in the future.

How it works



* The total death benefit is not guaranteed.

Annual premium reduction

Features

- This dividend option is available if you choose to pay your premiums annually.
- We use any dividend we credit to your policy to reduce your premium for the next policy year.
- If the dividends we credit are more than the premium amount, we'll deposit the excess into a withdrawable premium fund.
  - The withdrawable premium fund is like a savings account and earns interest daily. You can withdraw money from this account when you need it, or use it to cover future premium payments.

Solution

- Provides you with a level amount of coverage and a cost-effective way to pay for your premiums.

Dividends on deposit

Features

- Any dividends we credit to your policy are automatically deposited to an account that's similar to a savings account with Sun Life Financial.
- You have access to these dividends at any time.
- Dividends on deposit earn interest daily and are compounded annually, at an interest rate we set.

Solution

- Provides you with a level amount of coverage and a savings account you can access at any time.

Cash payment

Features

- This option gives you the opportunity to receive annual dividends in cash.

Solution

- Provides you with a level amount of coverage and the opportunity for a cash payment based on dividends credited to your policy.

Premium options

Sun Par Protector II comes with three guaranteed premium payment options: Life pay, 20 pay and 10 pay. These choices allow you to tailor payments to suit your needs. Your guaranteed premium amount is based on your health, smoking status, gender and the basic insurance amount you select.

You can choose to pay your premiums annually by cheque or monthly by pre-authorized chequing. If you pay monthly, premiums are slightly higher to help cover the additional costs for processing monthly transactions. To calculate monthly premiums, we multiply the total annual premium by 0.09. For example, if the annual premium is $1,000, the monthly premium is $1,000 x .09, which equals $90.

The age we use in calculating your guaranteed premium is based on your insurance age. Your insurance age is the age nearest your actual birthday. For example, if you're 40 years and seven months old, your insurance age will be 41. We guarantee that your premium amount for the guaranteed death benefit will never change.

Life pay: You pay premiums for your base insurance amount for the life of the insured person (to a maximum of age 100), providing an affordable protection solution.

20 pay: You pay premiums for your base insurance amount for 20 years. This gives you peace of mind knowing that after 20 years, no more premiums are required for your guaranteed base insurance protection.

10 pay: You pay premiums for your base insurance amount for 10 years. This provides you with protection for life with the comfort of knowing that after 10 years, no more premiums are required for your guaranteed base insurance protection.

Important to note: *If you've selected either 10 pay or 20 pay as your premium option, and you have additional benefits on your plan, you may be required to continue to pay premiums for those benefits even though the base plan is paid up.*

Additional optional benefits

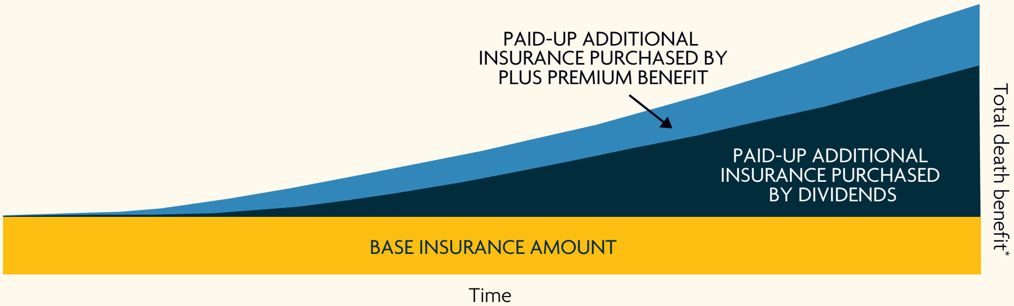
To help create your policy to meet your financial and protection goals today – and in the future – there's a wide variety of optional benefits available with Sun Par Protector II.

Plus premium benefit

The Plus premium benefit allows you to pay an additional premium to make the most of the tax-preferred cash value growth available with Sun Par Protector II. Any Plus premium benefit payments you make are used to buy paid-up additional insurance. This amount is in addition to the paid-up additional insurance being purchased by dividends.

This benefit is available if you've selected Life pay or 20 pay as your guaranteed premium payment option. Your dividend option must be either paid-up additional insurance or enhanced insurance for you to have this benefit.

If you choose paid-up additional insurance as your dividend option, both your total cash value and total death benefit will increase faster than they would with dividends alone. If you choose enhanced insurance as your dividend option, the yearly term insurance will be replaced by paid-up additional insurance quicker than if only the dividends we credit to your policy are buying the yearly term and paid-up additional insurance.



* Only the base insurance amount is guaranteed. The total death benefit is not.

Non-participating benefits

While the base insurance amount, any additional coverage provided through the dividend option you choose and any additional coverage purchased with the Plus premium benefit are participating, the following optional benefits aren't participating. The premiums for these benefits aren't taken into account when we make decisions about dividends.

Optional non-participating benefit	Solution
Accidental death benefit (ADB)	ADB provides you with an inexpensive way to increase the amount of death benefit if the insured person dies by accident.
Child term benefit (CTB)	Give your children and future children a small amount of term insurance and start them with a solid financial plan. You can convert this term insurance when they are between the ages of 18 to 25 for up to 10 times the CTB insurance amount, without providing evidence of insurability.
Total disability waiver benefit (TDB)	Ensure your valuable life insurance remains in place if the person insured is unable to work because of an injury or illness that makes them totally disabled. We'll waive the monthly premiums if the life insured becomes disabled.
Owner waiver disability/death benefit	If the owner of the policy is not the insured person, this benefit allows the owner to ensure that the premiums for the insurance protection are covered if they die or become disabled. We will waive the monthly premiums if the policy owner dies or becomes disabled.
Guaranteed insurability benefit (GIB)	GIB gives you peace of mind knowing that whatever happens to you in the future, you can purchase additional life insurance every three years, or on a major family event, without providing evidence of insurability.
Business value protection benefit (BVPB)	BVPB allows business owners to purchase additional insurance on each policy anniversary up to maximums without providing medical evidence of insurability. Let your insurance coverage grow along with your business.
Term insurance benefits	Your need for life insurance may vary as family and business circumstances change. You can choose from a variety of term insurance benefit lengths including: 10-year, 10-year with Renewal protection benefit, 15-year, 20-year or 30-year, which are all renewable and convertible to permanent insurance.

Did you know? *Your advisor can help you choose the additional optional benefits you need to help ensure your Sun Par Protector II policy meets all of your needs – today and in the future.*

Did you know? *We may need you to provide us with evidence of any change in your health or insurability that takes place between the time you apply for insurance and the time your policy is delivered. If you pay for your policy at the time you apply, you may receive immediate coverage under a certificate of temporary insurance while your application is being processed. The terms, conditions and exclusions of that temporary insurance are set out in the certificate. The certificate also states when and under what conditions coverage under the certificate will end. If you don't pay at the time you apply and are not covered under a certificate of temporary insurance, then your coverage won't be effective until:*

- *your policy is delivered and*
- *you make your first payment and*
- *(when required) you have given us sufficient evidence that there's been no change in your insurability between the time you applied for insurance and the time your policy is delivered.*

Flexibility with your Sun Par Protector II policy

Premium offset

Premium offset may provide you with premium payment flexibility at some point in the future. This is a non-guaranteed premium payment option and it depends on the performance of future dividends.

If you select paid-up additional insurance or enhanced insurance as your dividend option, you may be eligible to choose premium offset in the future.

After you've paid your premiums for a number of years, the annual dividends we credit to your policy and the surrendering of paid-up additional insurance may be enough to pay for your future premiums. When this happens, you can choose to have your policy go on premium offset.

If you've chosen paid-up additional insurance as your dividend option, premium offset may occur earlier than if you chose enhanced insurance. Why? Because with paid-up additional insurance, all of the dividends credited to your policy are used to purchase paid-up additional insurance. This makes the values in your policy grow more quickly than with the enhanced insurance dividend option, where dividends are being used to pay for yearly term insurance and paid-up additional insurance. With enhanced insurance as your dividend option, you can't choose to have your policy go on premium offset until all of the yearly term insurance has been replaced by paid-up additional insurance.

It's important to understand that even small changes in the dividend scale can have a significant impact on the premium offset date – regardless of the dividend option you choose. But if you choose enhanced insurance as your dividend option, there will probably be a greater impact to the premium offset date than if you chose paid-up additional insurance, if the dividend scale decreases in the future.

Once you've chosen to go on premium offset, it's important to keep this in mind:

- If the dividend scale is reduced in the future, you may have to resume paying premiums to maintain your coverage. If you don't, your policy death benefit will decrease.
- Other policy values – such as increased death benefits and cash values – may not increase as much as if you had continued paying premiums. These values may decrease due to the surrendering of paid-up additional insurance to pay future premiums.
- While dividends play an important part in determining the premium offset date, other factors such as withdrawals, additional optional benefits and changes to your dividend option will also have an impact.

Accessing the cash within your policy

Sun Par Protector II provides you with access to cash when you need it the most. The total cash value of your policy is made up of guaranteed cash values and non-guaranteed cash values.

Cash values

Guaranteed cash values

Sun Par Protector II provides you with guaranteed cash value that will begin after your policy has been in force for five years. Your guaranteed cash values are based on the guaranteed death benefit, your age and gender. The longer you keep your policy, the greater your guaranteed cash value. A schedule of guaranteed cash values is included in your policy.

Non-guaranteed cash values

If you've chosen paid-up additional insurance or enhanced insurance as your dividend option, non-guaranteed cash value will build up in your policy on a tax-preferred basis. These cash values are created by dividends used to purchase paid-up additional insurance. These non-guaranteed cash values also include the value of paid-up additional insurance purchased by any Plus premium benefit payments.

If you've chosen dividends on deposit as your dividend option, you'll have non-guaranteed cash values. These are held outside of the policy and any interest earned is taxable. On death, any dividends on deposit are paid to the beneficiary.

Did you know? *The total cash value of your policy is the combination of the guaranteed and non-guaranteed cash values.*

Withdrawable premium fund

If you pay more than the required premium for your policy, the excess will go into the withdrawable premium fund; it's like a savings account that earns interest daily. You can withdraw money from this account when you need it or you can use it to cover future premium payments. Interest earned is subject to taxation.

Policy loans

Policy loans are an easy way to access the cash value of your policy. You can request a policy loan at any time as long as there's enough total cash value in your policy. The minimum policy loan amount is $250. The maximum policy loan that you can take is 100% of the total cash value of your policy, less one year's interest. A variable interest rate is charged on the amount you borrow. You can repay your loan at any time without penalty. If you don't repay the policy loan, the outstanding loan balance, including interest, will be deducted from the total death benefit of your policy.

Withdrawals

You can also access the cash value of your policy through a withdrawal if you've selected paid-up additional insurance or dividends on deposit as your dividend option.

Paid-up additional insurance: The paid-up additional insurance that was purchased as a result of the dividends credited to your policy – or purchased with plus premium benefit payments – has a cash value associated with it. Surrendering the paid-up additional insurance allows you to access this cash value. When you take a withdrawal, both the total cash value and the total death benefit will be reduced. You'll notice that the death benefit is reduced by more than the cash value. Why? Because for every dollar of dividend credited, or Plus premium benefit payment made, several dollars of paid-up additional insurance are purchased. In contrast, the cash value increases by an amount closer to the dividend paid or Plus premium payment you make.

Dividends on deposit: Withdrawals from dividends on deposit are made from the savings account held outside your policy. It includes accumulated dividends we credit to your policy and any accrued interest.

Automatic premium loan

If you don't pay your premium and you don't have any money in the withdrawable premium fund, your guaranteed premiums will be paid using an automatic premium loan against the cash value in your policy. These loans are initiated by us to assist in maintaining your valuable insurance protection. We'll charge interest on the automatic premium loan. Both the cash value and the guaranteed death benefit will be reduced by the outstanding loan balance.

If in the future the automatic premium loan amount is greater than the cash value in your policy, you'll need to make a payment to keep your policy in effect. If you don't make a payment, your policy will end.

Cancelling your policy

If you no longer need your valuable life insurance, you can choose to cancel your policy. We'll pay you the total cash value, any dividends on deposit and any money in the withdrawable premium fund, less any outstanding policy loans or premium payments.

Living benefit

This benefit is offered on *Sun Life Assurance Company of Canada* life insurance products. It's not part of your policy. We may approve it, at our discretion on a case-by-case basis. If the insured person has a terminal illness and isn't expected to live more than 24 months, this benefit can provide a lump-sum payment equal to 50% of the policy basic insurance amount, up to a maximum of $250,000. It's yours to use as needed, providing even more security. The Living benefit is offered to you on a compassionate basis and is subject to the rules of the Living benefit program in effect at the time of your request.

Understanding dividends

Policy owner dividends are an important part of your Sun Par Protector II policy. It's important to note that policy owner dividends aren't guaranteed and they'll vary from year to year.

Participating policies are grouped based on certain factors such as the type of policy and when it was purchased. The experience of each group determines the dividends available to be allocated within the group. This approach in determining dividend allocation is known as the contribution principle. It's used by life insurance companies in Canada to help ensure fair distribution of the Par account earnings among participating policy owner groups.

Sun Par Protector II is considered a unique group and has its own dividend scale. The dividend scale is based on a series of calculations and determines how the earnings for the group will be allocated to each individual policy in the form of policy owner dividends.

Sun Par Protector II was designed based on a set of assumptions about the risk to be shared with the policy owner. These assumptions include: investment returns, mortality, expenses, taxes, inflation, and the number of policy owners we assume will cancel their coverage. Each year, the company compares these assumptions to the actual results and the anticipated future results for Sun Par Protector II. This assessment defines the experience for the group. When the experience is better than our assumptions, earnings are generated that are available to be distributed as policy owner dividends. When the actual experience deteriorates, the available earnings to be distributed as dividends will decrease. If the experience is equal to or worse than our assumptions, the dividends available to policy owners may be zero.

The following are the three key risks that can be used to explain how experience impacts the dividend scale and the earnings available to be allocated as policy owner dividends:

1. *Investment returns:*

- Investment experience is usually the most important factor in determining annual Par account earnings.
- Premiums from all Par policies are pooled.
- Any funds not needed to pay benefits, expenses and taxes are invested to provide for future benefits.
- The investment risk is the difference between the company's actual and projected net returns on invested funds and the assumptions made for the group.
- The Sun Life Participating Account has investments in a variety of asset classes and has a long-term investment strategy.

2. *Mortality:*

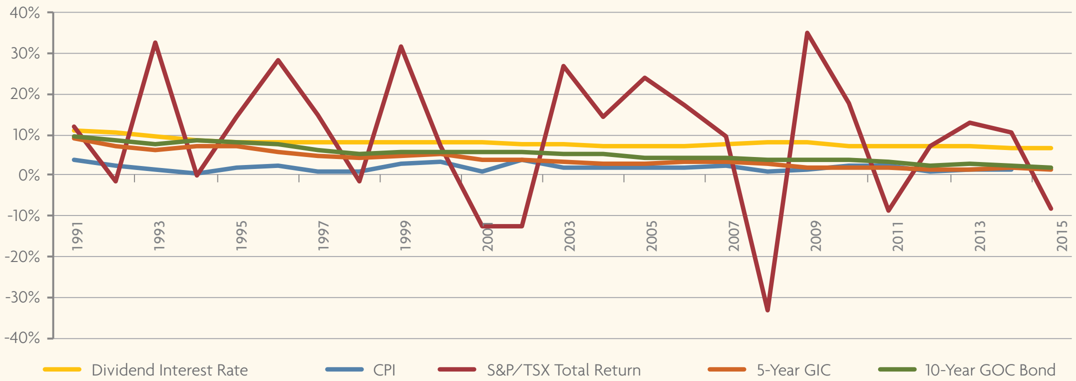
- The impact of mortality experience on the Par account's earnings is gradual over time because mortality trends and changes to mortality are slower to develop.
- Mortality is the number of deaths expected to occur in a given group at a given age.
- Mortality risk is the difference in the death benefits actually paid in relation to the assumptions made in the dividend scale for the group.

3. *Expenses:*

- The impact of expenses on the Par account's earnings is relatively small, but changes can have an impact on Par policies. During periods of high inflation, expenses will likely increase.
- Expenses are the costs to develop, market, distribute and administer your Sun Par Protector II policy.
- Expense risk is the company's ability to control and reduce expenses relative to the assumptions made for the dividend scale.

Investment risk

The investment return experience is normally the most important factor influencing the earnings available to be credited as policy owner dividends. Sun Life Financial applies a long-term investment strategy that, together with a large, well-established Par account, contributes to more stable investment returns. As a result, these investment returns tend to fall more slowly than actual interest rates and equity markets. It's important to note that the returns will be slower to recover when actual interest rates or equity markets enter periods of growth.



Notes:
1. The dividend interest is based on the Sun Life Participating Account (Open and Closed Blocks).
2. Government of Canada bond returns are nominal yields to maturity taken from Statistics Canada, CANSIM series V122486.
3. S&P/TSX composite index returns include the reinvestment of dividends.
4. Five-year GIC returns are nominal yields to maturity taken from Statistics Canada CANSIM series V122526.
5. Consumer Price Index is taken from Statistics Canada, CANSIM series V41690973.

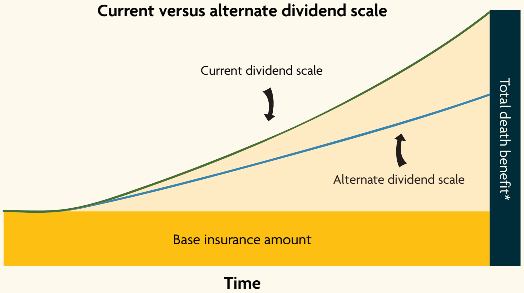
There's investment risk with Sun Par Protector II, particularly if you plan to use policy owner dividends to help pay for future premiums. There's also a risk if you plan to use policy owner dividends to increase your policy's cash value or death benefit. Because policy owner dividends aren't guaranteed, the more you rely on them to help meet projected future needs, the higher your investment risk. Relying on dividends to purchase additional coverage or pay future premiums will magnify the sensitivity that changes in the dividend scale and dividends allotted to you can have on the outcome of your plan.

When looking at an illustration for your Sun Par Protector II policy, you'll see the policy values are projected into the future and these projections assume the current dividend scale won't change. But dividend scales will change from time to time, which means the illustrated values aren't guaranteed. Your illustration also includes an alternate dividend scale which shows the impact of a hypothetical dividend scale reduction to your policy's values.

When the dividend scale changes for Sun Par Protector II, projections will change in the future. The projections for each individual policy will change, which will affect the non-guaranteed values in your policy.

Here's an example of a Sun Par Protector II policy with paid-up-additional insurance as the dividend option.
This graph compares the projected purchase of paid-up additional insurance for the same policy using two different dividend scales. This example is for illustrative purposes only and will not reflect your unique situation.

Sun Par Protector II
Paid-up additional insurance
Current versus alternate dividend scale



* Only the base insurance amount is guaranteed. The total death benefit is not.

It's important to note that even values projected under the alternate dividend scale aren't guaranteed, or meant to be a worst-case scenario.

Safeguards to protect your interests as a participating policy owner

The Sun Life Participating Account is kept separate

As required by law, Sun Life Financial maintains an account for its Par policies that is separate from the accounts for its non-Par policies and other businesses. The Sun Life Participating Account records the assets, liabilities, premiums and any earnings for Par policies only.

Sun Life Financial Board of Directors (the Board)

The Board decides if policy owner dividends will be paid out. They also determine the dividend scale that will be used to allocate them. Par policy owner dividends are reviewed at least annually. The Board considers the Par policy owner dividend recommendation of Sun Life's Appointed Actuary, who applies sound actuarial principles and practices when formulating the recommendation. Before declaring the annual Par policy owner dividend, the Board reviews a written report stating that the policy owner dividends being considered are in accordance with Sun Life Financial's dividend policies.

Dividend management process

When we demutualized, eligible policies issued before demutualization were grouped together and placed into their own separate sub-accounts within the Par account. We refer to these as Closed Blocks. Sun Par Protector II will be maintained along with other Par policies that were issued after demutualization in an Open Block.

Earnings within the Open Block are identified separately. Insurance laws restrict the amount of these earnings that may be passed to shareholders. For example, the current limit for Sun Life Financial allows less than 3% of the dividends paid to policy owners in a year to pass to the earnings for shareholders.

We report to the Federal Government Regulator each year

Sun Life Financial's Appointed Actuary follows the professional standards of practice set by the Canadian Institute of Actuaries. Each year the Appointed Actuary reviews the current status of both the Closed and Open blocks and sends a detailed report on the findings to the Office of the Superintendent of Financial Institutions (OSFI). The Appointed Actuary also provides OSFI with confirmation that the Par policies are being appropriately managed according to the demutualization plans, our own internal rules and the rules created by OFSI prior to demutualization on an annual basis.

Tax implications

Policy loans and withdrawals may be subject to taxation. Ask your advisor for further details.

Sun Par Protector II is considered an exempt life insurance policy under the *Income Tax Act (Canada)*. This means that the cash values grow within your policy on a tax-preferred basis, within limits prescribed under the *Income Tax Act (Canada)*.

Each dividend option has different tax treatments:

- With paid-up additional insurance, dividends are used to purchase paid-up additional insurance and are not tax reportable.
- With enhanced insurance, dividends are used to purchase a combination of yearly term insurance and paid-up additional insurance and are not tax reportable.
- With annual premium reduction, when the dividends paid exceed the premium payable, the excess is treated as a cash dividend and reduces the policy's adjusted cost basis (ACB). The excess dividend is taxable to the extent that it exceeds the ACB. The excess dividend is then transferred to the withdrawable premium fund, which earns taxable interest.
- With dividends on deposit, dividends paid reduce the policy's ACB. The dividend is taxable to the extent it exceeds the ACB. The dividend is transferred to the dividends on deposit account, which earns taxable interest.
- With cash payments, dividends reduce the policy's ACB. The dividend is taxable to the extent it exceeds the ACB.

If you choose to access the cash from your policy through a policy loan or withdrawal, all or a portion of the transaction may be subject to tax reporting. Both policy loans and withdrawals taken from your policy are considered a disposition for tax purposes. Talk with your advisor about the tax implications before selecting one of these options.

This tax information is based on Canadian legislation when we printed this guide. The tax rules may change at any time and administration of the policy and its features will change as required based on the new rules. This information is general in nature. Discuss the tax implications of your policy with your own accountant or tax advisor.

Did you know? *The adjusted cost basis (ACB) of a policy is calculated using a complex formula that takes into account, among other things, all payments, withdrawals, loans and premium charges. For example, premium payments increase the ACB while cash withdrawals or policy loans generally decrease the ACB.*

Sun Par Protector II – a solution that works for you

Sun Par Protector II provides permanent participating life insurance that will protect your family and assets to help you reach your long-term goals. You have the opportunity to create a plan that meets your needs, but you don't have to create it alone. Your advisor will be there every step of the way to help you get the right mix of protection and optional benefits to meet your needs today and in the future.

Why choose Sun Life Financial?

Sun Life Financial is a leading international financial services organization. In Canada, we started selling life insurance in 1871. Since then, our commitment to helping Canadians achieve lifetime financial security through market-leading products, expert advice and innovative solutions has made us a trusted household name.

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For the seventh straight year, we were voted by Canadians as the "Most Trusted Life Insurance Company" in the Reader's Digest 2016 Trusted Brands Survey – giving us Gold Winner status. In this survey, people were asked to consider whether the brands possessed several attributes including superior quality, excellent value, an understanding of its customers' needs and whether they would recommend the brand to others. We're honoured by this award and your continued trust in us.

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810-4635-08-16