CREDIT OPINION
17 December 2024

Update

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RATINGS

Sun Life Assurance Company of Canada

Domicile	TORONTO, Ontario, Canada
Long Term Rating	Aa3
Type	Insurance Financial Strength - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Sun Life Assurance Company of Canada

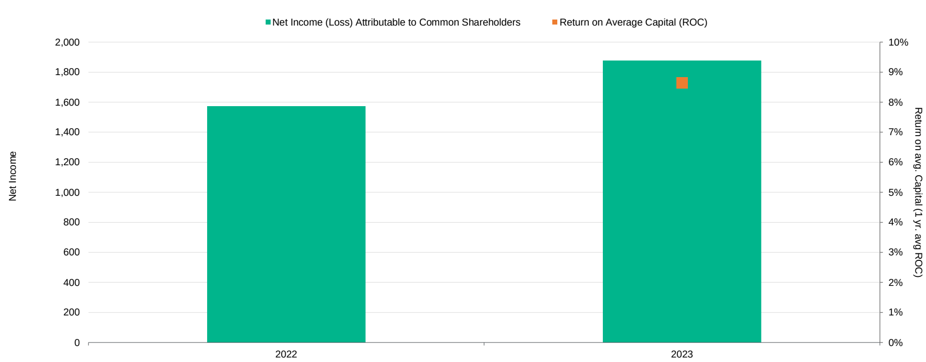
Update to credit analysis following ratings affirmation

Summary

Our credit view of Sun Life Assurance Company of Canada (SLA), a wholly owned subsidiary of Sun Life Financial, Inc. (SLF, unrated), reflects its exceptional market position in Canada, which has a favorable industry structure. On 26 November 2024, we affirmed SLA's Aa3 insurance financial strength (IFS) rating. SLA holds a top three market share position in virtually all its market segments (individual wealth, individual insurance, group retirement services, and health) that supports the company's profitability and capitalization. SLA's life insurance adequacy test (LICAT) ratio as of 30 September 2024 was 147%, representing a capital cushion of approximately CAD10.7 billion above its supervisory minimum, which we view as sufficient for unexpected adverse events. SLF has a growing US presence, largely because of its acquisition of DentaQuest, the largest provider of Medicaid dental benefits in the US with a growing Medicare Advantage business.

These strengths are tempered by a business mix which includes fixed annuities and segregated funds, for example, variable annuities, that expose SLA to equity market and interest rate risks, which could drive future earnings volatility. In addition, SLF's leverage is above the average of similarly rated peers largely driven by the group's acquisition activity, with adjusted financial and total leverage ratios of 24.3% and 27.7%, respectively, at the end of 2023. Goodwill and intangibles as a percentage of SLA's consolidated shareholders' equity, which under our calculation includes 50% of the company's contractual service margin (CSM) as goodwill and intangibles while 50% of CSM after-tax is included in shareholders' equity, remains high at 74% as of December 31, 2023. At SLF, SLA's parent, there has also been a strategic focus on building its asset management capabilities.

Exhibit 1
Profitability has trended higher under its strategic initiatives, with further improvements expected from cost efficiency initiatives



Information based on IFRS 17 financial statements as of the fiscal year ended 31 December
Source: Company filings and Moody's Ratings

Credit strengths

» Excellent market position, pricing power and brand recognition in Canada, allowing SLA to maintain attractive margins;

» Strong and stable profitability generated through its Canadian operations;

» Diversified business model, offering a broad range of protection products.

Credit challenges

» Meaningful exposure to secondary guarantees on segregated funds;

» High total leverage compared to similarly rated peers;

» A business mix that includes a significant asset and wealth management component, exposing the company to equity market and interest rate risks. However, this business is low capital intensive and generates low-risk recurring fee-based earnings.

Outlook

The stable outlook reflects the stable profitability of SLA's Canadian operations which has leading market shares, its diversified business model and solid capitalization. We expect SLF will continue to profitably enhance its US dental business profile. Items to watch include future significant expansion/acquisitions of lower-rated, more volatile insurance operations outside of Canada, increased reliance from its asset and wealth management businesses, its ability to reduce leverage should it make future acquisitions, as well as the weakening macroeconomic outlook.

Factors that could lead to an upgrade

SLA's IFS rating could be upgraded if the company maintains its stable and sustainable consolidated profitability with a return on capital consistently above 12% or if consolidated financial leverage at SLF was sustained in the low 20% range while earnings and cash flow coverage were consistently above 10 times (x) and 7x, respectively. The rating could also be upgraded if SLA consistently maintains capital adequacy above 145% total LICAT ratio.

Factors that could lead to a downgrade

The ratings could be downgraded if the company were to experience a sustained deterioration in profitability, with return on capital consistently below 8% with greater earnings volatility; or if the company were to pursue aggressive expansion or acquisition in a market or region with weaker sovereign credit profiles or where its current position is weak or non-existent, diluting the benefit of its strong market positions in Canada; or if there was an excessive reliance upon asset management earnings. Downward pressure on SLA's rating may result if consolidated financial leverage at SLF exceeded 30% for a sustained period, with earnings and cash flow coverage below 8x and 5x, respectively, for a sustained period; or if SLA's LICAT ratio was below 115% for a sustained period.

Key indicators table

Exhibit 2
Key Indicators FY2023

Sun Life Assurance Company of Canada [1][2]	2023	2022
As Reported (Canadian Dollar Millions)		
Total Assets	312,297	303,687
Total Shareholders' Equity	16,425	16,980
Net Income (Loss) Attributable to Common Shareholders	1,877	1,571
Total Insurance Revenue	17,844	16,973
Moody's Adjusted Ratios		
High Risk Assets % Shareholders' Equity	133.8%	173.5%
Goodwill & Intangibles % Shareholders' Equity[3]	74.0%	74.0%
Shareholders' Equity % Total Assets	5.3%	4.6%
Return on Average Capital (ROC)	8.6%	NA
Sharpe Ratio of ROC (5 yr.)	NA	NA
Financial Leverage[3]	24.3%	26.4%
Total Leverage[3]	27.7%	29.9%
Earnings Coverage[3]	7.1x	10.1x
Cash Flow Coverage[3]	10.7x	4.1x

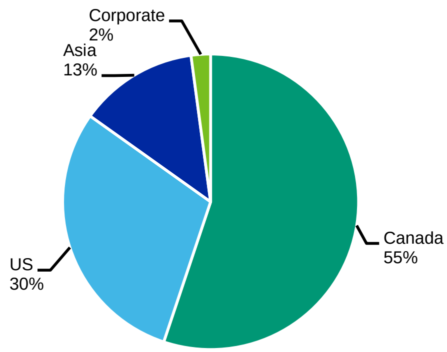
1] Information based on IFRS 17 financial statements as of the fiscal year ended 31 December; previous years' financial statements were prepared under legacy IFRS 4, which are not comparable to IFRS 17 and are not included in the exhibit.[2] Certain items may have been relabeled and/or reclassified for global consistency. [3] Information based on IFRS 17 financial statements of Sun Life Financial, Inc. as of the fiscal year ended 31 December;
Source: Company filings and Moody's Ratings

SLF adopted new accounting standards that apply to life insurers under IFRS 17, Insurance Contracts, as well as IFRS 9, Financial Instruments, on January 1, 2023. SLF restated its 2022 results, although these may not be fully representative of its future earnings profile since the company was not managing its asset and liability portfolios under the new standards. While the scorecard incorporates our view of the initial impact of these accounting changes, qualitative adjustments to factor scores of affected metrics will, for a period of time, be particularly important for certain insurance companies, due to limited comparability with prior financial reporting periods or with insurers that follow different accounting standards. Also, where we calculate metrics based on five-year average data, only accounting periods for which IFRS 17 have been adopted are included in our metric calculations, which may be less than five years.

Profile

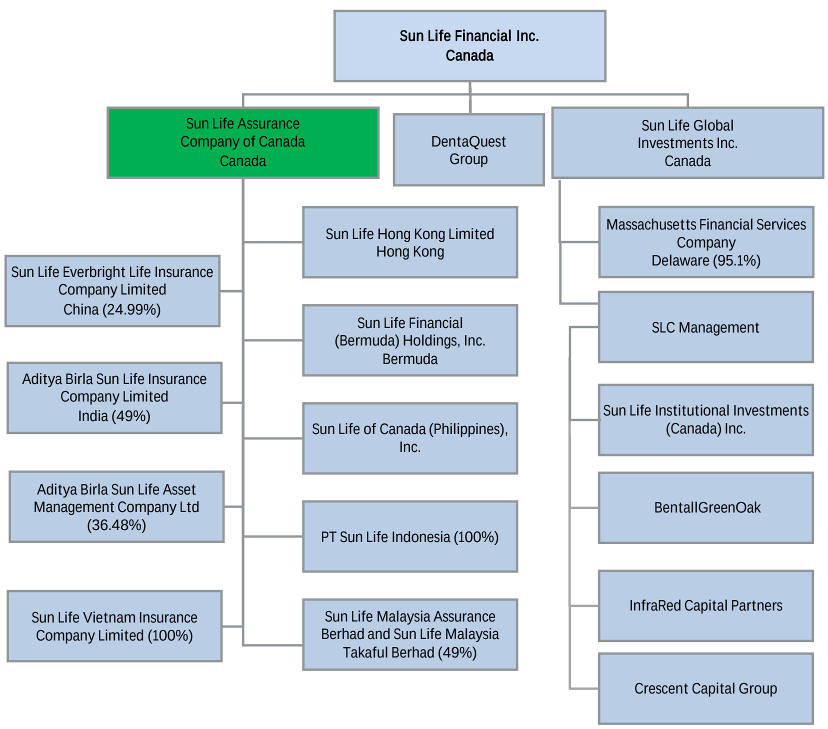
SLF, a leading global financial services organization headquartered in Toronto, Canada, is the owner of SLA, a life insurer. SLA is one of three leading life insurers in Canada offering a wide range of products and services. SLA operates in Asia through joint ventures and subsidiaries in Hong Kong, the Philippines, Indonesia, India, China, Malaysia, Vietnam and Singapore, with product offerings mainly oriented towards straightforward protection products distributed through independent agency channels and a growing bancassurance capability. In the US, SLF offers group and dental benefits as well as manages an in-force block of individual life insurance and annuity policies and a block of run-off reinsurance. As at December 31, 2023, SLA reported total general and segregated fund assets of CAD312 billion, and shareholders' equity of approximately CAD16.4 billion. For fiscal year 2023, SLA reported net income to common shareholders of CAD1,877 million, with earned revenue of CAD17,071 million in Canada, CAD9,204 million in the US, CAD4,032 million in Asia and CAD657 million in Corporate.

Exhibit 3
SLA generates the majority of revenue in Canada
Fiscal year ended December 31, 2023



Source: Moody's Ratings, Company reports

Exhibit 4
SLF simplified organizational structure as of December 31, 2023



Green = rated; Blue = not rated
Source: Moody's Ratings, data from company reports

Detailed credit considerations

Moody's rates SLA Aa3 for insurance financial strength, which is in line with Moody's adjusted scorecard-indicated outcome.

Insurance financial strength rating

The key factors currently influencing the rating and outlook are:

Market position and brand: Favorable Canadian industry structure supports a high score

The Canadian life insurance market is an oligopoly with three dominant players - SLA, Great-West Life Assurance Company, and Manufacturers Life Insurance Company - that based on Moody's estimates together account for approximately 70% of the industry's total insurance revenue. This market structure results in a rather formidable entry barrier, as does federal government legislation which currently limits the ability of Canadian banks, the Canadian life insurers' most significant external threat, from selling insurance in their bank branches. In 2023, we estimate that SLA captured approximately 46% of total insurance revenue in Canada based on data from MSA market research report.

SLA has very different market positions across its operating segments. In Canada, SLA scores Aa on Moody's relative market share ratio. Growth in Canada is expected to remain strong reflecting new group benefits mandates and higher non-par life sales. SLA's presence in Asia is very small relative to Canada, which is reflected in a score of A. SLA also operates in the US through a branch, and is subject to local regulatory supervision. Weighting by total revenue - the best readily available method - we calculate a weighted relative market share ratio in the A range, which we believe accurately reflects SLA's blended market presence.

We expect growth in the US and Asia to accelerate through the remainder of 2024 and into next year, because of the continued momentum from its acquisition of DentaQuest, the largest provider of Medicaid dental benefits in the US with a growing Medicare Advantage business, although results have recently been challenged by Medicaid redeterminations. Overall, the US and Asia operations are expected to become a more significant contributors to earnings, providing geographic diversity to its earnings base. However, we note that the operating environments in some of these countries are weaker than Canada's and SLA does not enjoy the same exceptional market position in these regions as it does in Canada.

We have adjusted the market position and brand score up to Aa from A to reflect SLA's strong and sustainable market position in Canada, which we believe will act as a buffer to any negative pressures stemming from offshore markets.

Distribution: Largest propriety sales force in Canada, with strong digital offerings

SLA has good diversity of distribution, utilizing three major distribution channels: (1) its captive sales force, now branded as Sun Life, which is the largest proprietary sales force in Canada; (2) third party distributors, a category that includes national brokerage houses and independent managing general agencies (MGAs); and (3) the institutional channel for sales of group life and health products. SLA has made substantial investments in digital channels and processes, including leveraging the use of artificial intelligence driven underwriting. In October 2023, Sun Life completed the acquisition of Dialogue, a health and wellness virtual care platform that offers affordable, on-demand access to quality care. In the US, it announced a new partnership with VirualMe to expand access to telehealth services through Sun Life Health Navigator. As a result of these investments, the company is well positioned to generate a higher level of digitally-assisted sales.

In the US, group benefits products are distributed by a network of over 32,000 independent brokers who are supported by around 165 SLF sales representatives, while DentaQuest has a presence in a majority of US states. In Asia, SLA has a multi-channel distribution strategy, including agency, bancassurance, brokerage and growing digital and telecom capabilities. The company organizes its Asia business into four segments: 1) ASEAN markets, which includes the Philippines, Indonesia, and Vietnam, 2) Hong Kong, 3) Joint Ventures, which includes China, India, and Malaysia, and 4) High Net Worth, which includes international and Singapore.

Given its proprietary sales force and position in the Canadian market, we regard SLA's distribution control as excellent, which promotes favorable policyholder persistency and, in our view, more than offsets a lesser level of distribution diversity.

As a result, SLA's distribution score is Aa, which is in line with the unadjusted score.

Product focus and diversification: Low risk par reserves a key strength, although higher relative exposure to equity market and interest rate risks

Overall, SLA's product risk and diversification score is an A on an unadjusted basis, largely reflecting the broad range of protection products offered by the company. A sizable block of SLA's actuarial liabilities are participating reserves that are low-risk for the company. However, these products are priced based on mortality rates about twice what is normally experienced.

In the US, SLA provides group insurance products and services, including life, long-term and short-term disability, absence management, medical stop-loss, dental, vision and voluntary insurance such as accident and critical illness.

In Asia, SLA's product offerings in these geographies are focused on straightforward protection products distributed through independent agency channels and a growing bancassurance capability. SLA plans to grow and scale these operations to become a more significant contributor to earnings.

In terms of product diversification, the breadth of SLA's position in the Canadian market means that each of its four lines of business (individual wealth, individual insurance, group retirement services, and Sun Life health) provide 10% or more of the company's underlying net income. However, the potential volatility associated with SLA's equity-related businesses remains a concern, particularly given the current challenging environment which has resulted in considerable market volatility. In addition, SLA has a high degree of sensitivity to interest rates at long durations, which it hedges, although most of this exposure is related to its individual insurance products, fixed annuity and segregated funds products.

SLA's product risk and diversification score is A, which is in line with the initial score reflecting the aforementioned risks related to interest rate sensitivity and potential volatility from its equity-related businesses.

Asset quality: Portfolio dominated by high quality bonds and mortgages

SLA's unadjusted asset quality score of Baa is comprised of sub-factor scores of Ba for Goodwill and Intangibles to Shareholders' Equity (74% for 2023), and Baa for High Risk Assets to Shareholders' Equity (133.8% for 2023). We note that a good portion of the company's goodwill and intangibles is attached to its very profitable Canadian and Asset Management franchises, which provide the vast majority of SLF's earnings (note: goodwill and intangibles are measured at SLF, SLA's parent holding company). Under our calculation, goodwill and intangibles includes 50% of the company's contractual service margin (CSM) as while 50% of CSM after-tax is included in shareholders' equity.

As of December 31, 2023, SLF's investment portfolio was largely comprised of bonds (46%), mortgages and corporate loans (34%), with the remainder in cash and other short term investments (8%), other invested assets (6%), equities (4%), real estate (6%) and derivatives (1%). As of Q3 2024, the breakdown remains similar, with the exception of bonds comprising 47% of the portfolio, and cash and other short term investments comprising 7%. The proportion of private placement loans in invested assets (excluding derivatives) increased to 25% from 15% between 2012 and 2023. Moody's projects global speculative grade defaults at the end of July 2025 of 2.9% in the baseline scenario and 9.7% in the severely pessimistic scenario. While we view this higher reliance on private placement loans as modestly increasing liquidity risk, this is offset by the benefit of protective covenants.

The company's projected credit losses under a base case and severe stress scenario are consistent with companies scoring at the Baa-level. With a weakening macroeconomic outlook, we anticipate that losses on high risk assets may increase marginally into 2025 due to negative credit migration. In addition, we expect certain asset classes such as real estate and commercial mortgages, to remain under pressure in 2025 reflecting a higher interest rate environment and a shift to hybrid working models.

We have adjusted the Asset Quality score up to A from its Baa initial score.

Capital adequacy: Capital strength remains resilient

Although SLA's capital as a percent of total assets places the company in the Baa category, it has historically maintained its Canadian regulatory capital ratio, the Life Insurance Capital Adequacy Test (LICAT) ratio, well above required minimums. As of December 31, 2023, SLF and SLA reported LICAT ratios of 149% and 141%, respectively. The difference between SLF and SLA reflects cash and liquid assets held at the holding company. Furthermore, capital levels have remained relatively stable over time, reflecting a low sensitivity to interest rates and stable, recurring earnings from the company's asset management businesses. As of September 30, 2024, SLA's

LICAT ratio of 147% represented a capital cushion of approximately CAD10.7 billion above its supervisory minimum, which we view as sufficient for unexpected adverse events. SLF targets a dividend payout ratio in the 40%-50% range.

We expect SLA to maintain capital level consistent with an Aa-score. As a result, we have adjusted the capital adequacy score to Aa from the initial score of Baa.

Profitability: Diversified business mix, with stable profitability

SLA's profitability has been strong over the last few years, although its return on capital of 8.6% in 2023 is at the lower end of its historical performance and our expectations for the Aa category (8% to 12%). In fiscal 2023, SLF reported net income of CAD3,086 million, a 7% increase from 2022. Through the nine months ended September 30, 2024, SLF reported net income of CAD2,812 million, up 20% compared to the same period a year ago, largely due to a decrease in SLC Management's estimated acquisition-related liabilities and higher underlying earnings.

While earnings in 2024 have benefited from a higher interest rate environment, headwinds remain due to a weaker macroeconomic environment. We believe that SLA and SLF are well-positioned to manage through these headwinds, and expect underlying earnings to rise in 2025 reflecting the earnings momentum of its business segments as well as the strategic initiatives the company has undertaken in its US dental business. In addition, the company remains committed to improving efficiency through simplying its organizational structure and processes.

SLF has also been strategically focused on building its asset and wealth management capabilities, both organically and through acquisition. Asset management is very scalable and generates low-risk recurring fee-based earnings as well as being a low capital intensity business. Management is notably repositioning the business mix of SLF towards capital-light businesses including wealth and asset management, which represent approximately 74% of underlying net income in 2023 (78% through nine months ended September 30, 2024). We believe these businesses could increase earnings volatility during periods of market volatility and are subject to net fund redemptions during weakening macroeconomic conditions. However, we note that SLF's net outflows have been below the industry average. In addition, recent trends away from actively managed investments towards passively managed investment alternatives have pressured fees and margins.

On an unadjusted basis, SLA's profitability factor score is Aa. We have kept the adjusted score in line with the unadjusted score of Aa reflecting the company's diverse business model and the relatively stable earnings generated by its Canadian business, despite our expectation that profitability will remain pressured given the weakening macroeconomic outlook.

Liquidity and asset/liability management: Robust liquidity offset by potential margin demands from hedging activities

We believe that liquidity at SLA (and the larger SLF group) remains robust, with the company using sophisticated asset-liability management and hedging strategies to keep any asset-liability mismatches within reasonable tolerances. Specifically, the company's hedging strategies utilize derivative instruments to manage the interest rate sensitivity of the duration gap between assets and liabilities, to mitigate the interest and equity related exposure of guarantees on insurance and annuity contracts and segregated funds, and to reduce currency exposure.

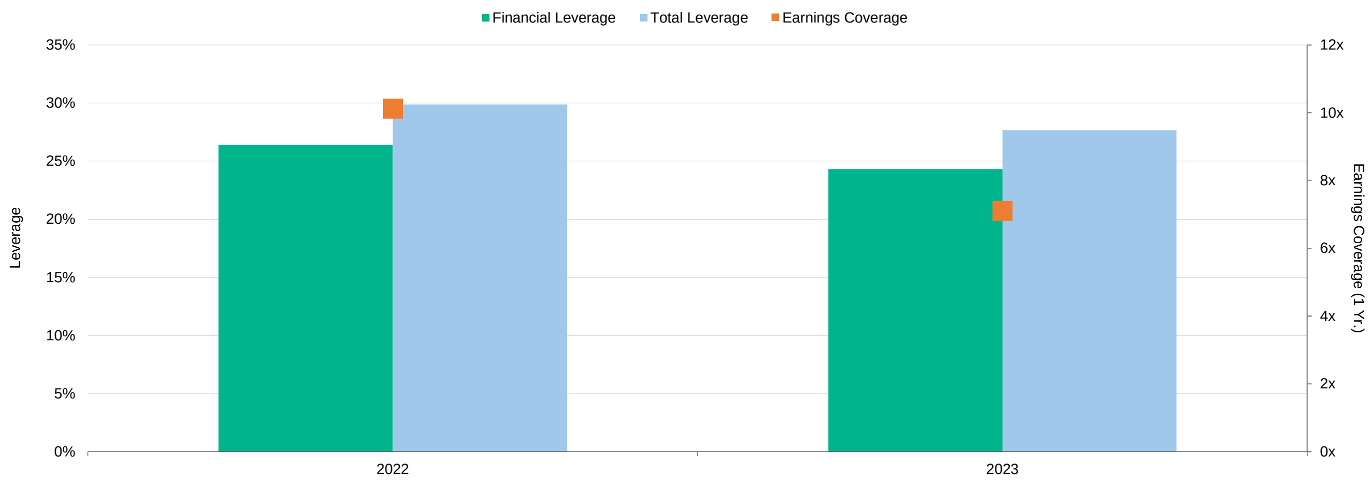
Applying our liquidity stress test approach to SLA results in a liquidity score in the Aaa range, reflecting the company's high liquidity score. However, given that variable margin requirements associated with its hedging activities add a level of complexity to liquidity management, we have adjusted the score down to the Aa range.

Financial flexibility: Return to historical earnings coverage levels driven by improved profit stability

For financial flexibility, we measure this at the consolidated level of SLF, although debt securities are outstanding at various entities within the organization (total of CAD350 million including CAD150 million of legacy Clarica debt). At year-end 2023, SLF's financial leverage and total leverage were 24.3% and 27.7%, respectively, which declined from 26.4% and 29.9%, respectively, in the prior year. These ratios remain within management's target range and we expect SLF to continue to reduce leverage in 2025. At the end of 2023, SLF's earnings and cash flow coverage ratios were strong at 7.1 times (x) and 10.7x, respectively, with both ratios in the Aa range. Cash flow coverage is based on SLA's dividend capacity. SLF maintains a dividend payout ratio of 40 - 50%, which is in line with its peers.

We view SLF as having a moderate total leverage ratio, which implies the company could have less marginal debt capacity in a stress period than similarly rated peers. As a result, we have adjusted downward the initial financial flexibility score of Aa to A.

Exhibit 5
SLA continues to reduce leverage, while maintaining strong earnings coverage



Source: Company filings and Moody's Ratings

Liquidity analysis

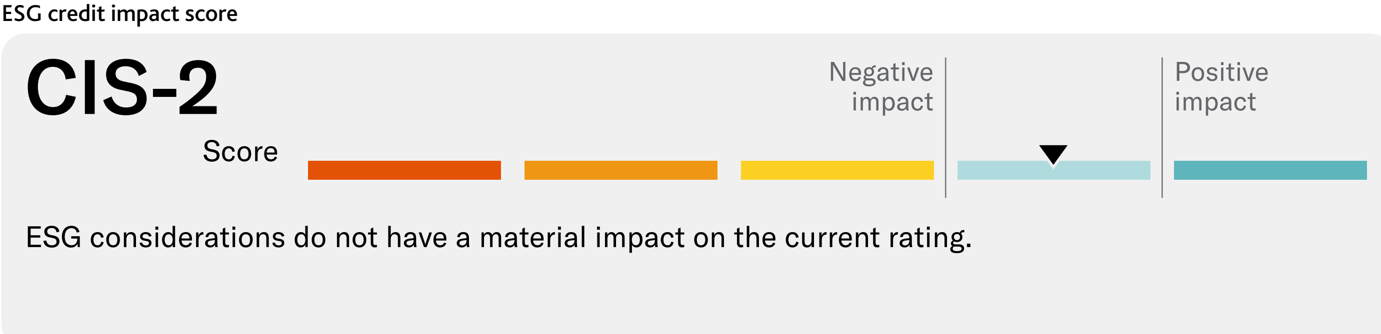
At September 30, 2024, SLF had approximately CAD1.2 billion of cash and liquid assets (December 31, 2023 - CAD1.6 billion) at the holding company level to provide greater liquidity and coverage of holding company's financial obligations or to otherwise accommodate group liquidity needs. We expect the company to maintain a similar level through 2024 and into 2025, although we note that this balance can fluctuate quarter to quarter. SLF targets a minimum CAD550 million in excess cash and liquid assets. In addition, SLF has access to $2.1 billion and CAD500 million in fully committed credit facilities as at December 31, 2023.

Through the nine months ended September 30, 2024, SLF paid common and preferred share dividends and distributions on other equity investments totaling CAD1,470 million (2023 - CAD1,684 million). We estimate SLF's unrestricted subsidiary dividend capacity totaled approximately CAD5.5 billion at year-end 2023. We calculate SLA's dividend capacity on the basis of the company maintaining its LICAT ratio above 141%. During Q3 2024, SLF redeemed CAD750 million of subordinated debt. Subordinated debt and limited recourse capital notes with first par call dates within the next five years (up to 2029) total CAD4.3 billion. The company has no commercial paper outstanding.

ESG considerations

Sun Life Assurance Company of Canada's ESG credit impact score is CIS-2

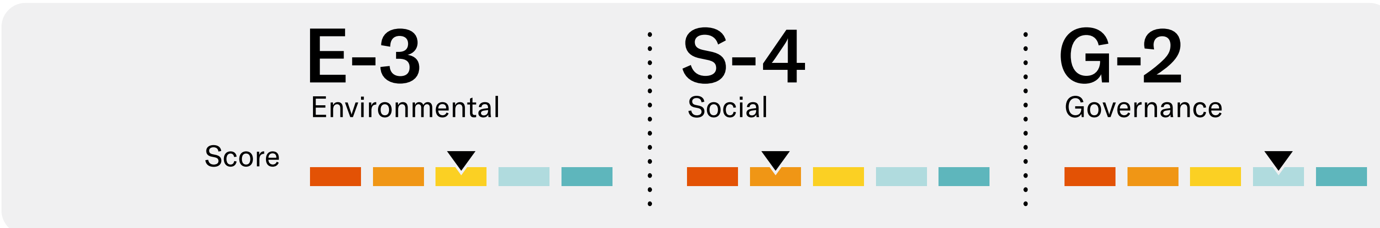
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Sun Life Assurance Company of Canada's (Sun Life) **CIS-2** indicates that ESG considerations do not have a material impact on the rating. The company's strong risk management and effective governance mitigate its exposure to environmental and social risks, in particular carbon transition, customer relations, and societal and demographic risks.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Sun Life faces moderate environmental risks, primarily because of exposure to carbon transition risk through the long-duration assets held in its investment portfolio and inherent asset leverage. In line with peers, Sun Life is facing mounting business risks and stakeholder pressure on environmental stewardship in its investment portfolio, which gives rise to strategic and reputational risk. This risk is mitigated by the company's strong governance and risk management practices, along with its developing focus on managing climate risk.

Social

Sun Life faces high industrywide customer relations risk in relation to the sale of its products and significant interaction with retail customers against a background of regulatory focus on the fair treatment of customers, which is mitigated by well-developed policies and procedures. High cyber and personal data risks are mitigated by a strong technology framework. High exposure to demographic and societal risks, including the effects of an aging population, can make the operating environment more difficult.

Governance

Sun Life faces low governance risks. The company's risk management, policies and procedures are in line with industry best practices. Sun Life's management team has demonstrated a strong track record of meeting financial and strategic objectives, and the insurer benefits from a strong and independent board. Organizational complexity inherent to its size and the diversification of its operations presents some governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Moody's does not rate SLA's parent, SLF. SLF's ratings were withdrawn on October 6, 2021.

Rating methodology and scorecard factors

Exhibit 8

Rating Factors

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								A	Aa
Market Position and Brand (15%)								A	Aa
-Relative Market Share Ratio			X						
Distribution (10%)								Aa	Aa
-Distribution Control		X							
-Diversity of Distribution			X						
Product Focus and Diversification (10%)								A	A
-Product Risk			X						
-Life Insurance Product Diversification		X							
Financial Profile								A	A
Asset Quality (10%)								Baa	A
-High Risk Assets % Shareholders' Equity				133.8%					
-Goodwill & Intangibles % Shareholders' Equity[3]					74.0%				
Capital Adequacy (15%)								Baa	Aa
-Shareholders' Equity % Total Assets				5.3%					
Profitability (15%)								Aa	Aa
-Return on Capital (5 yr. avg.)		8.6%							
-Sharpe Ratio of ROC (5 yr.)									
Liquidity and Asset/Liability Management (10%)								Aaa	Aa
-Liquid Assets % Liquid Liabilities	X								
Financial Flexibility (15%)								Aa	A
-Financial Leverage[3]			24.3%						
-Total Leverage[3]			27.7%						
-Earnings Coverage (5 yr. avg.)[3]		8.6x							
-Cash Flow Coverage (5 yr. avg.)[3]	7.4x								
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A1	Aa3

[1] Information based on IFRS17 financial statements as of fiscal year ended December 31, 2023. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis. [3] Information based on IFRS17 financial statements of Sun Life Financial, Inc. as of fiscal year ended December 31, 2023.
Source: Moody's Ratings

Ratings

Exhibit 9

Category	Moody's Rating
SUN LIFE ASSURANCE COMPANY OF CANADA	
Rating Outlook	STA
Insurance Financial Strength	Aa3

Source: Moody's Ratings

REPORT NUMBER 1363665

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454