U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 40-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended **December 31, 2005** Commission File Number 001**-15014**

Sun Life Financial Inc.

(Exact name of Registrant as specified in its charter)

Canada
(Province or other jurisdiction of incorporation or organization)

52411
(Primary Standard Industrial Classification Code Number (if applicable))

Not Applicable
(I.R.S. Employer Identification Number (if applicable))

150 King Street West, 6 th Floor, Toronto, Ontario, Canada M5H 1J9 (416) 979-4800
(Address and telephone number of Registrant's principal executive offices)

Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc.
One Sun Life Executive Park
Wellesley Hills, Massachusetts 02481
(781) 237-6030
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not Applicable
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not Applicable
(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

þ Annual information form þ Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares	**581,960,570**
Class A Preferred Shares Series 1	**13,000,000**
Class A Preferred Shares Series 2	**16,000,000**
Class A Preferred Shares Series 3	**10,000,000**

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes o No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

INCORPORATION BY REFERENCE

Disclosure Controls and Procedures

The disclosure provided under the heading *"DISCLOSURE CONTROLS AND PROCEDURES"* in the Company's Management's Discussion and Analysis for the year ended December 31, 2005, attached hereto as Exhibit 2, is incorporated by reference herein.

Identification of Audit Committee

The disclosure provided under the heading *"DIRECTORS AND EXECUTIVE OFFICERS – Audit and Conduct Review Committee"* in the Company's Renewal Annual Information Form for the year ended December 31, 2005, attached hereto as Exhibit 3, is incorporated by reference herein.

Audit Committee Financial Expert

The disclosure provided under the heading *"DIRECTORS AND EXECUTIVE OFFICERS – Audit and Conduct Review Committee"* in the Company's Renewal Annual Information Form for the year ended December 31, 2005, attached hereto as Exhibit 3, is incorporated by reference herein.

Code of Ethics

The disclosure provided under the heading *"CODE OF ETHICS"* in the Company's Renewal Annual Information Form for the year ended December 31, 2005, attached hereto as Exhibit 3, is incorporated by reference herein. A copy of the "Sun Life Financial Code of Business Conduct" is attached hereto as Exhibit 4.

Principal Accountant Fees and Services

The disclosure provided under the heading *"PRINCIPAL ACCOUNTANT FEES AND SERVICES"* in the Company's Renewal Annual Information Form for the year ended December 31, 2005, attached hereto as Exhibit 3, is incorporated by reference herein.

Off-Balance Sheet Arrangements

The disclosure provided under the heading *"FINANCIAL POSITION AND LIQUIDITY – Off-Balance Sheet Arrangements"* in the Company's Management's Discussion and Analysis for the year ended December 31, 2005, attached as Exhibit 2 hereto, is incorporated by reference herein.

Tabular Disclosure of Contractual Obligations

The disclosure provided under the heading *"FINANCIAL POSITION AND LIQUIDITY – Contractual Obligations"* in the Company's Management's Discussion and Analysis for the year ended December 31, 2005, attached hereto as Exhibit 2, is incorporated by reference herein.

UNDERTAKING

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Registrant	**Sun Life Financial Inc.**
By (Signature and Title)	/s/ "Thomas A. Bogart" **Thomas A. Bogart** **Executive Vice-President and Chief Legal Officer**
Date	**February 13, 2006**

EXHIBITS:

1. Consolidated Financial Statement for the Year Ended December 31, 2005
2. Annual Management's Discussion and Analysis for the year ended December 31, 2005
3. Renewal Annual Information Form for the year ended December 31, 2005
4. Sun Life Financial Code of Business Conduct
5. Auditor's Consent
6. Report on Comments by Auditors on Canada – United States of America Reporting Differences
7. Consent of Appointed Actuary
8. Certification required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of United States Code, pursuant to Section 906 of the *Sarbanes-Oxley Act* of 2002
    - Chief Executive Officer
    - Executive Vice-President and Chief Financial Officer
9. Certification required by Rule 13a-14(a) or Rule 15d-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
    - Chief Executive Officer
    - Executive Vice-President and Chief Financial Officer

EXHIBIT 1



SUN LIFE FINANCIAL INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

Financial Reporting Responsibilities

Management is responsible for preparing the consolidated financial statements. This responsibility includes selecting appropriate accounting policies and making estimates and other judgments consistent with Canadian generally accepted accounting principles. It also includes ensuring the use of appropriate accounting policies and estimates in the disclosure of the information which was prepared following accounting principles generally accepted in the United States of America. The financial information presented elsewhere in the annual report to shareholders is consistent with these statements.

The Board of Directors (Board) oversees management's responsibilities for financial reporting. An Audit and Conduct Review Committee of non-management directors is appointed by the Board to review the consolidated financial statements and report to the directors prior to their approval of the consolidated financial statements for issuance to shareholders.

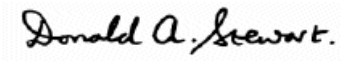
Management is also responsible for maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and that Sun Life Financial Inc. and its subsidiaries, collectively referred to as "the Company", adhere to legislative and regulatory requirements. These systems include the communication of policies and the Company's Code of Business Conduct throughout the organization. Internal controls are reviewed and evaluated by the Company's internal auditors.

The Audit and Conduct Review Committee also conducts such review and inquiry of management and the internal and external auditors as it deems necessary towards establishing that the Company is employing appropriate systems of internal control, is adhering to legislative and regulatory requirements and is applying the Company's Code of Business Conduct. Both the internal and external auditors and the Appointed Actuary have full and unrestricted access to the Audit and Conduct Review Committee, with and without the presence of management.

The Office of the Superintendent of Financial Institutions, Canada conducts periodic examinations of the Company. These examinations are designed to evaluate compliance with provisions of the Insurance Companies Act of Canada and to ensure that the interests of policyholders, depositors and the public are safeguarded. The Company's foreign operations and foreign subsidiaries are examined by regulators in their local jurisdictions.

The Appointed Actuary, who is a member of management, is appointed by the Board to discharge the various actuarial responsibilities required under the Insurance Companies Act of Canada, and conducts the valuation of the Company's actuarial liabilities. The role of the Appointed Actuary is described in more detail in Note 10 on page 25. The report of the Appointed Actuary appears on page 49.

The Company's external auditors, Deloitte & Touche LLP, Chartered Accountants, conduct an independent examination of the financial statements and meet separately with both management and the Audit and Conduct Review Committee to discuss the results of their examination. The auditors' report to the shareholders appears on page 49.



Donald A. Stewart
Chief Executive Officer



Paul W. Derksen
Executive Vice-President and Chief Financial Officer

Toronto, February 13, 2006

Consolidated Statements of Operations

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars, except for per share amounts)

	2005	2004 *	2003 *
REVENUE			
Premium income:			
Annuities	**$ 4,556**	$ 4,588	$ 4,805
Life insurance	**5,683**	5,948	6,325
Health insurance	**2,701**	2,367	2,413
	12,940	12,903	13,543
Net investment income *(Note 6)*	**6,079**	5,924	5,703
Fee income	**2,899**	2,903	2,810
	21,918	21,730	22,056
POLICY BENEFITS AND EXPENSES			
Payments to policyholders, beneficiaries and depositors:			
Maturities and surrenders	**5,922**	5,726	6,050
Annuity payments	**1,473**	1,495	1,567
Death and disability benefits	**2,397**	2,458	2,488
Health benefits	**1,885**	1,737	1,696
Policyholder dividends and interest on claims and deposits	**1,125**	1,116	1,125
	12,802	12,532	12,926
Net transfers to segregated funds	**704**	582	544
Increase in actuarial liabilities *(Note 10)*	**872**	1,425	1,510
Commissions	**1,726**	1,916	1,848
Operating expenses *(Note 16)*	**2,921**	2,831	3,088
Premium taxes	**190**	182	171
Interest expense *(Notes 11, 12 and 13)*	**273**	278	292
	19,488	19,746	20,379
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	**2,430**	1,984	1,677
Income taxes expense *(Note 19)*	**531**	263	357
Non-controlling interests in net income of subsidiaries *(Note 14)*	**23**	28	14
TOTAL NET INCOME	**1,876**	1,693	1,306
Less: Participating policyholders' net income (loss)	**9**	13	(1)
SHAREHOLDERS' NET INCOME	**1,867**	1,680	1,307
Less: Preferred shareholder dividends	**24**	—	—
COMMON SHAREHOLDERS' NET INCOME	**$ 1,843**	$ 1,680	$ 1,307
Average exchange rates:			
U.S. Dollars	***1.21***	*1.30*	*1.40*
U.K. Pounds	***2.21***	*2.38*	*2.29*

* As restated for adoption of Canadian Institute of Chartered Accountants (CICA) Handbook Accounting Guideline 15 (AcG 15), Consolidation of Variable Interest Entities *(Note 2)*.

Earnings per share *(Note 17)*			
Basic	**$ 3.14**	$ 2.81	$ 2.15
Diluted	**$ 3.12**	$ 2.79	$ 2.15
Weighted average shares outstanding in millions *(Note 17)*			
Basic	**587**	599	608
Diluted	**590**	602	608

The attached notes form part of these consolidated financial statements.

Consolidated Balance Sheets

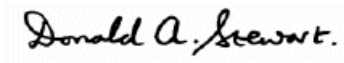
AS AT DECEMBER 31 (in millions of Canadian dollars)

	2005	2004 *
ASSETS		
Bonds *(Note 6)*	**$ 66,154**	$ 64,496
Mortgages *(Note 6)*	**14,561**	13,862
Stocks *(Note 6)*	**3,856**	3,463
Real estate *(Note 6)*	**3,241**	3,148
Cash, cash equivalents and short-term securities	**5,091**	5,958
Policy loans and other invested assets	**5,689**	5,984
Invested assets	**98,592**	96,911
Goodwill *(Note 8)*	**5,963**	5,471
Intangible assets *(Note 8)*	**801**	751
Other assets *(Note 9)*	**5,510**	4,670
Total general fund assets	**$110,866**	$107,803
Segregated funds net assets	**$ 60,984**	$ 56,564
LIABILITIES AND EQUITY		
Actuarial liabilities and other policy liabilities *(Note 10)*	**$ 77,489**	$ 76,056
Amounts on deposit	**3,382**	3,144
Deferred net realized gains *(Note 6)*	**3,859**	3,466
Senior debentures *(Note 11)*	**2,492**	1,920
Other liabilities *(Note 12)*	**6,592**	7,152
Total general fund liabilities	**93,814**	91,738
Subordinated debt *(Note 13)*	**1,456**	1,462
Non-controlling interests in subsidiaries *(Note 14)*	**50**	188
Total equity	**15,546**	14,415
Total general fund liabilities and equity	**$110,866**	$107,803
Segregated funds contract liabilities	**$ 60,984**	$ 56,564
December 31 exchange rates:		
U.S. Dollars	***1.17***	*1.20*
U.K. Pounds	***2.00***	*2.32*

* As restated for adoption of AcG 15 *(Note 2)*.

The attached notes form part of these consolidated financial statements.

Approved on behalf of the Board of Directors,



Donald A. Stewart
Chief Executive Officer



Krystyna T. Hoeg
Director

Consolidated Statements of Equity

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)

	PARTICIPATING POLICYHOLDERS	SHAREHOLDERS	2005	2004 *	2003 *
PREFERRED SHARES					
Balance, beginning of year	**$ —**	**$ —**	**$ —**	$ —	$ —
Preferred shares issued *(Note 15)*	**—**	**725**	**725**	—	—
Issuance costs, net of taxes *(Note 15)*	**—**	**(13)**	**(13)**	—	—
Balance, end of year	**—**	**712**	**712**	—	—
COMMON SHARES					
Balance, beginning of year	**—**	**7,238**	**7,238**	7,289	7,420
Common shares issued, net of issuance costs, as consideration for business acquisition *(Notes 3 and 15)*	**—**	**—**	**—**	—	63
Stock options exercised *(Note 18)*	**—**	**99**	**99**	75	28
Common shares purchased for cancellation *(Note 15)*	**—**	**(164)**	**(164)**	(126)	(222)
Balance, end of year	**—**	**7,173**	**7,173**	7,238	7,289
CONTRIBUTED SURPLUS					
Balance, beginning of year	**—**	**70**	**70**	76	57
Stock based compensation *(Note 18)*	**—**	**17**	**17**	11	26
Stock options exercised *(Notes 15 and 18)*	**—**	**(21)**	**(21)**	(17)	(7)
Balance, end of year	**—**	**66**	**66**	70	76
RETAINED EARNINGS					
Balance, beginning of year, as previously reported	**85**	**8,116**	**8,201**	7,284	6,694
Adjustment for change in accounting policy *(Note 2)*	**—**	**3**	**3**	4	6
Balance, beginning of year, as restated	**85**	**8,119**	**8,204**	7,288	6,700
Net income	**9**	**1,867**	**1,876**	1,693	1,306
Dividends on common shares	**—**	**(581)**	**(581)**	(515)	(413)
Dividends on preferred shares	**—**	**(24)**	**(24)**	—	—
Common shares purchased for cancellation *(Note 15)*	**—**	**(380)**	**(380)**	(262)	(305)
Balance, end of year	**94**	**9,001**	**9,095**	8,204	7,288
CURRENCY TRANSLATION ACCOUNT					
Balance, beginning of year	**(8)**	**(1,089)**	**(1,097)**	(673)	738
Net adjustment for foreign exchange gain *(Note 22)*	**—**	**(22)**	**(22)**	—	—
Changes for the year	**(1)**	**(380)**	**(381)**	(424)	(1,411)
Balance, end of year	**(9)**	**(1,491)**	**(1,500)**	(1,097)	(673)
Total equity	**$ 85**	**$ 15,461**	**$ 15,546**	$ 14,415	$ 13,980

* As restated for adoption of AcG 15 *(Note 2)*.

The attached notes form part of these consolidated financial statements.

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)

	2005	2004 *	2003 *
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Total net income	**$ 1,876**	$ 1,693	$ 1,306
Items not affecting cash:			
Increase in actuarial and other policy-related liabilities	**802**	1,205	1,430
Amortization of:			
Net deferred realized and unrealized gains on investments	**(632)**	(498)	(356)
Deferred acquisition costs and intangible assets	**160**	201	258
Loss on sale of equity investment *(Note 3)*	**43**	—	—
(Gain) loss on foreign exchange *(Note 22)*	**(74)**	—	—
Future income taxes	**77**	232	61
Provisions for losses on investments	**(47)**	21	113
Stock based compensation *(Note 18)*	**68**	41	41
Other changes in other assets and liabilities	**263**	349	195
New mutual fund business acquisition costs capitalized	**(92)**	(84)	(152)
Redemption fees of mutual funds	**37**	65	73
Net cash provided by operating activities	**2,481**	3,225	2,969
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Debentures and borrowed funds	**516**	10	(96)
Issuance of preferred shares *(Note 15)*	**725**	—	—
Payments to underwriters *(Note 15)*	**(20)**	—	—
Redemption of subordinated debt *(Note 13)*	**—**	(267)	(189)
Issuance of common shares on exercise of stock options *(Note 15)*	**78**	58	21
Common shares purchased for cancellation *(Note 15)*	**(544)**	(388)	(527)
Dividends paid on common shares	**(450)**	(515)	(413)
Dividends paid on preferred shares	**(15)**	—	—
Net cash provided by (used in) financing activities	**290**	(1,102)	(1,204)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Sales, maturities and repayments of:			
Bonds	**28,290**	35,484	39,138
Mortgages	**1,912**	2,529	3,128
Stocks	**1,891**	1,422	1,416
Real estate	**243**	233	131
Purchases of:			
Bonds	**(30,640)**	(35,834)	(43,323)
Mortgages	**(2,774)**	(3,111)	(2,673)
Stocks	**(1,736)**	(1,374)	(1,267)
Real estate	**(294)**	(274)	(191)
Policy loans	**(77)**	(33)	(68)
Short-term securities	**(58)**	(454)	1,095
Other investments	**52**	(48)	316
Acquisitions, net of cash acquired *(Note 3)*	**(467)**	—	(266)
Disposal, net of cash disposed of *(Note 3)*	**130**	—	—
Redemption of preferred shares of subsidiary *(Note 14)*	**(150)**	—	—
Net cash used in investing activities	**(3,678)**	(1,460)	(2,564)
Net cash provided by discontinued operations	**—**	—	273
Changes due to fluctuations in exchange rates	**(101)**	(90)	(455)
Increase (decrease) in cash and cash equivalents	**(1,008)**	573	(981)
Cash and cash equivalents, beginning of year	**3,748**	3,175	4,156
Cash and cash equivalents, end of year	**2,740**	3,748	3,175
Short-term securities, end of year	**2,351**	2,210	1,794
Cash, cash equivalents and short-term securities, end of year	**$ 5,091**	$ 5,958	$ 4,969
Supplementary Information			
Cash and cash equivalents:			
Cash	**$ 506**	$ 384	$ 486
Cash equivalents	**2,234**	3,364	2,689
	$ 2,740	$ 3,748	$ 3,175
Cash disbursements made for:			
Interest on borrowed funds, debentures and subordinated debt	**$ 268**	$ 280	$ 290
Income taxes, net of refunds	**$ 304**	$ 265	$ 149

* As restated for adoption of AcG 15 *(Note 2)*.

The attached notes form part of these consolidated financial statements.

Consolidated Statements of Changes in Segregated Funds Net Assets

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)

	2005	2004	2003
ADDITIONS TO SEGREGATED FUNDS			
Deposits:			
Annuities	**$ 6,788**	$ 5,928	$ 5,624
Life insurance	**417**	1,217	344
	7,205	7,145	5,968
Net transfers from general funds	**704**	582	544
Net realized and unrealized gains	**3,971**	3,804	6,456
Other investment income	**1,826**	1,500	1,411
	13,706	13,031	14,379
DEDUCTIONS FROM SEGREGATED FUNDS			
Payments to policyholders and their beneficiaries	**7,219**	8,050	6,776
Management fees	**664**	622	556
Taxes and other expenses	**163**	120	167
Effect of changes in currency exchange rates	**1,772**	1,761	5,549
	9,818	10,553	13,048
Net additions to segregated funds for the year	**3,888**	2,478	1,331
Acquisition *(Note 3)*	**532**	—	—
Segregated funds net assets, beginning of year	**56,564**	54,086	52,755
Segregated funds net assets, end of year	**$60,984**	$56,564	$54,086

Consolidated Statements of Segregated Funds Net Assets

AS AT DECEMBER 31 (in millions of Canadian dollars)

	2005	2004
ASSETS		
Segregated and mutual fund units	**$48,358**	$43,589
Stocks	**7,262**	7,082
Bonds	**5,208**	5,600
Cash, cash equivalents and short-term securities	**945**	961
Real estate	**168**	159
Mortgages	**49**	61
Other assets	**1,289**	716
	63,279	58,168
LIABILITIES	**2,295**	1,604
Net assets attributable to segregated funds policyholders	**$60,984**	$56,564

The attached notes form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Amounts in millions of Canadian dollars, except for per share amounts and where otherwise stated)

1. Accounting Policies

DESCRIPTION OF BUSINESS

Sun Life Financial Inc. is a publicly traded company and is the holding company of Sun Life Assurance Company of Canada (Sun Life Assurance) and Sun Life Financial Corp. On January 4, 2005, Sun Life Assurance completed a reorganization under which most of its asset management businesses in Canada and the U.S. were transferred to a newly incorporated subsidiary of Sun Life Financial Inc., Sun Life Financial Corp. Both Sun Life Financial Inc. and Sun Life Assurance are incorporated under the Insurance Companies Act of Canada, and are regulated by the Office of the Superintendent of Financial Institutions, Canada (OSFI). Sun Life Financial Inc. and all its subsidiaries are collectively referred to as “Sun Life Financial” or “the Company”. The Company is an internationally diversified financial services organization providing savings, retirement and pension products, and life and health insurance to individuals and groups through its operations in Canada, the United States, the United Kingdom and Asia. The Company also operates mutual fund and investment management businesses, primarily in Canada, the United States and Asia.

BASIS OF PRESENTATION

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP).

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect:

- the reported amounts of assets and liabilities at the date of the financial statements,
- the disclosure of contingent assets and liabilities at the date of the financial statements, and
- the reported amounts of revenues, policy benefits and expenses during the reporting period.

Actual results could differ from those estimates.

A reconciliation of the impact on assets, liabilities, equity, comprehensive income and net income arising from differences between Canadian and U.S. GAAP is provided in Note 23.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

BASIS OF CONSOLIDATION

The consolidated financial statements reflect the accounts of the Company, including life insurance and non-life insurance subsidiaries. Significant intercompany balances and transactions have been eliminated. The purchase method is used to account for subsidiaries with the difference between the acquisition cost of a subsidiary and the fair value of the subsidiary’s net identifiable assets acquired recorded as goodwill. Operating results of the subsidiaries are included in the consolidated statements of operations from the dates of their acquisition. The equity method is used to account for other entities over which the Company is able to exercise significant influence. These investments are reported in other invested assets in the consolidated balance sheets with the Company’s share of earnings reported in net investment income in the consolidated statements of operations. The proportionate consolidation method is used to account for investments in which the Company exercises joint control resulting in the consolidation of a proportionate share of assets, liabilities, income and expenses.

BONDS AND MORTGAGES

Bonds and mortgages are carried at amortized cost, net of allowances for losses.

A bond or mortgage is classified as impaired where payment is 90 days past due, foreclosure or power of sale procedures have started or other circumstances warrant. Regular reviews are performed on portfolios during which management considers various factors to identify invested assets of potential concern. Consideration is given to general economic and business conditions, industry trends, specific developments with regard to security issuers and current market valuations. When an asset is classified as impaired, allowances for losses are established to adjust the carrying value of the asset to its net recoverable amount. Interest is no longer accrued and previous interest accruals are reversed. Allowances for losses, and write-offs of specific investments net of recoveries, are charged against net investment income. Once the conditions causing the impairment improve and future payments are reasonably assured, allowances are reduced and the invested asset is no longer classified as impaired. Sectoral allowances are also established for classes of assets when there is concern about the ultimate collection of principal or interest. The Company’s actuarial liabilities include additional provisions for possible future asset losses.

Realized gains and losses on the sales of bonds and mortgages are deferred and amortized into net investment income on a constant yield basis over the remaining period to maturity.

STOCKS

Stocks are originally recorded at cost and the carrying value is adjusted towards fair value at 5% of the difference between fair value and carrying value per quarter. Realized gains and losses on sales of stocks are deferred and amortized into net investment income at the rate of 5% of the unamortized balance each quarter. The Company records a write-down for any other than temporary decline in the aggregate value of the stock portfolio.

REAL ESTATE

Real estate includes real estate held for investment and real estate held for sale.

1. Accounting Policies (Cont'd)

Real estate held for investment: Real estate held for investment is originally recorded at cost. The carrying value is adjusted towards fair value at 3% of the difference between fair value and carrying value per quarter. Realized gains and losses on sales are deferred and amortized into net investment income at the rate of 3% of the unamortized balance each quarter.

Market value is determined for each property by qualified appraisers. Appraisals are obtained annually for high value properties and at least once every three years for other properties. The Company monitors the values of these properties to determine that, in aggregate, the carrying values used are not in excess of market values and records a write-down for any other than temporary decline in the value of the portfolio.

Real estate held for sale: Properties held for sale are usually acquired through foreclosure. They are measured at fair value less the cost to sell. When the amount at which the foreclosed assets are initially measured is different from the carrying amount of the loan, a gain or loss is recorded at the time of foreclosure.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company's derivative instruments include swaps, options, financial futures and forward contracts and are used to manage risks or to replicate the exposures associated with interest rate, currency and equity market fluctuations. The Company's monitoring policies are described in Note 7. The accounting policies for the various types of derivative instruments used by the Company are described below.

Most of the Company's derivatives are used as part of a portfolio of assets to match actuarial liabilities as to duration and amounts. The most significant of these are interest rate swaps and options. The accounting for these instruments is at amortized cost, consistent with other fixed term portfolio investments. The net receivable or payable on the interest rate swaps is accrued to other assets or other liabilities with the net spread of the swaps recorded to net investment income. Realized gains or losses associated with these derivatives are deferred and amortized to net investment income. Premiums paid for interest rate options are deferred in other invested assets and amortized to net investment income over the term of the options.

Many of the foreign currency swaps and forwards are used in combination with other investments to generate a specific investment return. These are accounted for at amortized cost. The net payable or receivable on currency swaps is included in other assets or other liabilities with the net spread of the swaps recorded to net investment income. Any realized gains and losses resulting from the termination of these derivative instruments are deferred and amortized into income on a basis consistent with the foreign currency investments with which the swaps and forwards are combined.

Certain of the equity futures, options and swaps are held for investment purposes. The accounting policy for these investments is the same as that for stocks.

Several derivative instruments are used for hedging specific risk exposures and are either accounted for using hedge accounting or are reported at their fair values on the balance sheet with changes in fair value reported in income. The derivatives that are accounted for using hedge accounting are documented at inception and effectiveness is assessed on a quarterly basis. The Company uses currency swaps and forwards to reduce foreign exchange fluctuations associated with certain foreign currency investment financing activities and investments in subsidiaries. The accounting for these contracts is consistent with the underlying investment. Changes in exchange gains or losses on these currency swaps and forwards are included in other assets or other liabilities and the currency translation account in equity, offsetting the respective exchange gains or losses arising from the conversion of the underlying investment. If the hedging relationship is terminated, amounts deferred in the currency translation account in equity continue to be deferred until there is a reduction in the Company's net investment in the hedged foreign operation resulting from a capital transaction, dilution or sale of all or part of the foreign operation. Equity forwards and swaps are used to hedge the variability in the cash flows associated with certain stock-based compensation plans described in Note 18. Certain equity forwards are accounted for using hedge accounting. A portion of the fair value of these forwards is recorded in other assets or other liabilities with the change in fair value reported in operating expenses, consistent with the accounting for the stock-based compensation liabilities. The remaining forwards and swaps are recorded in other invested assets or other liabilities at their fair values with changes in their fair values reported in net investment income. Certain cross currency interest rate swaps are designated as hedges of the foreign currency exposure associated with foreign currency bonds. The accounting for these swaps is consistent with the accounting for the foreign currency bonds. Changes in fair value of the swaps due to fluctuations in exchange rates is recorded to net investment income, consistent with the accounting for the exchange gains and losses recorded on the bonds. Equity index futures, swaps, options and forwards are used to reduce exposure to the effect of stock market fluctuations in the actuarial liabilities associated with certain products. These derivative instruments are recorded in other invested assets or other liabilities at their fair values with changes in fair value reported in net investment income.

POLICY LOANS

Policy loans are carried at their unpaid balance and are fully secured by the policy values on which the loans are made.

CASH, CASH EQUIVALENTS AND SHORT-TERM SECURITIES

Cash equivalents and short-term securities are highly liquid investments and are carried at amortized cost. Cash equivalents have a term to maturity of less than three months while short-term securities have a term to maturity exceeding three months but less than one year.

DEFERRED ACQUISITION COSTS

Deferred acquisition costs arising on mutual fund sales are amortized over the periods of the related sales charges, which range from four to six years. Deferred acquisition costs arising on segregated funds are calculated and included in actuarial liabilities. Actuarial liabilities implicitly include acquisition costs on insurance and annuity product sales.

1. Accounting Policies (Cont'd)

GOODWILL

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net identifiable tangible and intangible assets and is not amortized. Goodwill is assessed for impairment annually by comparing the carrying values of the appropriate business segments, including any associated subsidiary segments, as required, to their respective fair values. If any potential impairment is identified, it is quantified by comparing the carrying value of the respective goodwill to its fair value.

INTANGIBLE ASSETS

Identifiable intangible assets consist of finite-life and indefinite-life intangible assets. Finite-life intangible assets are amortized on a straight-line basis over varying periods of up to 40 years. Indefinite-life intangibles are not amortized and are assessed for impairment annually by comparing their carrying values to their fair values. If the carrying values of the indefinite-life intangibles exceed their fair values, these assets are considered impaired and a charge for impairment is recognized.

CAPITAL ASSETS

Furniture, computers, other equipment and leasehold improvements are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of these assets, which generally range from two to 10 years.

LOANS SECURITIZATION

The Company periodically securitizes assets, such as mortgages or bonds, by selling them to trusts that issue securities to investors. These transactions are accounted for as sales when control over the assets has been surrendered and consideration other than beneficial interests in these transferred assets has been received in exchange. Gains or losses on these securitization transactions are included in deferred net realized gains, and will be amortized into net investment income as described above under Bonds and Mortgages. In determining the gain or loss on sale of the assets, the carrying value of the assets sold is allocated between the portion sold and the portion retained based on their relative fair values on the date of sale. These fair values are determined using either quoted market prices or discounted cash flow models. Interests in the securitized assets, such as subordinated investments in the issued securities or servicing rights, may be retained. These subordinated investments and servicing rights are classified as bonds and other assets, respectively. On a quarterly basis, the Company compares the carrying value of retained interests arising from securitizations to their fair values, determined based on discounted cash flows. If the carrying values of retained interests exceed their fair values, these assets are considered impaired and an impairment charge is recognized.

SEGREGATED FUNDS

Segregated funds are lines of business in which the Company issues a contract where the benefit amount is directly linked to the market value of the investments held in the particular segregated fund. Although the underlying assets are registered in the name of the Company and the segregated fund contract holder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. In addition, certain individual contracts have guarantees from the Company. The Company derives fee income from segregated funds, which is included in fee income on the consolidated statements of operations. Fee income includes fund management fees as well as mortality, policy administration and surrender charges on segregated funds. Changes in the Company's interest in the segregated funds, including undistributed net investment income, are reflected in net investment income. Policyholder transfers between general funds and segregated funds are included in net transfers to segregated funds on the consolidated statements of operations.

Separate consolidated financial statements are provided for the segregated funds. Segregated fund assets are carried at fair value. Fair values are determined using quoted market values or, where quoted market values are not available, estimated fair values as determined by the Company. The investment results of the segregated funds are reflected directly in segregated fund liabilities. Deposits to segregated funds are reported as increases in segregated funds liabilities and are not reported as revenues in the consolidated statements of operations. Segregated fund assets may not be applied against liabilities that arise from any other business of the Company.

ACTUARIAL LIABILITIES

Actuarial liabilities and other policy liabilities, including policy benefits payable and provision for policyholder dividends, are computed using generally accepted actuarial practice in accordance with the standards established by the Canadian Institute of Actuaries including the requirements of OSFI.

INCOME TAXES

The Company uses the liability method of tax allocation. Under this method, the income tax expense consists of both an expense for current income taxes and an expense for future income taxes. Current income tax expense (benefit) represents the expected payable (receivable) resulting from the current year's operations. Future income tax expense (benefit) represents the movement during the year in the cumulative temporary differences between the carrying value of the Company's assets and liabilities on the balance sheet and their values for tax purposes. Future income tax assets are recognized to the extent that they are more likely than not to be realized. Future income tax liabilities and assets are calculated based on income tax rates and laws that, at the balance sheet date, are expected to apply when the liability or asset is realized, which are normally those enacted or considered substantively enacted at the consolidated balance sheet dates.

1. Accounting Policies (Cont'd)

In determining the impact of taxes, the Company is required to comply with the standards of both the Canadian Institute of Actuaries and the Canadian Institute of Chartered Accountants (CICA). Actuarial standards require that the projected timing of all cash flows associated with policy liabilities, including income taxes, be included in the determination of actuarial liabilities under the Canadian asset liability method. The actuarial liabilities are first computed including all related income tax effects on a discounted basis, including the effects of temporary differences that have already occurred. Future income tax assets and/or liabilities arising from temporary differences that have already occurred are computed without discounting. The undiscounted future income tax assets and/or liabilities are reclassified from the actuarial liabilities to future income taxes on the balance sheets. The net result of this reclassification is to leave the discounting effect of the future income taxes in the actuarial liabilities.

PREMIUM INCOME AND RELATED EXPENSES

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

FOREIGN CURRENCY TRANSLATION

The Company's exchange gains and losses arising from the conversion of its self-sustaining foreign operations are included in the currency translation account of the consolidated statements of equity. Revenues and expenses in foreign currencies, including amortized gains and losses on foreign investments, are translated into Canadian dollars at an average of the market exchange rates during the year. Assets and liabilities are translated into Canadian dollars at market exchange rates at the end of the year. The net translation adjustment is reported as a separate item in the consolidated statements of equity.

A proportionate amount of the exchange gain or loss accumulated in the separate component of shareholders' equity is reflected in net income when there is a reduction in the Company's net investment in a foreign operation resulting from a capital transaction, dilution, or sale of all or part of the foreign operation.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The Company sponsors non-contributory defined benefit pension plans for eligible employees, primarily in Canada, the United States, the United Kingdom and the Philippines. The defined benefit pension plans offer benefits based on length of service and final average earnings and certain plans offer some indexation of benefits. The specific features of these plans vary in accordance with the employee group and countries in which employees are located. In addition, the Company maintains supplementary non-contributory pension arrangements for eligible employees, primarily for benefits which do not qualify for funding under the various registered pension plans.

The Company has also established defined contribution pension plans for eligible qualifying employees. Company contributions to these defined contribution pension plans are subject to certain vesting requirements. Generally, Company contributions are a set percentage of employees' annual income and matched against employee contributions.

In addition to the Company's pension plans, in some countries the Company provides certain post-retirement medical, dental and life insurance benefits to eligible qualifying employees, and to their dependents upon meeting certain requirements. Eligible retirees may be required to pay a portion of the premiums for these benefits and, in general, deductible amounts and co-insurance percentages apply to benefit payments. A significant portion of the Company's employees may become eligible for these benefits upon retirement. These post-retirement benefits are not pre-funded.

Defined benefit pension costs related to current services are charged to income as services are rendered. Based on management's best estimate assumptions, actuarial valuations of the pension obligations are determined using the projected benefit method pro-rated on service. The estimated present value of post-retirement health care and life insurance benefits is charged to income over the employees' years of service to the date of eligibility. For the purpose of calculating the expected return on pension plan assets for most of the Canadian pension plans, a market-related asset value is used which recognizes asset gains and losses in a systematic and rational manner over a period of five years. For all other pension plans the actual market value of plan assets is used to calculate the expected return on assets. Any transition adjustments, as well as future adjustments arising from plan amendments, are amortized to income over the average remaining service period of active employees expected to receive benefits under the plans. Only future variations in actuarial estimates in excess of certain minimums are amortized.

STOCK-BASED COMPENSATION

Stock options granted to employees are accounted for using the fair value method. Under the fair value method, fair value of the stock options is estimated at the grant date and the total fair value of the options is amortized over the vesting periods as compensation expense with an offset to contributed surplus. For options that are forfeited before vesting, the compensation expense that has previously been recognized in operating expenses and contributed surplus is reversed. When options are exercised, contributed surplus is reversed and the shares issued are credited to share capital in the consolidated statements of equity.

The liabilities for other stock-based compensation plans are calculated based on the number of award units outstanding at the end of the reporting period. Each unit is equivalent in value to the fair market value of a common share of Sun Life Financial Inc. The liabilities are accrued and expensed on a straight-line basis over the vesting periods.

2. Changes in Accounting Policies

ADOPTED IN 2005

Consolidation of Variable Interest Entities : On January 1, 2005, the Company adopted CICA Handbook Accounting Guideline 15 (AcG 15), Consolidation of Variable Interest Entities. This change in accounting policy was applied retroactively and prior period financial statements have been restated accordingly. This Guideline provides guidance for application of consolidation principles to those entities defined as variable interest entities (VIEs). VIEs are entities in which equity investors do not have a controlling financial interest or where the equity invested is considered insufficient to finance the entity's activities without additional subordinated financial support. Under this Guideline, the Company is required to consolidate those VIEs where the Company is exposed to a majority of expected losses, benefits from a majority of expected residual returns, or both.

The following is a summary of the impact of this Guideline for the major categories of VIEs that the Company is involved with.

Sun Life ExchangEable Capital Securities (SLEECS):
Sun Life Capital Trust (the Trust) issued SLEECS of $1,150 to third-party investors. Sun Life Assurance issued a debenture of $1,200 to the Trust and holds an investment of $2 in Special Trust Securities in the Trust. The Trust was determined to be a VIE in which the Company did not have a controlling financial interest. As a result, the Company deconsolidated $1,150 of non-controlling interest in subsidiaries, recorded the $1,200 debenture payable in senior debentures, increased opening retained earnings by $4 and increased other assets by $54 on the consolidated balance sheets as at January 1, 2004. The deconsolidation of the Trust resulted in a reduction in net income of $2 for the year ended December 31, 2005 ($1 for 2004 and $2 for 2003). The debenture will continue to qualify as capital for Canadian regulatory purposes up to the amount of the SLEECS issued of $1,150.

Cumulative Capital Securities (Securities):
On May 6, 1997, Sun Life of Canada (U.S.) Capital Trust I (Capital Trust), a Delaware statutory business trust, issued US$600 of 8.53% Securities. The Company issued US$600 of partnership capital securities to the Capital Trust. The Capital Trust was determined to be a VIE in which the Company did not have a controlling financial interest. As a result, the Company deconsolidated US$600 ($774) of Securities, included in subordinated debt, and recorded the US$600 ($774) of partnership capital securities in senior debentures as at January 1, 2004. The deconsolidation of the Capital Trust did not have an impact on net income for the years ended December 31, 2005, December 31, 2004 and December 31, 2003. The amount included in senior debentures will continue to qualify as capital for Canadian regulatory purposes.

Other Variable Interest Entities:
The Company has a greater than 20% involvement in 25 VIEs. The Company is a creditor in 11 trusts, 10 limited partnerships, 2 limited liability companies and 2 special purpose entities. These VIEs were used to finance commercial mortgages, franchise receivables, auto receivables, retail stores and equipment and to make private debt and equity investments. The Company's maximum exposure to loss related to all of these investments is $192, which is the carrying amount of these assets.

Financial Instruments — Disclosure and Presentation: On January 1, 2005, the Company adopted the amendments to the accounting requirements in CICA Handbook Section 3860, Financial Instruments - Disclosure and Presentation. Securities issued by the Company that give the Company an unrestricted obligation to settle the principal amount in cash or in the equivalent value of its own shares, must be classified as debt. This change in accounting policy did not have a material impact on these consolidated financial statements.

FUTURE IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Financial Instruments, Hedges and Comprehensive Income: On January 1, 2007, the Company will adopt CICA Handbook Section 3855, Financial Instruments — Recognition and Measurement; CICA Handbook Section 3865, Hedges; CICA Handbook Section 1530, Comprehensive Income; and the amendments to CICA Handbook Sections and Accounting Guidelines resulting from the issuance of these Sections. Under the new standards, all financial assets will be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and all financial liabilities will be classified as held-for-trading and other. Financial instruments classified as held-for-trading will be measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables and financial liabilities not classified as held-for-trading will be measured at amortized cost. Available-for-sale financial assets will be measured at fair value with changes in fair value recognized in other comprehensive income (OCI). All derivative financial instruments will be reported on the balance sheet at fair value with changes in fair value recognized in net income unless the derivative is part of a hedging relationship that qualifies as a fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation. In a fair value hedging relationship, the derivative hedging instrument is recorded at fair value with the related gain or loss recorded in net income. The carrying value of the hedged item is adjusted by the hedge effective portion of the gain or loss on the hedging derivative in the hedging relationship. As a result, the change in the carrying value of the hedged item, to the extent that the hedging relationship is effective, offsets the changes in the fair value of the derivative. In a cash flow hedging relationship, the hedge effective portion of the change in the fair value of the hedging derivative is recognized in OCI and the ineffective portion is recognized in net income. The amounts recognized in accumulated OCI will be reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. In a hedge of a net investment in a foreign operation, the hedge effective portion of the gain or loss on the hedging instrument is recognized in OCI and the ineffective portion is recognized in net income. The Company is required to present OCI and its components as well as the components of accumulated OCI in its consolidated financial statements. Major components of OCI include changes in fair value of financial assets classified as available-for-sale, exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations, and the changes in fair value of effective cash flow hedges and hedges of net investments in foreign operations. The Company is assessing the impact that these Sections will have on its 2007 consolidated financial statements.

3. Acquisitions and Disposals

On October 18, 2005, the Company completed the acquisition of CMG Asia Limited; CMG Asia Trustee Company Limited; CommServe Financial Limited and Financial Solutions Limited (collectively "CMG Asia") for $544. CMG Asia formed the Hong Kong individual life insurance, group insurance and group pension and brokerage operations of the Commonwealth Bank of Australia (CBA). CMG Asia's results are included in the SLF Asia reportable segment in these consolidated financial statements.

This acquisition has significantly strengthened the Company's presence in Hong Kong by substantially increasing its sales force and its customer base and expanding its operations to include new group insurance and pension businesses. The Company also expects to achieve cost synergies through economies of scale. The business acquired includes both general and segregated funds business. The acquired intangible assets include a distribution network of $23 and asset administration contracts of $24, which are both subject to amortization on a straight-line basis over their projected economic lives of 20 years. Goodwill acquired in this transaction is not deductible for tax purposes. The goodwill arising from the CMG Asia acquisition is subject to adjustment in 2006 as part of the finalization of the allocation of the purchase price to the assets acquired and liabilities assumed from CBA.

On August 26, 2005, the Company sold its 31.72% investment in Administradora de Fondos de Pensiones Cuprum, S.A. (Cuprum) to Empresas Penta S.A., accounted for by the equity method, for $130 in cash. This transaction resulted in a loss of $51 ($43 recorded to net investment income and an additional tax charge of $8, recorded to income taxes) in the third quarter. This loss includes a foreign exchange loss of $52, equivalent to the amount of the foreign exchange loss accumulated in the currency translation account in the consolidated statements of equity.

Effective March 20, 2003, the Company increased its ownership percentage in CI Financial Inc. (CI Financial) to 34% by issuing approximately two million common shares of Sun Life Financial Inc. in exchange for approximately five million (2.3%) common shares of CI Financial. The two million common shares of Sun Life Financial Inc. were recorded at a total fair value of $63. The acquired non-amortizable intangible asset consists of fund management contracts of $43. In the fourth quarter of 2003, CI Financial acquired the Canadian operations of Assante Corporation (Assante) and Synergy Asset Management Inc. (Synergy) by issuing shares and a payment of cash to Assante and Synergy shareholders. The Company supported these acquisitions by purchasing approximately 21 million common shares of CI Financial for $266 in order to maintain its ownership percentage of 34%. The intangible assets acquired through these two transactions consist of non-amortizable fund management contracts of $180 and amortizable asset administration contracts of $11.

Effective January 7, 2003, the Company sold all the common shares of Clarica U.S. Inc. (Clarica U.S.) to Midland National Life Insurance Company for $414 in cash. A loss of $48 on the sale of Clarica U.S. was accrued in 2002. As a result of the plan of disposal for Clarica U.S., it was accounted for as a discontinued operation.

The transactions are summarized below:

	Acquisitions		Disposal
	2005 CMG Asia[1]	2003 CI Financial[2]	2003 Clarica U.S.
Percentage of shares acquired /disposed of	**100%**	2.3%	100%
Invested assets acquired / disposed of	**$ 1,548**	$ 72	$ 5,047
Other assets acquired / disposed of	**122**	235	225
	1,670	307	5,272
Actuarial liabilities and other policy liabilities acquired /disposed of	**1,453**	—	4,265
Amounts on deposit acquired / disposed of	**159**	—	—
Other liabilities acquired / disposed of	**40**	168	553
	1,652	168	4,818
Net balance sheet assets acquired / disposed of	**$ 18**	$ 139	$ 454
Consideration:			
Common shares issued or exchanged	**$ —**	$ 63	$ —
Transaction and other related costs	**9**	—	(8)
Cash cost of acquisition / net proceeds of disposal	**535[3]**	266	414
Total consideration	**$ 544**	$ 329	$ 406
Pre- tax gain / (loss) on sale			$ (48)[4]
Goodwill on acquisition	**$ 526**	$ 190	
Cash and cash equivalents acquired / disposed of	**$ 77**		$ 133

[1] Other assets acquired includes $47 of intangible assets.
[2] Net impact of all 2003 transactions related to CI Financial. Other assets acquired includes $234 of intangible assets.
[3] Includes the cost to hedge the foreign exchange exposure of the purchase price.
[4] Loss accrued in 2002.

4. Segmented Information

Effective January 1, 2005, the Company realigned certain of its reportable segments whereby the reinsurance business unit previously included in the SLF Canada segment, and the United Kingdom business, are now reported as part of the Corporate segment (formerly Corporate Capital). The change reflects the ongoing evolution of the business of the Company and does not impact the consolidated results. The results and assets by segment for the prior periods presented in this note reflect this realignment.

4. Segmented Information (Cont'd)

The Company has five reportable segments: SLF Canada, SLF United States, MFS Investment Management (MFS), SLF Asia and Corporate. These reportable segments reflect the Company's management structure and internal financial reporting. Each of these segments operates in the financial services industry and has its own management. They derive their revenues principally from mutual funds, investment management and annuities, life and health insurance and life retrocession. Revenues not attributed to the business units are derived primarily from investments of a corporate nature and earnings on capital.

Corporate includes the Company's reinsurance operations, both ongoing and run-off; the United Kingdom operations; and those other operations for which management's responsibility resides in head office. Total net income in this category is shown net of certain expenses borne centrally.

Inter-segment transactions consist primarily of internal financing agreements. They are measured at market values prevailing when the arrangements were negotiated. Inter-segment revenue for 2005 consists of interest of $248 ($339 in 2004 and $358 in 2003) and fee income of $55 in 2005 ($44 in 2004 and $45 in 2003).

The results of the segments' operations are discussed in the Management's Discussion and Analysis. The results for MFS for 2004 include the after- tax provision for regulatory settlements of $59 ($211 in 2003).

Results by segment for the years ended December 31

	Canada	United States		Asia	Corporate	Consolidation Adjustments	Total
		Sun Life	MFS				
2005							
Revenue	**$ 8,658**	**$ 9,161**	**$ 1,648**	**$ 759**	**$ 1,995**	**$ (303)**	**$ 21,918**
Change in actuarial liabilities	**$ (240)**	**$ 769**	**$ —**	**$ 253**	**$ 90**	**$ —**	**$ 872**
Interest on claims and deposits	**$ 77**	**$ 18**	**$ —**	**$ 35**	**$ 4**	**$ —**	**$ 134**
Interest expenses	**$ 122**	**$ 151**	**$ 8**	**$ —**	**$ 217**	**$ (225)**	**$ 273**
Income taxes expense (benefit)	**$ 385**	**$ 113**	**$ 110**	**$ 17**	**$ (94)**	**$ —**	**$ 531**
Total net income (loss)	**$ 971**	**$ 496**	**$ 179**	**$ 42**	**$ 188**	**$ —**	**$ 1,876**
2004*							
Revenue	$ 8,162	$ 9,429	$ 1,700	$ 694	$ 2,137	$ (392)	$ 21,730
Change in actuarial liabilities	$ (235)	$ 1,332	$ —	$ 295	$ 38	$ (5)	$ 1,425
Interest on claims and deposits	$ 85	$ 17	$ —	$ 29	$ 6	$ —	$ 137
Interest expenses	$ 122	$ 135	$ 15	$ —	$ 340	$ (334)	$ 278
Income taxes expense (benefit)	$ 293	$ 55	$ 108	$ 14	$ (207)	$ —	$ 263
Total net income (loss)	$ 907	$ 392	$ 114	$ 45	$ 235	$ —	$ 1,693
2003*							
Revenue	$ 8,189	$ 9,663	$ 1,684	$ 611	$ 2,330	$ (421)	$ 22,056
Change in actuarial liabilities	$ 457	$ 1,046	$ —	$ 236	$ (217)	$ (12)	$ 1,510
Interest on claims and deposits	$ 82	$ 18	$ —	$ 29	$ 6	$ —	$ 135
Interest expenses	$ 108	$ 152	$ 23	$ —	$ 363	$ (354)	$ 292
Income taxes expense (benefit)	$ 322	$ 97	$ 5	$ 12	$ (79)	$ —	$ 357
Total net income (loss)	$ 770	$ 305	$ (43)	$ 37	$ 237	$ —	$ 1,306

* As restated for adoption of AcG 15 (Note 2).

Assets by segment as at December 31

	Canada	United States		Asia	Corporate	Consolidation Adjustments	Total
		Sun Life	MFS				
2005							
General fund assets	**$ 51,450**	**$ 41,170**	**$ 866**	**$ 4,750**	**$ 14,517**	**$ (1,887)**	**$ 110,866**
Segregated funds net assets	**$ 28,554**	**$ 24,712**	**$ —**	**$ 750**	**$ 6,968**	**$ —**	**$ 60,984**
2004*							
General fund assets	$ 50,600	$ 39,641	$ 824	$ 2,302	$ 15,290	$ (854)	$ 107,803
Segregated funds net assets	$ 24,170	$ 25,146	$ —	$ 88	$ 7,216	$ (56)	$ 56,564

* As restated for adoption of AcG 15 (Note 2).

4. Segmented Information (Cont'd)

The following table shows revenue, net income (loss) and assets by territory for Corporate :

	2005	2004*	2003*
Revenue			
United States	**$ 453**	$ 652	$ 543
United Kingdom	**1,264**	1,325	1,517
Other countries	**278**	160	270
Total revenue	**$ 1,995**	$ 2,137	$ 2,330
Total net income (loss):			
United States	**$ 91**	$ 197	$ 53
United Kingdom	**179**	188	245
Other countries	**(82)**	(150)	(61)
Total net income (loss)	**$ 188**	$ 235	$ 237
Assets:			
General funds:			
United States	**$ 3,666**	$ 4,697	
United Kingdom	**8,880**	10,353	
Other countries	**1,971**	240	
Total general fund assets	**$ 14,517**	$ 15,290	
Segregated funds:			
United Kingdom	**$ 6,968**	$ 7,216	
Total segregated funds net assets	**$ 6,968**	$ 7,216	

* As restated for adoption of AcG 15 (Note 2).

5. Fair Value of Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party. In an exchange, "fair value" refers to the amount that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Estimated fair values do not necessarily represent the values for which these financial instruments could have been sold at the dates of the consolidated balance sheets.

A significant portion of any difference between fair values and carrying values relates to invested assets that are matched to liabilities as to duration, within specified limits. If these assets are sold before maturity, the Company will reinvest the proceeds to ensure there are sufficient assets to match liabilities. Consequently, changes in the fair values of assets backing liabilities will tend to be offset by changes in the fair values of those liabilities.

The fair values and the methods and assumptions used to estimate fair values for invested assets are discussed in Note 6. Derivative financial instruments are discussed in Note 7. Fair values of actuarial liabilities, future income taxes related to life insurance companies and deferred net realized gains are disclosed in Note 10. Fair value of debentures is included in Note 11. The fair values and discussion of the method for estimating these values for subordinated debt are included in Note 13. The carrying value and fair value of amounts on deposit are $3,382 and $3,382, respectively, as at December 31, 2005 ($3,144 and $3,150, respectively, as at December 31, 2004). Amounts on deposit represent premiums paid in advance, reinvested policy dividends and customer deposits in the Company's trust subsidiaries. Fair values of fixed rate deposits are determined by discounting the expected future cash flows using current market interest rates for similar deposits. For amounts on deposit with no stated maturity, fair value is equal to carrying value.

6. Invested Assets and Income

The Company invests primarily in bonds, mortgages, stocks and real estate. The accounting policy for each type of invested asset is described in Note 1.

A) FAIR VALUE OF INVESTED ASSETS

The carrying values and fair values of the Company's invested assets are shown in the following table.

	2005			2004*		
	Carrying Value	**Fair Value**	**Yield %**	Carrying Value	Fair Value	Yield %
ASSETS						
Bonds	**$ 66,154**	**$ 70,073**	**6.32**	$ 64,496	$ 68,556	6.22
Mortgages	**14,561**	**15,177**	**6.63**	13,862	14,576	6.80
Stocks	**3,856**	**3,986**	**12.43**	3,463	3,376	10.33
Real estate	**3,241**	**3,678**	**8.46**	3,148	3,421	9.12
Policy loans	**2,989**	**2,989**	**6.31**	2,936	2,936	6.50
Cash, cash equivalents and short-term securities	**5,091**	**5,091**	**n/a**	5,958	5,958	n/a
Other invested assets	**2,700**	**4,364**	**n/a**	3,048	3,969	n/a
Total invested assets	**$ 98,592**	**$105,358**	**6.35**	$ 96,911	$102,792	6.12

* As restated for adoption of AcG 15 (Note 2).

The fair value of publicly traded bonds is determined using quoted market prices. For non-publicly traded bonds, fair value is determined using a discounted cash flow approach that includes provisions for credit risk and assumes that the securities will be held to maturity. Fair value of mortgages is determined by discounting the expected future cash flows using current market interest rates for mortgages with similar credit risks and terms to maturity. Fair value of stocks is based on quoted market prices, usually the last trade values. Fair value of real estate is determined by reference to sales of comparable properties in the marketplace and the net present value of the expected future cash flows, discounted using current interest rates. Due to their nature, the fair values of policy loans and cash and cash equivalents are assumed to be equal to their carrying values. The fair values of short-term securities are based on market yields. The fair values of other invested assets are determined by reference to market prices for similar investments. Other invested assets include the Company's investment in segregated funds, investments accounted for by the equity method, derivatives that are reported at fair value and investments in equipment leases. Other invested assets for 2005 includes the Company's investment in CI Financial with a carrying value of $1,074 and a fair value of $2,505 ($1,014 and $1,805, respectively, in 2004). Yield is calculated based on total net investment income divided by the total of the average carrying value of invested assets, which includes accrued investment income net of deferred net realized gains.

B) INVESTMENT POLICIES

It is the Company's policy to diversify all investment portfolios. The Company's mortgage loans, stocks and real estate investments are diversified by type and location and, for mortgage loans, by borrower. Interest rate risk, which is the potential for loss due to interest rate fluctuations, is discussed in Note 10.

Credit risk is the risk of financial loss resulting from the failure of debtors to make payments of interest or principal when due. The Company controls this risk through detailed credit and underwriting policies, as well as through setting counterparty exposure limits. The Company maintains policies which set limits, based on consolidated equity, to the credit exposure for investments in any single issuer and in any associated group of issuers. Exceptions exist for investments in securities which are issued or guaranteed by either the Government of Canada, United States or United Kingdom and issuers for which the Board has granted specific approval. Mortgage loans are collateralized by the related property and generally do not exceed 75% of the value of the property at the time the original loan is made.

C) INVESTED ASSETS BY TYPE

i) BONDS

The carrying value and fair value of bonds by rating are shown in the table below.

	2005		2004	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Bonds by credit rating:				
AAA	**$ 14,301**	**$ 14,887**	$ 16,895	$ 17,549
AA	**10,122**	**11,092**	8,714	9,492
A	**21,175**	**22,785**	19,187	20,701
BBB	**18,280**	**19,050**	17,695	18,662
BB & lower	**2,276**	**2,259**	2,005	2,152
Total bonds	**$ 66,154**	**$ 70,073**	$ 64,496	$ 68,556

Investment grade bonds are those rated BBB and above. The Company's bond portfolio has 96.6% (96.9% in 2004) invested in investment grade bonds based on carrying value. The local currency denominated debt of certain foreign governments, used in backing the liabilities of the foreign country, have been classified as investment grade in the table above.

6. Invested Assets and Income (Cont'd)

Gross unrealized gains (losses) on bonds are shown in the tables below. Gross unrealized gains and losses are not brought into income or included in the carrying value on the consolidated balance sheets.

	2005			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Estimated Fair Value**
Issued or guaranteed by:				
Canadian federal government	**$ 3,428**	**$ 183**	**$ (9)**	**$ 3,602**
Canadian provincial and municipal governments	**5,193**	**1,042**	**(1)**	**6,234**
U.S. Treasury and other U.S. agencies	**1,364**	**44**	**(13)**	**1,395**
Other foreign governments	**2,214**	**243**	**(1)**	**2,456**
Corporate	**45,113**	**2,819**	**(385)**	**47,547**
Asset-backed securities	**8,842**	**113**	**(116)**	**8,839**
Total bonds	**$ 66,154**	**$ 4,444**	**$ (525)**	**$ 70,073**

	2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Issued or guaranteed by:				
Canadian federal government	$ 5,601	$ 218	$ —	$ 5,819
Canadian provincial and municipal governments	5,716	742	—	6,458
U.S. Treasury and other U.S. agencies	1,224	52	(4)	1,272
Other foreign governments	2,805	179	(21)	2,963
Corporate	40,351	2,845	(85)	43,111
Asset-backed securities	8,799	221	(87)	8,933
Total bonds	$ 64,496	$ 4,257	$ (197)	$ 68,556

The carrying value of bonds by issuer country is as follows:

	2005	2004
Canada	**$ 24,089**	$ 25,556
United States	**30,176**	27,857
United Kingdom	**5,843**	6,989
Other	**6,046**	4,094
Total bonds	**$ 66,154**	$ 64,496

The contractual maturities of bonds as at December 31 are shown in the table below. Bonds that are not due at a single maturity date are included in the table in the year of final maturity. Asset-backed securities that are not due at a single maturity date are shown separately. Actual maturities could differ from contractual maturities because of the borrower's right to call or right to prepay obligations, with or without prepayment penalties.

	2005		2004	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Due in one year or less	**$ 2,492**	**$ 2,500**	$ 3,770	$ 3,801
Due in years two through five	**13,066**	**13,262**	12,789	13,206
Due in years six through ten	**17,454**	**17,952**	14,671	15,566
Due after ten years	**24,300**	**27,520**	24,467	27,050
Asset-backed securities	**8,842**	**8,839**	8,799	8,933
Total bonds	**$ 66,154**	**$ 70,073**	$ 64,496	$ 68,556

ii) MORTGAGES

The carrying value of non-residential and residential mortgages by geographic location is shown in the table below. Residential mortgages include mortgages for single and multiple family dwellings.

	2005			2004		
	Non-residential	**Residential**	**Total**	Non-residential	Residential	Total
Canada	**$ 5,932**	**$ 3,407**	**$ 9,339**	$ 5,684	$ 3,676	$ 9,360
United States	**4,802**	**229**	**5,031**	4,098	172	4,270
United Kingdom	**191**	**—**	**191**	231	1	232
Total mortgages	**$ 10,925**	**$ 3,636**	**$ 14,561**	$ 10,013	$ 3,849	$ 13,862

6. Invested Assets and Income (Cont'd)

At December 31, 2005, scheduled mortgage loan maturities, before allowances for losses, are as follows:

Year	Amount
2006	**$ 1,483**
2007	**1,271**
2008	**1,197**
2009	**1,064**
2010	**1,076**
Thereafter	**8,499**
Total mortgages	**$14,590**

Actual payments could differ from the scheduled mortgage loan maturities because borrowers may have the right to prepay obligations, with or without prepayment penalties.

iii) STOCKS

The carrying value of stocks by issuer country is as follows:

	2005	2004
Canada	**$ 721**	$ 791
United States	**1,438**	1,105
United Kingdom	**1,184**	1,417
Other	**513**	150
Total stocks	**$ 3,856**	$ 3,463

Gross unrealized gains (losses) on stocks are shown in the following table.

	Carrying Value	Original Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Total 2005	**$ 3,856**	**$ 3,180**	**$ 861**	**$ (55)**	**$ 3,986**
Total 2004	$ 3,463	$ 2,695	$ 744	$ (63)	$ 3,376

iv) REAL ESTATE

The carrying value of real estate by geographic location is as follows:

	2005	2004
Canada	**$ 2,031**	$ 1,869
United States	**876**	917
United Kingdom	**332**	360
Other	**2**	2
Total real estate	**$ 3,241**	$ 3,148

Real estate includes real estate held for investment and real estate held for sale, as described in Note 1. The carrying value and fair value of real estate in each of these categories is shown in the table below.

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Real estate held for investment	**$ 3,238**	**$ 3,675**	$ 3,139	$ 3,408
Real estate held for sale	**3**	**3**	9	13
Total real estate	**$ 3,241**	**$ 3,678**	$ 3,148	$ 3,421

D) IMPAIRED INVESTED ASSETS

The Company has impaired invested assets with specific allowances and other sectoral allowances, at December 31, as follows:

	2005		2004	
	Impaired Carrying Value(1)	Allowance for Losses(2)	Impaired Carrying Value(1)	Allowance for Losses (2)
Bonds	**$ 239**	**$ 97**	$ 333	$ 213
Mortgages	**61**	**29**	74	37
Other	**21**	**14**	34	13
Total	**$ 321**	**$ 140**	$ 441	$ 263

(1) Impaired carrying value shown above is shown gross, before allowance for losses. Includes $5 in 2005 ($12 in 2004) of impaired mortgages that have no allowance for losses. Impaired mortgage loans with no allowance for losses are loans for which, at a minimum, either the fair value of the collateral or the expected future cash flows exceed the carrying value.

(2) Includes sectoral allowances of $7 and $14 for bonds and mortgages, respectively, in 2005 ($74 and $24, respectively, in 2004). The remaining allowances are specific allowances.

6. Invested Assets and Income (Cont'd)

Additional information related to impaired invested assets is shown in the following table.

	2005	2004
Mortgages with scheduled payments 90 days or more in arrears:		
Carrying value	**$ 3**	$ 22
Percentage of total mortgages before allowances	**—**	0.2%
Weighted average recorded investment in impaired mortgage loans, before allowances	**$ 73**	$ 66
Interest received on impaired mortgage loans (recorded as received)	**$ 5**	$ 4
Carrying value of bonds, mortgages and real estate (including specific allowances) that were non-income producing for the preceding 12 months	**$ 100**	$ 100

The changes in the allowances for losses are as follows:

	Bonds	Mortgages	Other	Total
Balance, January 1, 2004	$ 302	$ 42	$ 22	$ 366
Provision for losses	22	—	(1)	21
Write-offs, net of recoveries	(92)	(2)	(7)	(101)
Effect of changes in currency exchange rates	(19)	(3)	(1)	(23)
Balance, December 31, 2004	**$ 213**	**$ 37**	**$ 13**	**$ 263**
Provision for losses (recoveries)	**(45)**	**(5)**	**3**	**(47)**
Write-offs, net of recoveries	**(69)**	**(2)**	**(2)**	**(73)**
Effect of changes in currency exchange rates	**(2)**	**(1)**	**—**	**(3)**
Balance, December 31, 2005	**$ 97**	**$ 29**	**$ 14**	**$ 140**

E) DEFERRED NET REALIZED GAINS

Deferred net realized gains are realized gains and losses which have not yet been recognized in income. The changes in deferred net realized gains are shown in the table below.

	Bonds	Mortgages	Stocks	Real Estate	Derivatives	Total
Balance, January 1, 2004	$ 1,912	$ 135	$ 1,056	$ 164	$ (143)	$ 3,124
Net realized gains (losses) for the period	526	60	148	56	114	904
Amortization of deferred net realized gains	(277)	(32)	(222)	(23)	12	(542)
Effect of changes in currency exchange rates	(14)	(5)	(8)	(1)	8	(20)
Balance, December 31, 2004	**$ 2,147**	**$ 158**	**$ 974**	**$ 196**	**$ (9)**	**$ 3,466**
Net realized gains (losses) for the period	**552**	**35**	**284**	**54**	**222**	**1,147**
Amortization of deferred net realized gains	**(278)**	**(35)**	**(206)**	**(25)**	**(11)**	**(555)**
Effect of changes in currency exchange rates	**(130)**	**—**	**(72)**	**(10)**	**13**	**(199)**
Balance, December 31, 2005	**$ 2,291**	**$ 158**	**$ 980**	**$ 215**	**$ 215**	**$ 3,859**

F) NET INVESTMENT INCOME

Net investment income has the following components:

	2005	2004	2003
Interest from:			
Bonds	**$ 3,720**	$ 3,807	$ 3,831
Mortgages	**889**	899	951
Policy loans	**184**	202	224
Cash, cash equivalents and short-term securities	**155**	113	134
Interest income	**4,948**	5,021	5,140
Dividends from stocks	**118**	116	103
Real estate income (net) (1)	**252**	229	222
Amortization of deferred net realized gains	**555**	542	496
Amortization of unrealized gains and losses	**77**	(44)	(140)
Derivative realized and unrealized gains and losses (2)	**(22)**	39	(85)
Other items (net) (3)	**196**	145	184
	6,124	6,048	5,920
Recoveries (provision for losses) on investments	**47**	(21)	(113)
Investment expenses and taxes	**(92)**	(103)	(104)
Total net investment income	**$ 6,079**	$ 5,924	$ 5,703

(1) Includes operating lease rental income of $271 ($254 and $242, respectively, in 2004 and 2003).
(2) Consists of realized and unrealized gains on derivatives that are reported at fair value. Additional derivative losses of $66 ($72 in 2004 and $47 in 2003) are included in other items (net).
(3) Includes equity income from CI Financial of $119 in 2005 ($95 in 2004, $58 in 2003). 2005 also includes the loss on sale of Cuprum of $43 as described in Note 3.

6. Invested Assets and Income (Cont'd)

G) SECURITIES LENDING

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with a lending agent, usually a securities custodian, and maintained by the lending agent until the underlying security has been returned to the Company. The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the fair values fluctuate. It is the Company's practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency. At December 31, 2005, the Company had loaned securities (which are included in invested assets) with a carrying value and fair value of approximately $2,371 and $2,470, respectively ($2,071 and $2,130, respectively, in 2004).

H) LOAN SECURITIZATIONS

During 2004 and 2003, the Company sold commercial mortgages to a trust, which subsequently issued securities backed by the commercial mortgages. The Company was retained to service and administer the mortgages and also retained a subordinated investment interest in the issued securities. Details of these transactions are shown in the following table.

	2005	2004	2003
Carrying value of mortgages sold	**$ —**	$ 161	$ 623
Gain on sale	**$ —**	$ 18	$ 70

As at December 31, 2005, the key assumptions used in the discounted cash flow models to determine the fair value of retained interest amounts and the sensitivity of these fair values to an immediate 10% and 20% adverse change in key assumptions are as follows:

	2005		2004	
	Mortgages	**Bonds**	Mortgages	Bonds
Carrying value of retained interests	**$ 116**	**$ 1**	$ 134	$ 4
Fair value of retained interests	**$ 125**	**$ 1**	$ 146	$ 4
Weighted average remaining life (in years)	**1.0-14.3**	**5.2**	3.6-20.4	7.7
Discount rate	**2.5-7.0%**	**11.1%**	2.5-7.0%	11.1%
Impact on fair value of 10% adverse change	**$ 3**	**$ 1**	$ 2	$ —
Impact on fair value of 20% adverse change	**$ 6**	**$ 1**	$ 5	$ —
Anticipated credit losses	**—**	**0.6%**	—	0.6%
Impact on fair value of 10% adverse change		**$ 1**		$ 1
Impact on fair value of 20% adverse change		**$ 1**		$ 1

The sensitivity analysis in the preceding table is hypothetical and should be used with caution. As the figures indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

The credit losses, net of recoveries, of the securitized bond portfolio for 2005 were $13 (nil in 2004). As at December 31, 2005, the securitized bond portfolio included bonds of $17 that were 90 days or more past due ($2 in 2004).

The following table summarizes certain cash flows received from securitization trusts in 2005, 2004 and 2003:

	2005	2004	2003
	Mortgages	Mortgages	Mortgages
Proceeds from new securitizations	**$ —**	$ 179	$ 693
Cash flows received on retained interests and servicing fees	**$ 33**	$ 57	$ 26

7. Derivative Financial Instruments

The Company uses derivative instruments for hedging and risk management purposes or in replication strategies to reproduce permissible investments. The accounting policies for the derivative financial instruments are described in Note 1. The Company monitors the gap in market sensitivities between liabilities and supporting assets for its hedging strategies. That gap is managed within defined tolerance limits by, where appropriate, the use of derivative instruments. Models and techniques are used by the Company to ensure the continuing effectiveness of its hedging and risk management strategies.

Derivative instruments are either exchange-traded or over-the-counter contracts negotiated between two counterparties. The notional amount is the basis for calculating payments and is generally not the actual amount exchanged. Since counterparty failure in an over-the-counter derivative transaction could render it ineffective for hedging purposes, the Company generally transacts its derivative contracts with counterparties rated AA or better. In limited circumstances, the Company will enter into transactions with lower rated counterparties if credit enhancement features are included. As at December 31, 2005, the Company had assets of $81 ($63 in 2004) pledged as collateral for derivative contracts.

7. Derivative Financial Instruments (Cont'd)

The Company has the following amounts outstanding at December 31:

	2005					
	Fair Value		Notional Amounts			
			Term to Maturity			Total
	Positive(1)	Net	Under 1 Year	1 to 5 Years	Over 5 Years	Notional Amount
Interest rate contracts	$ 328	$ 67	$ 3,749	$ 6,059	$ 9,751	$ 19,559
Foreign exchange contracts	664	589	1,935	1,497	4,124	7,556
Equity and other contracts (2)	586	539	5,522	4,474	1,253	11,249
Total	$ 1,578	$ 1,195	$11,206	$12,030	$15,128	$ 38,364
Over-the-counter contracts						$ 36,859
Exchange-traded contracts						$ 1,505

	2004					
	Fair Value		Notional Amounts			
			Term to Maturity			Total
	Positive(1)	Net	Under 1 Year	1 to 5 Years	Over 5 Years	Notional Amount
Interest rate contracts	$ 215	$ (148)	$ 1,776	$ 4,040	$ 8,567	$14,383
Foreign exchange contracts	793	720	2,395	881	1,858	5,134
Equity and other contracts (2)	561	508	2,510	6,404	1,786	10,700
Total	$ 1,569	$ 1,080	$ 6,681	$11,325	$12,211	$30,217
Over-the-counter contracts						$29,247
Exchange-traded contracts						$ 970

(1) Used to determine the credit risk exposure if the counterparties were to default. The credit risk exposure is the cost of replacing, at current market rates, all contracts with a positive fair value.

(2) Equity and other contracts in 2005 includes equity forwards with a fair value of $13 ($4 in 2004) hedging the variation in the cash flows associated with the anticipated payments under certain stock-based compensation plans expected to occur in 2007 and 2008. The fair value that has not been recognized of $7 ($3 in 2004) will be recognized in net income as the liability is accrued for the stock-based compensation plan over the vesting period.

Fair values of interest rate swap contracts and foreign exchange swap and forward contracts are determined by discounting expected future cash flows using current market interest and exchange rates for similar instruments. Fair values of options, financial futures and common stock index swaps are based on the quoted market prices or the value of underlying securities or indices.

8. Goodwill and Intangible Assets

A) GOODWILL

In addition to the goodwill of $5,963 ($5,471 in 2004) shown on the consolidated balance sheets, goodwill of $310 ($395 in 2004) for investments accounted for by the equity method is included in other invested assets. There were no write-downs of goodwill due to impairment during 2005, 2004 and 2003.

Changes in goodwill of subsidiaries and investments accounted for by the equity method are as follows:

	Canada(1)	United States	Asia	Corporate(1)	Total
Balance, January 1, 2004	$ 3,739	$ 1,609	$ 29	$ 592	$ 5,969
Acquisitions	10	—	—	33	43
Disposals	(17)	—	(1)	—	(18)
Effect of changes in currency exchange rates	—	(112)	—	(16)	(128)
Balance, December 31, 2004	$ 3,732	$ 1,497	$ 28	$ 609	$ 5,866
Acquisitions	—	—	526	48	574
Disposals	—	—	—	(80)	(80)
Effect of changes in currency exchange rates	—	(43)	(35)	(9)	(87)
Balance, December 31, 2005	$ 3,732	$ 1,454	$ 519	$ 568	$ 6,273

(1) Restated to reflect the reallocation of $309 of goodwill from SLF Canada to Corporate related to the realignment of the reinsurance business, as described in Note 4.

8. Goodwill and Intangible Assets (Cont'd)

B) INTANGIBLE ASSETS

In addition to the intangible assets of $801 ($751 in 2004) shown on the consolidated balance sheets, intangible assets of $744 ($744 in 2004) for investments accounted for by the equity method are included in other invested assets. Amortization of intangible assets recorded in operating expenses during the year was $22 ($22 in 2004 and $24 in 2003). There were no write-downs of intangibles due to impairment during 2005, 2004 and 2003. As at December 31, the components of the intangible assets are as follows:

	2005			2004		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Amount**	Gross Carrying Amount	Accumulated Amortization	Net Amount
Finite-life intangible assets:						
Sales potential of field force	**$ 400**	**$ 35**	**$ 365**	$ 400	$ 25	$ 375
Asset administration contracts	**225**	**23**	**202**	201	21	180
Distribution channels	**55**	**22**	**33**	33	10	23
Brand name (1)	**54**	**—**	**54**	—	—	—
Other	**2**	**1**	**1**	2	1	1
	736	**81**	**655**	636	57	579
Indefinite-life intangible assets:						
Fund management contracts	**878**	**—**	**878**	850	—	850
State licenses	**12**	**—**	**12**	12	—	12
Brand name (1)	**—**	**—**	**—**	54	—	54
	890	**—**	**890**	916	—	916
Total intangible assets	**$ 1,626**	**$ 81**	**$ 1,545**	$ 1,552	$ 57	$ 1,495

(1) Usage of the brand name changed effective December 31, 2005. Amortization of the brand name will commence on January 1, 2006.

9. Other Assets

Other assets consist of the following:

	2005	2004*
Accounts receivable	**$ 2,168**	$ 1,299
Investment income due and accrued	**1,161**	1,121
Future income taxes (Note 19)	**667**	719
Deferred acquisition costs	**271**	362
Prepaid expenses	**207**	219
Outstanding premiums	**316**	294
Accrued benefit asset (Note 21)	**456**	438
Capital assets	**129**	168
Other	**135**	50
Total other assets	**$ 5,510**	$ 4,670

* As restated for adoption of AcG 15 (Note 2).

Amortization of deferred acquisition costs charged to income amounted to $138 in 2005 ($179 and $234 in 2004 and 2003, respectively).

Capital assets are carried at a cost of $602 ($591 in 2004), less accumulated depreciation and amortization of $473 ($423 in 2004). Depreciation and amortization charged to income totalled $63 in 2005 ($62 and $67 in 2004 and 2003, respectively).

10. Actuarial Liabilities and Other Policy Liabilities

A) ACTUARIAL POLICIES

Actuarial liabilities and other policy liabilities represent the estimated amounts which, together with estimated future premiums and net investment income, will provide for outstanding claims, estimated future benefits, policyholders' dividends, taxes (other than income taxes) and expenses on in-force policies.

In calculating actuarial liabilities and other policy liabilities, assumptions must be made about mortality and morbidity rates, policy terminations, equity market performance, interest rates, asset default, inflation, expenses and other factors over the life of the Company's products. The general approaches to the setting of assumptions used by the Company are described later in this note.

The Company uses best estimate assumptions for expected future experience. Some assumptions relate to events that are anticipated to occur many years in the future and are likely to require subsequent revision. Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to change or if the actuary is less certain about the underlying best estimate assumption, a correspondingly larger provision is included in the actuarial liabilities.

10. Actuarial Liabilities and Other Policy Liabilities (Cont'd)

In determining these provisions, the Company ensures:

- when taken one at a time, each provision is reasonable with respect to the underlying best estimate assumption, and the extent of uncertainty present in making that assumption, and
- in total, the cumulative effect of all provisions is reasonable with respect to the total actuarial liabilities.

With the passage of time and resulting reduction in estimation risk, the provisions are released into income. In recognition of the long-term nature of policy liabilities, the margin for possible deviations generally increases for contingencies further in the future. The best estimate assumptions and margins for adverse deviations are reviewed annually and revisions are made where deemed necessary and prudent.

The Company generally maintains distinct asset portfolios for each line of business. To ensure the adequacy of liabilities, the Company does cash flow testing using several plausible scenarios for future interest rates and economic environments as well as a set of prescribed scenarios. In each test, asset and liability cash flows are projected. Net cash flows are invested in new assets, if positive, or assets are sold to meet cash needs, in accordance with the assumptions in the test and the standards of the Canadian Institute of Actuaries. Deferred net realized gains are taken into account in establishing the actuarial liabilities.

Provision for Policyholder Dividends

An amount equal to the earned and accrued portion of policyholder dividends including earned and accrued terminal dividends is shown as a provision for policyholder dividends. Actuarial liabilities provide for the payment of policyholder dividends that are forecasted to be paid over the next 12 months and beyond, in excess of dividends earned and accrued. Both liabilities are determined taking into account the scale of dividends approved by the Board. Actuarial liabilities take into account the expectation that future dividends will be adjusted to reflect future experience. Earned and accrued policyholder dividends of $802 are included in policyholder dividends and interest on claims and deposits in the consolidated statements of operations ($809 in 2004 and $867 in 2003).

B) COMPOSITION OF ACTUARIAL LIABILITIES AND OTHER POLICY LIABILITIES

The actuarial liabilities and other policy liabilities consist of the following:

	2005				
	Canada	**United States**	**Asia**	**Corporate[1]**	**Total**
Individual participating life	**$11,591**	**$ 5,167**	**$ 2,538**	**$ 3,094**	**$22,390**
Individual non-participating life	**1,858**	**6,649**	**196**	**496**	**9,199**
Group life	**1,184**	**130**	**7**	**(3)**	**1,318**
Individual annuities	**9,317**	**16,002**	**—**	**3,192**	**28,511**
Group annuities	**5,752**	**3,313**	**160**	**—**	**9,225**
Health insurance	**4,581**	**470**	**(1)**	**84**	**5,134**
Total actuarial liabilities	**34,283**	**31,731**	**2,900**	**6,863**	**75,777**
Add: Other policy liabilities[2]	**570**	**431**	**49**	**662**	**1,712**
Actuarial liabilities and other policy liabilities	**$34,853**	**$32,162**	**$ 2,949**	**$ 7,525**	**$77,489**

	2004				
	Canada	United States	Asia	Corporate[1]	Total
Individual participating life	$11,133	$ 5,137	$ 1,042	$ 3,740	$21,052
Individual non-participating life	1,727	6,177	199	380	8,483
Group life	1,190	121	1	41	1,353
Individual annuities	10,040	16,990	—	3,553	30,583
Group annuities	5,999	3,057	—	—	9,056
Health insurance	3,228	447	(1)	57	3,731
Total actuarial liabilities	33,317	31,929	1,241	7,771	74,258
Add: Other policy liabilities[2]	563	420	36	779	1,798
Actuarial liabilities and other policy liabilities	$33,880	$32,349	$ 1,277	$ 8,550	$76,056

(1) Primarily business from the United Kingdom, Reinsurance and Run-off Reinsurance operations.
(2) Consists of policy benefits payable, provisions for unreported claims, provisions for policyholder dividends and provisions for experience rating refunds.

10. Actuarial Liabilities and Other Policy Liabilities (Cont'd)

C) TOTAL ASSETS SUPPORTING ACTUARIAL LIABILITIES, EQUITY AND OTHER

The following tables show the total assets supporting actuarial liabilities, equity and other:

	2005					
	Bonds	**Mortgages**	**Stocks**	**Real Estate**	**Other**	**Total**
Individual participating life	**$13,870**	**$ 3,596**	**$ 2,910**	**$ 2,211**	**$ 5,480**	**$ 28,067**
Individual non-participating life	**7,571**	**1,559**	**355**	**49**	**2,110**	**11,644**
Group life	**1,540**	**656**	**4**	**18**	**7**	**2,225**
Individual annuities	**25,664**	**4,736**	**52**	**28**	**1,432**	**31,912**
Group annuities	**7,403**	**2,257**	**34**	**123**	**850**	**10,667**
Health insurance	**4,650**	**1,514**	**10**	**41**	**486**	**6,701**
Equity and other	**5,456**	**243**	**491**	**771**	**12,689**	**19,650**
Total assets	**$66,154**	**$ 14,561**	**$ 3,856**	**$ 3,241**	**$23,054**	**$110,866**

	2004*					
	Bonds	Mortgages	Stocks	Real Estate	Other	Total
Individual participating life	$13,116	$ 3,400	$ 2,653	$ 2,153	$ 4,727	$ 26,049
Individual non-participating life	6,432	1,248	288	7	2,034	10,009
Group life	1,684	562	8	26	222	2,502
Individual annuities	27,072	4,737	51	62	1,787	33,709
Group annuities	7,070	2,281	32	121	791	10,295
Health insurance	4,685	1,358	11	40	440	6,534
Equity and other	4,437	276	420	739	12,833	18,705
Total assets	$64,496	$ 13,862	$ 3,463	$ 3,148	$22,834	$107,803

* As restated for adoption of AcG 15 (Note 2).

D) CHANGES IN ACTUARIAL LIABILITIES

Changes in actuarial liabilities during the year are as follows:

	2005	2004
Actuarial liabilities, January 1	**$ 74,258**	$75,324
Change in liabilities on in-force business	**(3,495)**	(2,374)
Liabilities arising from new policies	**4,268**	3,799
Significant changes in assumptions or methodology (1) :		
Gross increases	**268**	—
Gross decreases	**(169)**	—
Increase in actuarial liabilities	**872**	1,425
Actuarial liabilities before the following:	**75,130**	76,749
Acquisition (Note 3)	**1,440**	—
Change due to termination of reinsurance agreement (2)	**1,223**	(30)
Other	**(13)**	(29)
Effect of changes in currency exchange rates	**(2,003)**	(2,432)
Actuarial liabilities, December 31	**75,777**	74,258
Add: Other policy liabilities	**1,712**	1,798
Actuarial liabilities and other policy liabilities, December 31	**$ 77,489**	$76,056

(1) The increase in reserves arises from (a) lapse and morbidity assumption changes in the Reinsurance Business Unit and (b) strengthening the margin for future credit yield compression in US Individual. The decreases arise mainly from mortality assumption changes in the Reinsurance Business Unit.

(2) Reserve increase due to the termination of a reinsurance treaty on Canada Group Benefits business, and the resulting recapture of the business. An associated decrease in other liabilities was also recorded to reflect this recapture.

E) FAIR VALUE OF ACTUARIAL LIABILITIES, FUTURE INCOME TAXES AND DEFERRED NET REALIZED GAINS

The fair value of total actuarial liabilities shown in the tables above is $84,855 in 2005 and $81,641 in 2004. Fair value of actuarial liabilities is determined by reference to the fair value of the assets supporting those liabilities. The fair value of the net deferred income tax asset related to life insurance companies is $48 in 2005 (carrying value of $277) and $(494) in 2004 (carrying value of $294). Fair value of income taxes represents the amount that would be recognized on the balance sheet if the financial instruments were measured at fair value. Deferred net realized gains, which are generally taken into account in establishing the actuarial liabilities, do not exist when financial assets and liabilities are measured at fair value.

10. Actuarial Liabilities and Other Policy Liabilities (Cont'd)

F) ASSUMPTIONS AND MEASUREMENT UNCERTAINTY

Mortality

Mortality refers to the rates at which death occurs for defined groups of people. Insurance mortality assumptions are generally based on the Company's average five-year experience. For annuities, Company experience is generally combined with industry experience, since the Company's own experience is insufficient to be statistically credible for most of its annuity product lines. Assumed mortality rates for life insurance contracts do not reflect any future improvement which might be expected. On annuities where lower mortality rates result in an increase in liabilities, assumed future mortality rates are adjusted to reflect estimated future improvements in the rates.

For products where higher mortality would be financially adverse to the Company, a 1% increase in the best estimate assumption would decrease net income by $80. For products where lower mortality would be financially adverse to the Company, a 1% reduction in the mortality assumption would decrease net income by $40.

Morbidity

Morbidity refers to both the rates of accident or sickness, and the rates of recovery therefrom, for defined groups of people. Most of the Company's disability insurance is marketed on a group basis. In Canada and in Asia, the Company offers critical illness policies on an individual basis and in Canada, the Company offers long-term care on an individual basis; a significant block of critical illness business written in the United Kingdom has also been assumed by the Company's Reinsurance business unit. Medical stop-loss insurance is offered on a group basis in the United States and Canada. In Canada, group morbidity assumptions are based on the Company's five-year average experience, modified to reflect the trend in recovery rates. For long-term care and critical illness insurance, assumptions are developed in collaboration with the Company's reinsurers and are largely based on their experience. In the United States, Company experience is used for both medical stop-loss and disability assumptions, with some consideration for industry experience. Larger provisions for adverse deviation are used for those benefits where Company or industry experience is limited. For products where the morbidity is a significant assumption, a 1% adverse change in that assumption would reduce net income by $16.

Asset Default

In addition to the allowances for losses on invested assets outlined in Note 6, the actuarial liabilities include an amount of $2,413 determined on a pre-tax basis ($2,160 in 2004) to provide for possible future asset defaults and loss of asset value on current assets and on future purchases. This provision results from a reduction in the expected future investment yield or a reduction in the value of equity assets recognized in the computation of actuarial liabilities. The reduction varies depending on the creditworthiness of the class of asset.

Segregated Fund Guarantees

The Company has a large volume of variable annuities primarily in the United States subject to equity market movements. The Company also reinsures the guarantees offered on variable annuities issued by other insurance companies in the United States, although the Company no longer accepts new business on these reinsurance treaties. The Company monitors its experience for these guarantees on a monthly basis, and has hedged a percentage of its exposure with long-dated put options against the S&P 500.

The Company has a block of unit-linked products in the United Kingdom which offer guaranteed annuity purchase price options. While not segregated fund guarantees, the exposure to the annuity options is dependent on equity market movements.

The Company used stochastic modelling techniques which test a large number of different scenarios of future market returns to estimate the actuarial liability for the various guarantees offered under variable annuities and under the United Kingdom annuity options. The sensitivity of the actuarial liability to changes in expected equity market returns is significant for these blocks of business. For example, a 1% reduction in the expected long-term equity market return assumption would decrease net income by $36 in respect of these guarantees.

Interest Rate

Interest rate risk is the potential for financial loss arising from changes in interest rates. For example, the Company is exposed to this risk when the cash flows from assets and the policy obligations they support are significantly mismatched, as this may result in the need to either sell assets to meet policy payments and expenses or reinvest excess asset cash flows under unfavourable interest environments.

To manage this risk, an investment policy statement is established for each portfolio of assets and related liabilities. Asset/liability management programs are in place to implement these policy statements. The primary approach used is duration gap analysis, which measures the sensitivity of assets and liabilities to interest rate changes across the entire yield curve. Key rate duration analysis is used to examine the duration gap of assets and liabilities at discrete intervals on the yield curve. These gaps are managed within specified tolerance limits.

Interest rate sensitivity is provided for in the actuarial liabilities for all policies, with adequate provisions to absorb moderate changes in interest rates.

For certain product types, including participating insurance and certain forms of universal life policies and annuities, policyholders share investment performance through changes in the amount of dividends declared or to the rate of interest credited. These changes occur routinely as interest rates change, and reflect the normal operation of these policies according to their contractual terms. These products generally have minimum interest rate guarantees.

10. Actuarial Liabilities and Other Policy Liabilities (Cont'd)

For the Company's actuarial liabilities, an immediate 1% parallel increase in interest rates at December 31, 2005, across the entire yield curve, would result in an estimated increase in net income of $29. Conversely, an immediate 1% parallel decrease in interest rates would result in an estimated decrease in net income of $143. These results do not reflect any management action.

Policy Termination Rates

Policyholders may allow their policies to terminate prior to the end of the contractual coverage period by choosing not to continue to pay premiums or by exercising one of the non-forfeiture options in the contract. Assumptions for termination experience on life insurance are generally based on the Company's average five-year experience. Termination rates may vary by plan, age at issue, method of premium payment, and policy duration. For universal life contracts, it is also necessary to set assumptions about premium cessation occurring prior to termination of the policy. Studies prepared by industry or actuarial bodies are used for certain products where the Company's experience is too limited to be statistically valid.

For individual life insurance products where fewer terminations would be financially adverse to the Company, net income would be decreased by $93 if the termination rate assumption were reduced by 10% starting in policy year six (5% for participating policies and policies with adjustable premiums). For products where more terminations would be financially adverse to the Company, net income would be decreased by $81 if an extra 1% of the in-force policies were assumed to terminate each year beginning in policy year six (0.5% for participating policies and policies with adjustable premiums).

Operating Expenses and Inflation

Actuarial liabilities provide for future policy-related expenses. These include the costs of premium collection, claims adjudication and processing, actuarial calculations, preparation and mailing of policy statements and related indirect expenses and overheads. Expense assumptions are mainly based on recent Company experience using an internal expense allocation methodology. Future expense assumptions reflect inflation. The sensitivity of actuarial liabilities to a 10 % increase in unit expenses Company-wide would result in a decrease in net income of $253.

G) REINSURANCE AGREEMENTS

Reinsurance is used primarily to limit exposure to large losses. The Company has an individual life insurance retention policy and limits which require that such arrangements be placed with well-established, highly rated reinsurers. Coverage is well diversified and controls are in place to manage exposure to reinsurance counterparties. While reinsurance arrangements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to the policyholders. In addition, the Company assumes by retrocession a substantial amount of business from reinsurers. The effect of these reinsurance arrangements on premiums and payments to policyholders, beneficiaries and depositors is summarized as follows:

	2005	2004	2003
Premiums:			
Direct premiums	**$ 13,290**	$13,235	$13,688
Reinsurance assumed	**745**	655	723
Reinsurance ceded	**(1,095)**	(987)	(868)
	$ 12,940	$12,903	$13,543
Payments to policyholders, beneficiaries and depositors:			
Direct payments	**$ 12,956**	$12,671	$13,036
Reinsurance assumed	**838**	602	809
Reinsurance ceded	**(992)**	(741)	(919)
	$ 12,802	$12,532	$12,926

Actuarial liabilities are shown net of ceded reinsurance of $2,003 in 2005 ($2,931 in 2004).

H) ROLE OF THE APPOINTED ACTUARY

The Appointed Actuary is appointed by the Board and is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives.

The Appointed Actuary is required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet dates to meet all obligations to policyholders of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

The Appointed Actuary is required each year to analyze the financial condition of the Company and prepare a report for the Board. The 2005 analysis tested the capital adequacy of the Company until December 31, 2009, under various adverse economic and business conditions. The Appointed Actuary reviews the calculation of the Company's Canadian capital and surplus requirements. In addition, foreign operations and foreign subsidiaries of the Company must comply with local capital requirements in each of the jurisdictions in which they operate. Furthermore, the Company is required to appropriate retained earnings of $2,857 ($2,328 in 2004). All of these regulatory requirements constrain the Company's ability to distribute its retained earnings.

11. Senior Debentures

The following obligations are included in senior debentures:

	Currency of Borrowing	Interest Rate	Maturity	**2005**	2004
Partnership capital securities (Note 2)	U.S. dollars	8.53%	—	**$ 699**	$ 720
Sun Life Assurance debentures (Note 2):					
Series A debenture	Canadian dollars	6.87%	2031	**990**	990
Series B debenture	Canadian dollars	7.09%	2052	**200**	200
Funding debenture (1)	Canadian dollars	7.09%	2052	**3**	10
Sun Life Financial senior unsecured debentures (2)	Canadian dollars	4.80%	2035	**600**	—
				$ 2,492	$ 1,920
Fair value				**$ 2,723**	$ 2,157

(1) On December 30, 2005, $7 of the Funding debenture was redeemed prior to the maturity date.

(2) On November 23, 2005,Sun Life Financial Inc. issued $600 principal amount of Series A Senior Unsecured 4.8% Fixed/Floating Debentures due 2035. These debentures will bear interest at a fixed annual rate of 4.8% per annum payable semi-annually until November 23, 2015; and at a variable rate payable quarterly equal to the Canadian dollar offered rate for three months' bankers' acceptances plus 1% thereafter until maturity on November 23, 2035. Sun Life Financial Inc. may redeem the debentures after 10 years at 100% of the principal amount. The debentures will be a direct senior unsecured obligation of the Company and will rank equally with all other unsecured and unsubordinated indebtedness of Sun Life Financial Inc.

Fair value is based on market price for the same or similar instruments as appropriate. Interest expense for the partnership capital securities and the debentures was $144, $150 and $155 for 2005, 2004 and 2003, respectively.

12. Other Liabilities

A) COMPOSITION OF OTHER LIABILITIES

Other liabilities consist of the following:

	2005	2004*
Accounts payable	**$ 2,137**	$ 2,727
Bank overdrafts	**217**	417
Bond repurchase agreements	**1,614**	1,645
Accrued expenses and taxes	**1,075**	919
Borrowed funds	**127**	153
Future income taxes (Note 19)	**502**	505
Accrued benefit liability (Note 21)	**470**	456
Provisions for future policyholder costs	**54**	82
Other	**396**	248
Total other liabilities	**$ 6,592**	$ 7,152

* As restated for adoption of AcG 15 (Note 2).

B) BOND REPURCHASE AGREEMENTS

The Company enters into bond repurchase agreements for operational funding and liquidity purposes. Bond repurchase agreements have maturities ranging from 4 to 89 days, averaging 31 days, and bearing interest rates averaging 3.24% as at December 31, 2005 (2.5% in 2004). As at December 31, 2005, the Company had assets with a total market value of $1,614 ($1,654 in 2004) pledged as collateral for the bond repurchase agreements.

C) BORROWED FUNDS

The following obligations are included in borrowed funds in the table above:

	Currency of Borrowing	Maturity	**2005**	2004
Bank credit facilities (1)	U.S. dollars	2006	**$ —**	$ 36
Encumbrances on real estate	Canadian dollars	2006-2012	**59**	52
	U.S. dollars	2006-2014	**68**	65
Total borrowed funds			**$ 127**	$ 153

(1) At a floating rate, linked to London Inter Bank Offered Rate.

12. Other Liabilities (Cont'd)

At December 31, 2005, aggregate maturities of encumbrances on real estate are as follows:

Year	Amount
2006	**$ 6**
2007	**15**
2008	**25**
2009	**2**
2010	**3**
Thereafter	**76**
Total	**$ 127**

At December 31, 2005, bank credit facilities are nil ($36 in 2004) and the weighted average interest rates related to those borrowings is 2.9% (1.6% in 2004). The U.S. dollar bank credit facility is secured by the future distribution fee stream of the mutual funds under the management of MFS.

At December 31, 2005, the Company had $105 in a line of credit from a financial institution of which $105 was unused. This line of credit has a term of one year.

Interest expense for the borrowed funds was $33, $11 and $15 for 2005, 2004 and 2003, respectively.

13. Subordinated Debt

The following obligations are included in subordinated debt:

	Currency	Interest Rate	Maturity	2005	2004*
Subordinated debentures(1)	Canadian dollars	6.65%	2015	**$ 300**	$ 300
Subordinated debentures(2)	Canadian dollars	6.15%	2022	**799**	799
Subordinated debentures(3)	Canadian dollars	6.30%	2028	**150**	150
Subordinated notes(4)	U.S. dollars	6.63%	2007	**32**	33
Subordinated notes	U.S. dollars	7.25%	2015	**175**	180
Total				**$ 1,456**	$ 1,462
Fair value				**$ 1,617**	$ 1,614

(1) After October 12, 2010, interest is payable at 1% over the 90-day Bankers' Acceptance Rate. Redeemable in whole or in part at any time prior to October 12, 2010. On or after October 12, 2010, redeemable in whole on interest payment date.
(2) After June 30, 2012, interest is payable at 1.54% over the 90-day Bankers' Acceptance Rate. Redeemable in whole or in part at any time.
(3) Redeemable in whole or in part at any time.
(4) In the third quarter of 2003, $165 (81.6% of the originally issued notes) was redeemed. Redemption premiums of $24 ($14 net of taxes) were recorded in net investment income in 2003.

* As restated for adoption of AcG 15 (Note 2).

Fair value is based on market prices for the same or similar instruments as appropriate. Interest expense on subordinated debt was $96, $107 and $122 for 2005, 2004 and 2003, respectively.

All subordinated debt qualifies as capital for Canadian regulatory purposes.

14. Non-controlling Interests in Subsidiaries

Non-controlling interests in the consolidated balance sheets consist of the following:

	2005	2004*
Preferred shares of Sun Life Assurance(1)	**$ —**	$ 152
Non-controlling interests in MFS and McLean Budden Limited	**50**	36
Total non-controlling interests in subsidiaries	**$ 50**	$ 188

(1) On June 30, 2005, these preferred shares were redeemed by Sun Life Assurance at $25 per share for a total amount of $150, excluding declared dividends also paid upon redemption.

* As restated for adoption of AcG 15 (Note 2).

Non-controlling interests in net income of subsidiaries include the preferred shares dividend payments of $3 ($7 in 2004 and $7 in 2003) and non-controlling interests in MFS and McLean Budden Limited of $20 ($21 in 2004 and $7 in 2003).

15. Share Capital and Normal Course Issuer Bid

A) SHARE CAPITAL

The authorized share capital of Sun Life Financial Inc. consists of the following:

- An unlimited number of common shares without nominal or par value. Each common share is entitled to one vote at meetings of the shareholders of Sun Life Financial Inc. There are no pre-emptive, redemption, purchase or conversion rights attached to the common shares.
- An unlimited number of Class A and Class B non-voting preferred shares, issuable in series. The Board is authorized to fix before issuing the shares, the number, the consideration per share, the designation of and the rights and restrictions of the Class A and Class B shares of each series, subject to the special rights and restrictions attached to all the Class A and Class B shares. The Board has authorized three Series of Class A non-voting preferred shares.

The changes and the number of shares issued and outstanding are as follows:

	2005		2004		2003	
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
Preferred shares (in millions of shares)						
Balance, January 1	—	**$ —**	—	$ —	—	$ —
Preferred shares issued, Series 1	**16**	**400**	—	—	—	—
Preferred shares issued, Series 2	**13**	**325**	—	—	—	—
Issuance costs, net of taxes	—	**(13)**	—	—	—	—
Balance, December 31	**29**	**$ 712**	—	$ —	—	$ —
Common shares (in millions of shares)						
Balance, January 1	**592**	**$ 7,238**	600	$ 7,289	618	$ 7,420
Common shares issued, net of issuance costs, granted as consideration for business acquisition (Note 3)	**—**	**—**	—	—	2	63
Stock options exercised (Note 18)	**3**	**99**	2	75	1	28
Common shares purchased for cancellation	**(13)**	**(164)**	(10)	(126)	(18)	(222)
Common shares cancelled for lost policyholders	**—**	**—**	—	—	(3)	—
Balance, December 31	**582**	**$ 7,173**	592	$ 7,238	600	$ 7,289

On July 15, 2005, Sun Life Financial Inc. issued $325 of Class A Non-Cumulative Preferred Shares, Series 2, at $25 per share. Holders are entitled to receive non-cumulative quarterly dividends of $0.30 per share, yielding 4.8% annually. Subject to regulatory approval, on or after September 30, 2010, Sun Life Financial Inc. may redeem these shares in whole or in part at a declining premium. On February 25, 2005, Sun Life Financial Inc. issued $400 of Class A Non-Cumulative Preferred Shares, Series 1, at $25 per share. Holders are entitled to receive a non-cumulative quarterly dividend of $0.297 per share, yielding 4.75% annually. Subject to regulatory approval, on or after March 31, 2010, Sun Life Financial Inc. may redeem these shares, in whole or in part, at a declining premium. Related underwriting commissions of $13 (net taxes of $7) were deducted from preferred shares in the consolidated statements of equity.

In accordance with the provisions of the Demutualization Plan of Sun Life Assurance Company of Canada and the share capital by-law of Sun Life Financial Inc., unclaimed demutualization benefits issued to eligible policyholders whose addresses were not known to the Company (lost policyholders) were cancelled on February 22, 2003. The unclaimed demutualization benefits that were cancelled on February 22, 2003, include approximately three million common shares of Sun Life Financial Inc. with a nominal share capital, accumulated dividends of approximately $3 and demutualization benefits payable in cash of approximately $10. Under the Demutualization Plan, lost policyholders may claim their cancelled demutualization benefits (including all unpaid dividends on shares) at any time without interest.

SUBSEQUENT EVENT

On January 13, 2006, Sun Life Financial Inc. issued $250 of Class A Non-Cumulative Preferred Shares, Series 3, at $25 per share. Holders are entitled to receive non-cumulative quarterly dividends of $0.278 per share, yielding 4.45% annually. Subject to regulatory approval, on or after March 31, 2011, Sun Life Financial Inc. may redeem these shares in whole or in part at a declining premium.

B) NORMAL COURSE ISSUER BID

In February 2003, Sun Life Financial Inc. announced a normal course issuer bid program under which it was authorized to purchase, for cancellation, through the Toronto Stock Exchange (TSX), up to 31 million common shares, representing approximately 5% of its issued and outstanding common shares at that time. This program covered the period from February 14, 2003 to January 5, 2004. On January 8, 2004, Sun Life Financial Inc. announced a similar normal course issuer bid to purchase up to 30 million common shares, representing approximately 5% of its issued and outstanding common shares at that time, during the period from January 12, 2004, to January 11, 2005. On January 6, 2005, the Company announced the renewal of its normal course issuer bid to purchase up to 30 million common shares, representing approximately 5% of the common shares issued and outstanding at that time. This normal course issuer bid covered the period from January 12, 2005, to January 11, 2006. Purchases were executed on the TSX at the prevailing market price in amounts and times determined by the Company.

15. Share Capital and Normal Course Issuer Bid (Cont'd)

Amounts repurchased under the normal course issuer bids are as follows:

	2005	2004	2003
Number of shares repurchased (in millions)	**13**	10	18
Amount (1)	**$ 544**(2)	$ 388	$ 527
Average price per share	**$ 41.10**	$ 37.93	$ 28.88

(1) The total amount repurchased is allocated to common shares and retained earnings in the consolidated statements of equity. The amount recorded to common shares is based on the average cost per common share.
(2) As at December 31, 2005, an additional $11 were subscribed for but not settled or cancelled.

SUBSEQUENT EVENT

On January 10, 2006, Sun Life Financial Inc. announced that it was authorized to purchase up to 29 million shares, representing approximately 5% of its issued and outstanding common shares, under a renewed normal course issuer bid program that will cover the period from January 12, 2006, to January 11, 2007.

16. Operating Expenses

Operating expenses consist of the following:

	2005	2004	2003
Compensation costs	**$ 1,726**	$ 1,557	$ 1,510
Premises and equipment costs	**286**	290	287
Restructuring and other related charges	**10**	27	128
Capital asset depreciation and amortization (Note 9)	**63**	62	67
Other (1)	**836**	895	1,096
Total operating expenses	**$ 2,921**	$ 2,831	$ 3,088

(1) Other for 2004 includes a pre-tax provision for MFS regulatory issues and other actions of $66 ($338 in 2003).

17. Earnings Per Share

Details of the calculation of the net income and the weighted average number of shares used in the earnings per share computations are as follows:

	2005	2004*	2003*
Common shareholders' net income	**$ 1,843**	$ 1,680	$ 1,307
Less: Effect of stock options of subsidiaries (1)	**5**	2	—
Common shareholders' net income on a diluted basis	**$ 1,838**	$ 1,678	$ 1,307
Weighted average number of shares outstanding for basic earnings per share (in millions)	**587**	599	608
Add: Adjustments relating to the dilutive impact of stock options (1), (2)	**3**	3	—
Weighted average number of shares outstanding on a diluted basis (in millions)	**590**	602	608

(1) The effect of stock options is calculated based on the treasury stock method requirements which assume that unrecognized compensation as well as any proceeds from the exercise of the options would be used to purchase common shares at the average market prices during the period.
(2) Options to purchase approximately four million shares of Sun Life Financial Inc. at the average exercise price of $33.22 per share were outstanding as at December 31, 2003. However, they were not included in the diluted earnings per share calculations, because their exercise prices were greater than the average market price of the common shares.
* As restated for adoption of AcG 15 (Note 2).

18. Stock-Based Compensation

A) STOCK OPTION PLANS

Sun Life Financial Inc. granted stock options to certain employees and directors under the Executive Stock Option Plan and the Director Stock Option Plan and to all eligible employees under the Special 2001 Stock Option Award Plan. These options may be exercised at the closing price of the common shares on the TSX on the trading day preceding the grant date. The options granted under the stock option plans will vest at various times: over a four-year period under the Executive Stock Option Plan with the exception of two special grants with a five-year period; two years after the grant date under the Special 2001 Stock Option Award Plan; and over a two-year period under the Director Stock Option Plan. All options have a maximum exercise period of 10 years. The maximum number of common shares that may be issued under the Executive Stock Option Plan, the Special 2001 Stock Option Award Plan and the Director Stock Option Plan are 29,525,000 shares, 1,150,000 shares and 150,000 shares, respectively. Effective April 2, 2003, further grants under the Sun Life Financial Inc. Director Stock Option Plan were discontinued.

18. Stock-Based Compensation (Cont'd)

The activities in the stock option plans for the years ended December 31 are as follows:

	2005		2004		2003	
	Number of Stock Options (Thousands)	**Weighted Average Exercise Price**	Number of Stock Options (Thousands)	Weighted Average Exercise Price	Number of Stock Options (Thousands)	Weighted Average Exercise Price
Balance, January 1	**12,457**	**$ 26.90**	15,239	$ 27.17	12,421	$ 29.82
Granted	**1,339**	**40.80**	173	36.67	4,778	27.70
Exercised	**(2,999)**	**26.11**	(2,267)	25.69	(863)	22.51
Forfeited	**(748)**	**25.61**	(688)	26.97	(1,097)	28.76
Balance, December 31	**10,049**	**$ 28.95**	12,457	$ 26.90	15,239	$ 27.17
Exercisable, December 31	**5,750**	**$ 27.59**	6,318	$ 27.36	5,291	$ 27.30

The stock options outstanding and exercisable as at December 31, 2005, by exercise price, are as follows:

	Options Outstanding			**Options Exercisable**	
Range of exercise prices	**Number of Stock Options (Thousands)**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number of Stock Options (Thousands)**	**Weighted Average Exercise Price**
$19.05 to $24.30	**3,163**	**6.26**	**$ 22.17**	**1,914**	**$ 22.24**
$25.28 to $30.91	**3,645**	**6.03**	**28.49**	**2,362**	**28.63**
$31.00 to $33.20	**1,830**	**6.18**	**32.75**	**1,396**	**32.65**
$36.50 to $44.73	**1,411**	**8.96**	**40.41**	**78**	**36.65**
	10,049	**6.54**	**$ 28.95**	**5,750**	**$ 27.59**

The weighted average fair values of the stock options, calculated using the Black-Scholes option-pricing model, granted during the year ended December 31, 2005, was $9.68 ($9.81 and $7.61 for 2004 and 2003, respectively). The Black-Scholes option-pricing model used the following assumptions to determine the fair value of options granted during the year:

Weighted average assumptions	**2005**	2004	2003
Risk-free interest rate	**4.3%**	4.5%	5.0%
Expected volatility	**20.0%**	24.8%	25.0%
Dividend yield	**2.4%**	2.3%	2.5%
Expected life of the option (in years)	**5.6**	7.0	7.0

Option expenses of $9 in 2005 ($11 and $26 in 2004 and 2003, respectively) were recognized in operating expenses in the consolidated statements of operations. For the options issued prior to January 1, 2002, and valued using the intrinsic value method, no compensation expense was recognized as the option's exercise price was not less than the market price of the underlying stock on the day of grant.

B) EMPLOYEE SHARE OWNERSHIP PLAN

The Company matches employees' contributions to the Sun Life Financial Employee Stock Plan (Plan) for eligible employees in Canada who may contribute from 1% to 20% of their base earnings to the Plan. The Company matches 50% of the lower of the employee contributions and 5% of the employee's base earnings to an annual maximum of one thousand five hundred dollars. The Company's contributions vest immediately and are expensed.

C) OTHER STOCK-BASED COMPENSATION PLANS

All other stock-based compensation plans use notional units that are valued based on Sun Life Financial Inc.'s common share price on the TSX. Any fluctuation in Sun Life Financial Inc.'s common share price changes the value of the units, which affects the Company's stock-based compensation expense. Upon redemption of these units, payments are made to the employees with a corresponding reduction in the accrued liability. The Company uses equity swaps and forwards to hedge its exposure to variations in cash flows due to changes in Sun Life Financial Inc.'s common share price for all of these plans.

Details of these plans are as follows:

Senior Executives' Deferred Share Unit (DSU) Plan: Under the DSU plan, designated executives may elect to receive all or a portion of their annual incentive award in the form of DSUs. Each DSU is equivalent to one common share and earns dividend equivalents in the form of additional DSUs at the same rate as the dividends on common shares. The designated executives must elect to participate in the plan prior to the beginning of the plan year and this election is irrevocable. Awards generally vest immediately, however, participants are not permitted to redeem the DSUs until termination, death or retirement. The value at the time of redemption will be based on the fair market value of the common shares immediately before their conversion.

Restricted Share Unit (RSU) Plan: Under the RSU plan, participants are granted units that are equivalent to one common share and have a fair market value of a common share on the date of grant. Plan participants must hold RSUs for 36 months from the date of grant. RSUs earn dividend equivalents in the form of additional RSUs at the same rate as the dividends on common shares. The redemption value is the fair market value of an equal number of common shares.

18. Stock-Based Compensation (Cont'd)

Performance Share Unit (PSU) Plan: Under the PSU plan, participants are granted units that are the equivalent to one common share and have a fair market value of a common share on the date of grant. Plan participants must hold PSUs for 36 months from the date of grant. PSUs earn dividend equivalents in the form of additional PSUs at the same rate as the dividends on common shares. No PSUs will vest or become payable unless the Company meets its threshold targets with respect to specified performance targets. The plan provides for an enhanced payout if the Company achieves superior levels of performance to motivate participants to achieve a higher return for shareholders. Payments to participants are based on the number of PSUs earned multiplied by the market value of the common shares at the end of the three-year performance period.

Expenses and outstanding units: The outstanding units and expenses recorded to operating expenses in the consolidated statements of operations are summarized in the following table. Since expenses for the DSUs are accrued as part of incentive compensation in the year awarded, the expenses below do not include these accruals. The expenses presented in the table that follows include increases in the liabilities for DSUs, RSUs and PSUs due to changes in the fair market value of the common shares of Sun Life Financial Inc. and the accruals of the RSU and PSU liabilities over the vesting period, and exclude any reduction in expenses due to the impact of hedging.

	2005	2004	2003
Number of units (in thousands):			
Deferred share units	**587**	542	582
Restricted share units	**2,080**	1,644	664
Performance share units	**461**	273	—
Expense recorded (in millions)	**$ 46**	$ 30	$ 9

D) STOCK-BASED COMPENSATION PLANS OF SUBSIDIARIES

A subsidiary of the Company grants stock options exercisable for shares of the subsidiary and restricted stock awards of the subsidiary. The restricted stock awards were granted in 2005 and under the terms of this plan, shares are granted but vesting requirements must be met in order for employees to have full ownership rights to these shares. The restricted stock awards vest over a 5-year period. The stock options granted in 2005 vest over a 4-year period. No stock based compensation awards were granted in 2004. Options granted in 2003 vested immediately.

The outstanding awards and expenses recorded to operating expenses in the consolidated statements of operations for these awards are summarized as follows:

	2005	2004	2003
Awards outstanding (in thousands)	**192**	140	172
Expense recorded (in millions)	**$ 13**	$ —	$ 6

19. Income Taxes

In the consolidated statements of operations, the income tax expense for the Company's worldwide operations has the following components:

	2005	2004*	2003*
Canadian income tax expense:			
Current	**$ 127**	$ 98	$ 61
Future	**151**	95	192
Total	**278**	193	253
Foreign income tax expense (benefit):			
Current	**327**	(67)	235
Future	**(74)**	137	(131)
Total	**253**	70	104
Total income taxes expense	**$ 531**	$ 263	$ 357

* As restated for adoption of AcG 15 (Note 2).

The after-tax undistributed earnings of most non-Canadian subsidiaries would be taxed only upon their repatriation to Canada. The Company recognizes a future tax liability, if any, on these undistributed earnings to the extent that management expects they will be repatriated in the foreseeable future. To the extent repatriation of such earnings is not currently planned, the Company has not recognized the future tax liability. If the undistributed earnings of all non-Canadian subsidiaries not currently planned were repatriated, additional taxes that would be payable are estimated to be $75 as at December 31, 2005 ($63 and $67 in 2004 and 2003, respectively).

19. Income Taxes (Cont'd)

The Company's effective worldwide income tax rate differs from the combined Canadian federal and provincial statutory income tax rate, as follows:

	2005		2004*		2003*	
		%		%		%
Total net income	**$ 1,876**		$ 1,693		$ 1,306	
Add: Income taxes expense	**531**		263		357	
Non-controlling interests in net income of subsidiaries	**23**		28		14	
Total net income before income taxes and non-controlling interests in net income of subsidiaries	**$ 2,430**		$ 1,984		$ 1,677	
Taxes at the combined Canadian federal and provincial statutory income tax rate	**$ 850**	**35.0**	$ 655	33.0	$ 579	34.5
Increase (decrease) in rate resulting from:						
Higher (lower) effective rates on income subject to taxation in foreign jurisdictions	**(148)**	**(6.0)**	(259)	(13.1)	(134)	(8.0)
Tax (benefit) cost of unrecognized losses	**(35)**	**(1.5)**	(19)	(1.0)	(37)	(2.2)
Tax exempt investment income	**(114)**	**(4.7)**	(94)	(4.7)	(91)	(5.4)
Capital taxes	**8**	**0.3**	7	0.4	11	0.7
Changes to statutory income tax rates	**—**	**—**	—	—	29	1.7
Other	**(30)**	**(1.2)**	(27)	(1.4)	—	—
Company's effective worldwide income taxes	**$ 531**	**21.9**	$ 263	13.2	$ 357	21.3

* As restated for adoption of AcG 15 (Note 2).

The Company has accumulated tax losses, primarily in the United Kingdom, totalling $893 ($1,317 in 2004). The benefit of these tax losses has been recognized to the extent that they are more likely than not to be realized in the amount of $78 ($93 in 2004) in future income taxes. The Company will realize this benefit in future years through a reduction in current income taxes as and when the losses are utilized. These tax losses are subject to examination by various tax authorities and could be reduced as a result of the adjustments to tax returns. Furthermore, legislative, business or other changes may limit the Company's ability to utilize these losses.

The following are the future tax assets and liabilities in the consolidated balance sheets by source of temporary differences:

	2005		2004*	
	Assets	**Liabilities**	Assets	Liabilities
Investments	**$ 198**	**$ 395**	$ 196	$ 484
Actuarial liabilities	**18**	**(14)**	134	35
Deferred acquisition costs	**301**	**9**	300	(2)
Losses available for carry forward	**177**	**(2)**	250	(40)
Other	**74**	**114**	36	28
	768	**502**	916	505
Valuation allowance	**(101)**	**—**	(197)	—
Total	**$ 667**	**$ 502**	$ 719	$ 505

* As restated for adoption of AcG 15 (Note 2).

Future income taxes are the result of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The sources of these temporary differences and the recognized tax effects in the consolidated statements of operations are as follows:

	2005	2004*	2003*
Investments	**$ (107)**	$ (193)	$ (65)
Actuarial liabilities	**68**	126	113
Deferred acquisition costs	**2**	97	(144)
Losses (incurred) utilized	**10**	220	118
Other	**104**	(18)	39
Future income tax expense	**$ 77**	$ 232	$ 61

* As restated for adoption of AcG 15 (Note 2).

20. Commitments, Guarantees and Contingencies

A) LEASE COMMITMENTS

The Company leases offices and certain equipment. These are operating leases with rents charged to operations in the year to which they relate. Total future rental payments for the remainder of these leases are as follows:

	2006	2007	2008	2009	2010	Thereafter
Future rental payments	$ 103	$ 93	$ 56	$ 45	$ 37	$ 118

B) CONTRACTUAL COMMITMENTS

In the normal course of business, various contractual commitments are outstanding which are not reflected in the consolidated financial statements. At December 31, 2005, there were outstanding contractual commitments as follows:

	Expires in 30 Days	Expires in 31 to 365 Days	Expires 2007 or Later	Total
Contractual commitments	$ 218	$ 1,254	$ 694	$ 2,166

The majority of these commitments are to extend credit under commercial and residential mortgage loans and private placements.

C) LETTERS OF CREDIT

The Company issues commercial letters of credit in the normal course of business. At December 31, 2005, letters of credit in the amount of $209 have been issued.

D) INDEMNITIES

In the normal course of its business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, trade-mark licensing agreements, underwriting and agency agreements, information technology agreements, distribution agreements, financing agreements and service agreements. These agreements may require the Company to compensate the counterparties for damages, losses, or costs incurred by the counterparties as a result of breaches in representation, changes in regulations (including tax matters) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The Company has also agreed to indemnify its directors and certain of its officers and employees in accordance with the Company's by-laws. These indemnification provisions will vary based upon the nature and terms of the agreements. In many cases, these indemnification provisions do not contain limits on the Company's liability and the occurrence of contingent events that will trigger payment under these indemnities is difficult to predict. As a result, the Company cannot estimate its potential liability under these indemnities. The Company believes that the likelihood of conditions arising that would trigger these indemnities is remote and, historically, the Company has not made any significant payment under such indemnification provisions.

In certain cases, the Company has recourse against third parties with respect to the aforesaid indemnities and the Company also maintains insurance policies that may provide coverage against certain of these claims.

E) LEGAL AND REGULATORY PROCEEDINGS

Sun Life Financial Inc., MFS and certain of its subsidiaries, MFS Corporation Retirement Committee, various MFS funds, certain current and/or former Trustees of those MFS funds, and certain officers of MFS have been named as defendants in multiple lawsuits filed in U.S. federal and state courts. These lawsuits variously have been commenced as class actions or individual actions on behalf of investors who purchased, held or redeemed shares of the MFS funds during specified periods, as ERISA actions by participants in certain retirement plan accounts on behalf of those accounts, or as derivative actions on behalf of MFS funds. The lawsuits relating to market timing and related matters have been transferred to, and consolidated before, the United States District Court for the District of Maryland, as part of a multi-district litigation of market timing and related claims involving several other fund complexes (*In re Mutual Funds Investment Litigation (Alger, Columbia, Janus, MFS, One Group, Putnam, Allianz Dresdner), No.1:04-md-15863 (transfer began March 19, 2004)*). The market timing cases related to the MFS funds are *Riggs v. MFS et al., Case No. 04-CV-01162-JFM* (direct), *Hammerslough v. MFS et al., Case No. 04-MD-01620* (derivative), *Anita Walker v. MFS et al., Case No. 1:04-CV-01758* (ERISA) and *Reaves v. MFS Series Trust I, et al. Case No. 1:05-CV-02220-JFM (Class B Shares)*. The plaintiffs in these consolidated lawsuits generally seek injunctive relief including removal of the named Trustees, adviser and distributor, rescission of contracts and 12b-1 Plans, disgorgement of fees and profits, monetary damages, punitive damages, attorney's fees and costs, and other equitable and declaratory relief. Two lawsuits alleging improper brokerage allocation practices and excessive compensation are pending in the United States District Court for the District of Massachusetts (*Forsythe v. Sun Life Financial Inc., et al., No. 04cv10584 (GAO) (a consolidated action) and Marcus Dumond, et al. v. Massachusetts Financial Servs. Co., et al., No. 04cv11458 (GAO)*). The plaintiffs in these lawsuits generally seek compensatory damages, punitive damages, recovery of fees, rescission of contracts, an accounting, restitution, declaratory relief, equitable and/or injunctive relief and attorney's fees and costs.

The various lawsuits generally allege that some or all of the defendants (i) permitted or acquiesced in market timing and/or late trading in some of the MFS funds and, inadequately disclosed MFS' internal policies concerning market timing and such matters, (ii) received excessive compensation as fiduciaries to the MFS funds, or (iii) permitted or acquiesced in the improper use of fund assets by MFS to support the distribution of MFS fund shares and inadequately disclosed MFS's use of fund assets in this manner. The actions assert that some or all of the defendants violated U.S. federal securities laws, including the *Securities Act of 1933* and the *Securities Exchange Act of 1934*, the *Investment Company Act of 1940* and the *Investment Advisers Act of 1940*, the *Employee Retirement Income Security Act of 1974*, as well as fiduciary duties and other violations of common law. Insofar as any of these actions is appropriately brought derivatively on behalf of any of the MFS funds, any recovery will inure to the benefit of the MFS funds. In February, March and April 2005 the defendants filed separate motions to dismiss all claims of the various lawsuits (except Reaves, which has not been separately briefed), and hearings have been held on these motions.

20. Commitments, Guarantees and Contingencies (Cont'd)

On November 3, 2005, the district judge considering the motions to dismiss the Riggs and Hammerslough actions issued memoranda indicating that it intends to grant in part and deny in part defendants' motions in these actions. The judge will issue a formal order after the parties submit proposed orders consistent with the court's memoranda. Sun Life Financial cannot predict the outcome of these actions with certainty and is accordingly unable to determine the potential impact that they may have on Sun Life Financial's results of operations, financial position and cash flows at the present time. Additional lawsuits based upon similar allegations may be filed in the future.

In addition, Sun Life Financial Inc. and its subsidiaries are engaged in various other legal actions in the ordinary course of business, which are not expected to have a material adverse effect, individually or in the aggregate, on the consolidated financial position or results of operations of Sun Life Financial.

F) PROVISIONS IN THE UNITED KINGDOM

The Company's United Kingdom operations continue to be subject to regulatory overview in the United Kingdom, including the handling of complaints about mortgage endowments. Endowment policies were sometimes sold to provide customers with a method of repaying mortgage debt at the end of a mortgage term. The Company has regularly engaged in discussions with United Kingdom regulators with respect to these and other matters.

The Company has provisions for future costs and expenses relating to all reviews of past mortgage endowment and pension business sold in the United Kingdom, as components of both actuarial liabilities and other liabilities. At December 31, 2005, the combined provision was $73 ($121 in 2004).

21. Pension Plans and Other Post-Retirement Benefits

The following tables set forth the status of the defined benefit pension and other post-retirement benefit plans.

	Pension		Post-Retirement	
	2005	2004	**2005**	2004
Change in projected benefit obligation:				
Projected benefit obligation, January 1	**$ 2,190**	$ 2,053	**$ 293**	$ 291
Service cost	**56**	56	**7**	7
Interest cost	**123**	121	**17**	17
Actuarial losses (gains)	**344**	85	**39**	9
Benefits paid	**(87)**	(103)	**(12)**	(10)
Curtailments, settlements and plan amendments	**(34)**	1	**(4)**	(17)
Effect of changes in currency exchange rates	**(102)**	(23)	**(2)**	(4)
Projected benefit obligation, December 31 (1),(2)	**$ 2,490**	$ 2,190	**$ 338**	$ 293
Accumulated benefit obligation, December 31 (3)	**$ 2,343**	$ 2,019		
Change in plan assets:				
Fair value of plan assets, January 1	**$ 2,177**	$ 2,077	**$ —**	$ —
Net actual return on plan assets	**231**	200	**—**	—
Employer contributions	**35**	25	**12**	10
Benefits paid	**(87)**	(103)	**(12)**	(10)
Effect of changes in currency exchange rates	**(92)**	(22)	**—**	—
Fair value of plan assets, December 31 (1)	**$ 2,264**	$ 2,177	**$ —**	$ —
Net funded status, December 31	**$ (226)**	$ (13)	**$ (338)**	$ (293)
Unamortized net actuarial loss	**601**	394	**80**	45
Unamortized past service cost	**8**	11	**(22)**	(20)
Unamortized transition asset	**(108)**	(132)	**(9)**	(10)
Contributions (transfers), October 1 to December 31 (1)	**(1)**	(1)	**1**	1
Accrued benefit asset (liability), December 31 (1)	**$ 274**	$ 259	**$ (288)**	$ (277)
Balance sheet classification of accrued benefit asset (liability), December 31:				
Other assets	**$ 456**	$ 438	**$ —**	$ —
Other liabilities	**$ 182**	$ 179	**$ 288**	$ 277
Pension plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	**$ 1,715**	$ 1,496		
Plan assets	**$ 1,364**	$ 1,239		

21. Pension Plans and Other Post-Retirement Benefits (Cont'd)

Weighted average assumptions:

	Pensions		Post-retirement	
	To Measure Benefit Obligation as of the Plans' Measurement Date(1)	To Measure the Net Benefit Costs or Income for the Period	To Measure Benefit Obligation as of the Plans' Measurement Date(1)	To Measure the Net Benefit Costs or Income for the Period
Discount rate	**5.1%**	**5.8%**	**5.1%**	**6.0%**
Expected long-term rate of return on plan assets	**7.4%**	**7.2%**	**—**	**—**
Rate of compensation increase	**3.6%**	**3.9%**	**—**	**—**

(1) The measurement date for most of the plans in the United States is September 30. For all other defined benefit plans, the measurement date is December 31. For plans with a September 30 measurement date, contributions from October 1 to December 31 are reflected in the balance sheet for the current year but excluded from the September 30 plan asset balance.

(2) The date of the most recent actuarial valuation for funding purposes was January 1, 2005. The date of the next required actuarial valuation for funding purposes is January 1, 2006.

(3) The Accumulated Benefit Obligation is smaller than the Projected Benefit Obligation since it does not recognize projected future compensation increases.

Discount rate, return on plan assets and rate of compensation increase:

The major economic assumptions which are used in determining the actuarial present value of the accrued benefit obligations vary by country. In determining the discount rate for the Canadian plans, a yield curve for long term Corporate AA bonds is developed from the Government of Canada yield curve by adding an appropriate adjustment to reflect the risk characteristics of high-quality Corporate bonds. This curve is then used to calculate a level discount rate by reference to the spot yields on high-quality, non-callable, zero-coupon Corporate bonds with maturities that match the estimated benefit cash flows for the plan.

In determining the discount rate for the plans in the United States, a benchmark rate is used by referencing various published indexes such as the Merrill Lynch 10+ High Quality Index, 30-year Treasury Bonds, Moody's Aa, and Moody's Baa. The discount rate assumption is selected after considering the projected cash flows paid from the Company's United States benefit plans based on plan demographics, plan provisions, and the economic environment as of the measurement date.

The assumed rate of return on assets for pension cost purposes is the weighted average of expected long-term asset return assumptions by asset class and is selected from a range of possible future asset returns.

The rate of compensation increase is a long-term rate based on current expectations of future pay increases.

	Pension			**Post-Retirement**(1)		
	2005	2004	2003	**2005**	2004	2003
Components of defined benefit cost recognized:						
Service cost, curtailments and settlements	**$ 56**	$ 57	$ 54	**$ 7**	$ 7	$ 8
Plan amendments	**—**	1	3	**(4)**	(17)	—
Interest cost	**123**	121	112	**17**	17	17
Actual return on plan assets	**(231)**	(201)	(252)	**—**	—	—
Actuarial losses (gains)	**341**	84	185	**39**	9	26
Benefit cost before adjustments to recognize the long-term nature of defined benefit plans	**$ 289**	$ 62	$ 102	**$ 59**	$ 16	$ 51
Adjustments to recognize the long-term nature of defined benefit plans:						
Difference between expected and actual return on plan assets for year	**71**	41	99	**—**	—	—
Difference between actuarial losses (gains) recognized and actual actuarial losses (gains) on accrued benefit obligation for year	**(342)**	(74)	(170)	**(37)**	(7)	(25)
Difference between amortization of past service costs for year and actual plan amendments for year	**1**	1	(1)	**2**	16	—
Amortization of transition obligation (asset)	**(19)**	(20)	(20)	**(2)**	(2)	(2)
Total adjustments to defer costs to future periods	**$ (289)**	$ (52)	$ (92)	**$ (37)**	$ 7	$ (27)
Total benefit cost recognized	**$ —**	$ 10	$ 10	**$ 22**	$ 23	$ 24

(1) The assumed medical cost trend rate used in measuring the accumulated post-retirement benefits obligation in Canada in 2005 was 10%, decreasing by 0.5% each year until 2014, after which it remains at 5.5%. In the United States in 2005, the assumed rate was 10%, decreasing evenly to 5% by 2011, and remaining at that level thereafter. The assumed dental cost trend rate is 4.5% in Canada and 5% in the United States.

21. Pension Plans and Other Post-Retirement Benefits (Cont'd)

Health care cost calculations are based on trend rate assumptions which may differ from actual results. Changes in trend rate assumptions by 1% in either direction will change the health care cost as follows:

	1% Increase	1% Decrease
Effect on post-retirement benefit obligations	**$ 53**	**$ (45)**
Effect on aggregated service and interest costs	**$ 5**	**$ (4)**

Composition of fair value of plan assets, December 31:

	2005	2004
Equity investments	**49.7%**	48.0%
Fixed income investments	**43.4%**	44.7%
Real estate investments	**2.1%**	2.7%
Other	**4.8%**	4.6%
Total composition of fair value of plan assets	**100.0%**	100.0%

Target allocation of plan assets, December 31:

	2005	2004
Equity investments	**46.3%**	45.2%
Fixed income investments	**44.8%**	45.0%
Real estate investments	**5.3%**	5.1%
Other	**3.6%**	4.7%
Total	**100.0%**	100.0%

The assets of the defined benefit pension plans are primarily held in trust for plan members and are managed within the provisions of the plans' investment policies and procedures. Diversification of the investments is used to minimize credit, market and foreign currency risks. Due to the long-term nature of the pension obligations and related cash flows, asset mix decisions are based on long-term market outlooks within the specified tolerance ranges. The long-term investment objectives of the defined benefit pension plans are to exceed the real rate of investment return assumed in the actuarial valuation of plan liabilities. Over shorter periods, the objective of the defined benefit pension plans is to exceed the average market returns of a well-diversified portfolio. Liquidity is managed with consideration to the cash flow requirements of the liabilities.

Permitted investments of the defined benefit pension plans include guaranteed funds, annuities, as well as pooled and non-pooled variable accumulation funds in addition to any other investment vehicle approved by the plan sponsors which is eligible under pension regulations. The policy statement for each fund or manager mandate either prohibits, or permits, within specified constraints, the use of derivative instruments such as options and futures. The use of derivative instruments is limited to unleveraged substitution and hedging strategies. The defined benefit pension plans may not invest in securities of a related party or lend to any related party unless such securities are publicly traded and selected by the manager acting independently on behalf of all that manager's discretionary accounts or pooled funds which have mandates similar to that of the Company's defined benefit pension plans.

The following tables set forth the expected contributions and expected future benefit payments of the defined benefit pension and other post-retirement benefit plans.

	Pension	**Post-Retirement**	**Total**
Expected contributions for the next 12 months	**$ 18**	**$ 12**	**$ 30**

Expected future benefit payments

	2006	**2007**	**2008**	**2009**	**2010**	**2011-2015**
Pension	**$ 82**	**$ 86**	**$ 88**	**$ 92**	**$ 97**	**$ 564**
Post-retirement	**11**	**11**	**12**	**12**	**13**	**73**
Total	**$ 93**	**$ 97**	**$ 100**	**$ 104**	**$ 110**	**$ 637**

The total contribution made by the Company to defined contribution plans was $38 in 2005, $35 in 2004 and $35 in 2003.

22. Foreign Exchange Gain

In 2005, the Company reduced its net investment in its United Kingdom self-sustaining foreign operation. The reduction was a result of a capital restructuring whereby the foreign operation repaid capital of 450 U.K. Pounds. A foreign exchange gain of $74, equivalent to the proportionate amount of the foreign exchange gain accumulated in the currency translation account, was recognized in net investment income for the year ended December 31, 2005 (nil in 2004 and 2003). The adjustment for foreign exchange gain included in the consolidated statements of equity includes the foreign exchange loss from the disposal of Cuprum of $52 as described in Note 3.

23. Summary of Differences Between Accounting Principles Generally Accepted in Canada and in the United States

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada (Cdn. GAAP). These accounting principles differ in certain respects from accounting principles generally accepted in the United States (U.S. GAAP). The differing basis of accounting changes the incidence of profit recognition over its lifetime. Regardless of the accounting basis chosen, the total profit of an insurance contract will not change. The financial statement impact and a description of the material differences follow.

A) RECONCILIATION OF SELECTED CDN. GAAP FINANCIAL STATEMENT INFORMATION TO U.S. GAAP

i) Consolidated statements of operations:

	2005		2004		2003	
	Cdn. GAAP	**U.S. GAAP**	Cdn.* GAAP	U.S. GAAP	Cdn.* GAAP	U.S. GAAP
REVENUE						
Premiums	**$ 12,940**	**$ 7,135**	$ 12,903	$ 6,883	$ 13,543	$ 7,229
Net investment income	**6,079**	**6,030**	5,924	5,693	5,703	5,758
Net realized gains		**788**		793		373
Fee income	**2,899**	**2,965**	2,903	3,098	2,810	3,053
	21,918	**16,918**	21,730	16,467	22,056	16,413
POLICY BENEFITS AND EXPENSES						
Payments to policyholders, beneficiaries and depositors	**13,506**	**8,920**	13,114	9,218	13,470	9,159
Increase in actuarial liabilities	**872**	**1,274**	1,425	835	1,510	1,109
Acquisition expense amortization	**138**	**439**	179	473	234	613
Other expenses	**4,972**	**3,979**	5,028	3,838	5,165	4,096
	19,488	**14,612**	19,746	14,364	20,379	14,977
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	**2,430**	**2,306**	1,984	2,103	1,677	1,436
Income taxes expense	**531**	**445**	263	403	357	277
Non-controlling interests in net income of subsidiaries	**23**	**23**	28	35	14	14
INCOME BEFORE DIVIDENDS DECLARED ON PREFERRED SHARES	**1,876**	**1,838**	1,693	1,665	1,306	1,145
Less preferred share dividends	**24**	**24**	—	—	—	—
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	**1,852**	**1,814**	1,693	1,665	1,306	1,145
Cumulative effect of accounting changes, net of taxes		**—**		(179)		—
TOTAL NET INCOME	**1,852**	**1,814**	1,693	1,486	1,306	1,145
Less participating policyholders' net income (loss)	**9**	**—**	13	—	(1)	—
COMMON SHAREHOLDERS' NET INCOME	**$ 1,843**	**$ 1,814**	$ 1,680	$ 1,486	$ 1,307	$ 1,145
Earnings per share						
Basic						
Net operating income	**$ 3.14**	**$ 3.09**	$ 2.81	$ 2.78	$ 2.15	$ 1.88
Cumulative effect of accounting changes		**—**		(0.30)		—
Common shareholders' net income	**$ 3.14**	**$ 3.09**	$ 2.81	$ 2.48	$ 2.15	$ 1.88
Diluted						
Net operating income	**$ 3.12**	**$ 3.07**	$ 2.79	$ 2.77	$ 2.15	$ 1.88
Cumulative effect of accounting changes		**—**		(0.30)		—
Common shareholders' net income	**$ 3.12**	**$ 3.07**	$ 2.79	$ 2.47	$ 2.15	$ 1.88
Weighted average shares outstanding in millions						
Basic	**587**	**587**	599	599	608	608
Diluted	**590**	**590**	602	602	608	608

* As restated for adoption of AcG 15 (Note 2).

ii) Comprehensive income:

U.S. GAAP includes the concept of comprehensive income. Comprehensive income is a measure of changes in the equity of the Company during the year. It includes both net income and other comprehensive income (OCI). OCI includes the movement in the foreign currency translation account, unrealized gains and losses on available-for-sale securities as well as the income tax impact arising therefrom, changes to deferred acquisition costs, and other liabilities.

23. Summary of Differences Between Accounting Principles Generally Accepted in Canada and in the United States (Cont'd)

ii) Comprehensive income (Cont'd):

	2005	2004	2003
Total net income based on U.S. GAAP	**$ 1,838**	$ 1,486	$ 1,145
Other comprehensive income:			
Change in unrealized foreign currency translation gains and losses*	**(308)**	(437)	(1,688)
Unrealized gains on available for sale securities	**789**	721	1,207
Reclassification adjustment for (gains) losses included in net income	**(702)**	(354)	(711)
Changes to deferred acquisition costs and other liabilities	**19**	(535)	(320)
Changes in gains on derivatives designated as cash flow hedges	**12**	4	6
Other	**(11)**	—	(95)
Additional minimum pension liability	**(90)**	(30)	(17)
Income taxes	**(18)**	4	(133)
Shareholders' comprehensive income (loss)	**$ 1,529**	$ 859	$ (606)

* Shown as part of consolidated statements of equity under Cdn. GAAP.

iii) Consolidated balance sheets:

	2005		2004	
	Cdn. GAAP	**U.S. GAAP**	Cdn.* GAAP	U.S. GAAP
ASSETS				
Bonds	**$ 66,154**		$ 64,496	
Bonds — available for sale (amortized cost: 2005 — $57,870; 2004 — $57,120)		**$ 61,417**		$ 60,758
Bonds — trading		**4,377**		4,129
Mortgages and corporate loans	**14,561**	**18,639**	13,862	17,389
Stocks	**3,856**		3,463	
Stocks — available for sale (amortized cost: 2005 — $2,209; 2004 — $1,692)		**2,636**		2,059
Stocks — trading		**1,350**		1,317
Real estate, net of accumulated depreciation (accumulated depreciation: 2005 — $368; 2004 — $333)	**3,241**	**2,187**	3,148	2,208
Policy loans	**2,989**	**2,989**	2,936	2,936
Cash and cash equivalents	**2,740**	**2,733**	3,748	3,759
Short-term securities(1)	**2,351**	**2,349**	2,210	2,379
Other invested assets	**2,700**	**4,732**	3,048	3,579
Total invested assets	**98,592**	**103,409**	96,911	100,513
Deferred acquisition costs	**271**	**6,223**	362	5,704
Future income taxes(2)	**667**	**153**	719	4
Goodwill	**5,963**	**4,645**	5,471	4,527
Intangible assets	**801**	**803**	751	754
Other assets	**4,572**	**8,353**	3,589	8,569
Segregated funds assets(3)		**60,854**		56,555
Total consolidated assets	**$110,866**	**$184,440**	$107,803	$176,626
Segregated funds net assets(3)	**$ 60,984**		$ 56,564	
LIABILITIES AND EQUITY				
Actuarial liabilities	**$ 75,777**	**$ 48,597**	$ 74,258	$ 47,856
Contract holder deposits		**36,971**		37,085
Other policy liabilities	**1,712**	**3,278**	1,798	3,022
Amounts on deposit	**3,382**	**3,375**	3,144	3,136
Future income taxes(2)	**502**	**1,131**	505	1,032
Deferred net realized gains	**3,859**		3,466	
Senior debentures	**2,492**	**2,492**	1,920	1,920
Other liabilities	**6,090**	**9,048**	6,647	8,371
Total consolidated liabilities	**93,814**	**104,892**	91,738	102,422
Subordinated debt	**1,456**	**1,456**	1,462	1,462
Non-controlling interests in subsidiaries	**50**	**50**	188	195
Segregated funds liabilities(3)		**60,854**		56,555
Equity	**15,546**	**17,188**	14,415	15,992
Total consolidated liabilities and equity	**$110,866**	**$184,440**	$107,803	$176,626
Segregated funds contract liabilities(3)	**$ 60,984**		$ 56,564	

* As restated for adoption of AcG 15 (Note 2).

(1) U.S. GAAP terminology is short-term investments.
(2) U.S. GAAP terminology is deferred income tax.
(3) U.S. GAAP terminology is separate accounts.

23. Summary of Differences Between Accounting Principles Generally Accepted in Canada and in the United States (Cont'd)

iv) Consolidated statements of equity:

	2005		2004	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP
PARTICIPATING POLICYHOLDERS' CAPITAL ACCOUNT:				
Balance, January 1	**$ 85**	**$**	$ 72	$
Net income attributed to participating policyholders	**9**		13	
Balance, December 31	**94**		85	
SHAREHOLDERS' EQUITY:				
PREFERRED SHARES				
Balance, January 1	**725**	**725**	—	—
Shares issued, net of issuance costs	**(13)**	**(13)**	—	—
Balance, December 31	**712**	**712**	—	—
PAID IN CAPITAL				
Balance, January 1	**7,308**	**13,345**	7,365	13,495
Common shares issued, net of issuance costs, as consideration for business acquisition(1)	—	—	—	—
Stock options exercised(2)	**78**	**78**	58	58
Common shares purchased for cancellation (1)	**(164)**	**(301)**	(126)	(230)
Stock option compensation(3)	**17**	**17**	11	12
Subsidiary equity transaction		**9**		10
Balance, December 31	**7,239**	**13,148**	7,308	13,345
RETAINED EARNINGS				
Balance, January 1	**8,116**	**2,907**	7,212	2,094
Adjustment for change in accounting policy	**3**	**—**	4	—
Balance, beginning of period, as restated	**8,119**	**2,907**	7,216	2,094
Net income for the period attributed to shareholders	**1,867**	**1,838**	1,680	1,486
Dividends on common shares	**(581)**	**(581)**	(515)	(515)
Dividends on preferred shares	**(24)**	**(24)**	—	—
Common shares purchased for cancellation	**(380)**	**(243)**	(262)	(158)
Balance, December 31	**9,001**	**3,897**	8,119	2,907
CURRENCY TRANSLATION ACCOUNT				
Balance, January 1	**(1,097)**	**(1,270)**	(673)	(833)
Changes for the period	**(403)**	**(308)**	(424)	(437)
Balance, December 31	**(1,500)**	**(1,578)**	(1,097)	(1,270)
ACCUMULATED UNREALIZED GAINS AND LOSSES				
Unrealized gains on available-for-sale securities		**2,696**		2,694
Gains on derivatives designated as cash flow hedges		**6**		1
Deferred acquisition costs and other liabilities		**(1,557)**		(1,615)
Additional minimum pension liability		**(136)**		(70)
Balance, December 31		**1,009**		1,010
TOTAL EQUITY	**$ 15,546**	**$ 17,188**	$ 14,415	$ 15,992

(1) Shown as share capital under Cdn. GAAP.
(2) Shown as share capital and contributed surplus under Cdn. GAAP.
(3) Shown as contributed surplus under Cdn. GAAP.

23. Summary of Differences Between Accounting Principles Generally Accepted in Canada and in the United States (Cont'd)

v) Effect of differences between Cdn. GAAP and U.S. GAAP net income:

For the differences between Cdn. GAAP and U.S. GAAP net income listed below, please refer to the following section for a description of the differences in accounting policies.

	2005	2004*	2003*
Total net income in accordance with Cdn. GAAP	**$ 1,876**	$ 1,693	$ 1,306
Adjustments related to:			
Investments			
Bonds	**208**	266	274
Stocks and segregated fund units	**265**	229	(14)
Derivative instruments	**493**	117	453
Real estate	**(54)**	5	(83)
Total investments	**912**	617	630
Deferred acquisition costs			
Deferred acquisition costs — deferred	**720**	909	860
Deferred acquisition costs — amortization and interest	**(301)**	(290)	(440)
Total deferred acquisition costs	**419**	619	420
Actuarial liabilities and other policyholder revenues and expenses			
Premium and fees revenue	**(5,448)**	(5,528)	(5,786)
Payments to policyholders, beneficiaries and depositors	**4,586**	3,896	4,311
Actuarial liabilities	**(402)**	590	401
Total actuarial liabilities and other policyholder revenues and expenses	**(1,264)**	(1,042)	(1,074)
Other	**(191)**	(82)	(247)
Income tax effect of above adjustments	**86**	(140)	110
Change in accounting policy	**—**	(179)	—
Redemption premiums	**—**	—	—
Total net income in accordance with U.S. GAAP	**$ 1,838**	$ 1,486	$ 1,145

* As restated for adoption of AcG 15 (Note 2).

B) SIGNIFICANT ACCOUNTING POLICY DIFFERENCES BETWEEN CDN. GAAP AND U.S. GAAP APPLICABLE TO THE COMPANY

The Cdn. GAAP accounting and actuarial policies are discussed in Notes 1 and 10, respectively.

	Cdn. GAAP	U.S. GAAP
Bonds	Bonds are carried at amortized cost. Realized gains and losses are deferred and amortized to income using the constant yield method over the remaining period to maturity.	Bonds are carried at market value. The bonds are classified as available for sale or trading. Unrealized gains and losses are included in other comprehensive income if classified as available for sale, and included in net income if classified as trading. Realized gains and losses are included in net income immediately. Certain bonds are included in mortgages and corporate loans, as they do not meet the definition of a security.
Stocks	Stocks are originally recorded at cost. The carrying value is adjusted towards the fair value at 5% of the difference between fair value and carrying value per quarter. Realized gains and losses are deferred and amortized into net investment income at the rate of 5% of the unamortized balance each quarter. The Company records a write-down for any other than temporary decline in the value of the entire stock portfolio.	Stocks are carried at market value. The stocks are classified as available for sale or trading. Unrealized gains and losses are included in other comprehensive income if classified as available for sale, and included in net income if classified as trading. Other than temporary declines in the value of stock result in a write-down charged to income.
Real Estate	Real estate held for investment is originally recorded at cost. The carrying value is adjusted towards the fair value at 3% of the difference between fair value and carrying value per quarter. Realized gains and losses on sales are deferred and amortized into net investment income at the rate of 3% of the unamortized balance each quarter. The Company records a write-down for any other than temporary decline in the value of the entire real estate portfolio.	Real estate held for investment is carried at depreciated cost. Realized gains and losses on sales are reflected in income immediately. Other than temporary declines in value of specific properties result in a write-down charged to income.

23. Summary of Differences Between Accounting Principles Generally Accepted in Canada and in the United States (Cont'd)

	Cdn. GAAP	U.S. GAAP
Derivatives	Most of the Company's derivatives are accounted for as either fixed term portfolio investments or equity portfolio investments. Fixed term portfolio investment accounting reports investments at amortized cost. Equity portfolio investments are carried at a value calculated using a moving average market method. Realized gains and losses on the derivatives are deferred and amortized into net investment income. Certain derivative instruments are classified as hedges and either accounted for using hedge accounting or fair value accounting. Under hedge accounting, the accounting for the derivative follows the underlying asset or liability that is being hedged. Under fair value accounting, the derivative instrument is recorded at fair value on the balance sheet with increases or decreases recorded to net investment income. Foreign exchange exposure of an anticipated purchase transaction may qualify for hedge accounting.	Derivative instruments are carried at their fair values. Changes in fair values of derivatives that are not hedges are recorded in income as they arise. For fair value hedges, the gain or loss on the derivative as well as the related offsetting adjustment to the carrying value of the hedged item for the effective portion of the hedging derivative are recognized in income. For cash flow hedges, the effective portion of the changes in the fair value of the derivatives is recorded in other comprehensive income and the ineffective portion is recognized in income. If an option within an insurance contract has economic characteristics that are different from that of the insurance contract and the option meets the definition of a derivative instrument, the option is known as an embedded derivative. The embedded derivatives are separately accounted for as stand-alone derivatives and carried at fair values with the changes in fair value recorded in income. Foreign exchange exposure of an anticipated purchase transaction would not qualify for hedge accounting.
Deferred acquisition costs	Costs of acquiring new insurance and annuity business, primarily commissions; underwriting; issue expenses and agency expenses are implicitly recognized in actuarial liabilities for most of the policies.	Acquisition costs are deferred and recorded as an asset. Amortization of such costs is dependent on the product to which the costs relate. For participating life insurance contracts, except for participating policies in the United Kingdom, amortization is based on a constant percentage of gross margin. For universal life and investment-type contracts, amortization is based on a constant percentage of gross profit. For other non-participating products, including term, group and disability insurance, as well as participating policies in the United Kingdom, amortization is based on a constant percentage of premium. In cases where amortization is based on gross profit or margin, and available-for-sale bonds or stocks are used to support the underlying contract liability or actuarial reserve, a portion of the unrealized gains and losses balance is removed from equity and netted against the deferred acquisition cost balance.
Actuarial liabilities and contract holder deposits	Actuarial liabilities are calculated in accordance with Canadian generally accepted actuarial practice. This method uses best estimate assumptions for future experience factors adjusted to provide modest margins for adverse deviation in each experience factor.	The actuarial liabilities for participating life policies, except those in the United Kingdom, are computed using a net level premium reserve method with interest and mortality assumptions based primarily upon those assumptions used for establishing the cash surrender values in the contract. For universal life-type and investment contracts, contract holder deposits represent account balances and U.S. GAAP liabilities primarily equal account value balances. The account values represent an accumulation of gross deposits received plus credited interest less withdrawals, expenses and mortality charges. Other non-participating products include term, group and disability insurance. For these products, as well as participating contracts in the United Kingdom, a net level premium method is used with assumptions locked in at time of issue, unless the business is in a loss recognition position, in which case a best estimate gross premium valuation is used.
Deferred net realized gains	Realized gains and losses on sales of invested assets are deferred and amortized.	Realized gains and losses are recognized in income immediately.

23. Summary of Differences Between Accounting Principles Generally Accepted in Canada and in the United States (Cont'd)

	Cdn. GAAP	U.S. GAAP
Premium revenue, fee income, maturities and surrenders, and interest on claims and deposits	Premiums for universal life and other investment-type contracts are recorded as revenue, and a liability for future policy benefits is established as a charge to income. Interest accrued on contracts is shown as an increase in actuarial liabilities. Payments to contract holders upon maturity are reflected as an expense with an offsetting reduction to the increase in actuarial liabilities.	Amounts received for universal life and investment-type contracts are not included in the income statement but are reported as deposits to contract holder account balances. Revenues from these contracts are limited to amounts assessed against policyholders' account balances for mortality, policy administration and surrender charges, and are included in fee income when earned. Interest accrued on contracts is included in interest on claims and deposits. Payments upon maturity or surrender are reflected as reductions to the contract holder deposits on the balance sheet. Other payments in excess of the account value, such as death claims, are reflected as an expense.
Minimum pension liability	There is no requirement to record the additional minimum pension liability.	For a defined benefit pension plan, an additional minimum pension liability is required to be recognized if an unfunded Accumulated Benefit Obligation (ABO) exists and (i) an accrued benefit asset is recorded, or (ii) an accrued benefit liability is recorded for an amount less than the unfunded ABO. The additional minimum liability is calculated by reference to the excess of the ABO, which is smaller than the Projected Benefit Obligation (PBO) since it does not recognize projected future compensation increases, over the fair value of plan assets. If an additional minimum liability is required to be recognized for a defined benefit pension plan, an intangible asset is recorded up to the amount of any unamortized past service cost, and/or unamortized transitional obligation with any remaining excess recorded as part of other comprehensive income. The additional minimum liability is recorded as an accrued benefit liability.
Redemption of subordinated debts	Redemption premiums are recorded once an obligation to redeem the principal amount of capital debentures is incurred.	Redemption premiums are recorded when the principal amount of the capital debentures is redeemed.
Cumulative translation adjustment	A proportionate amount of the exchange gain or loss accumulated in the separate component of shareholders' equity is reflected in net income when there is a reduction in the Company's net investment in a foreign operation resulting from a capital transaction, dilution, or sale of all or part of the foreign operation.	A proportionate amount of exchange gains or losses accumulated in the separate component of shareholders' equity is reflected in net income only when there is a reduction in the Company's net investment in the foreign operation resulting from the sale of all or part of the foreign operation.
Guarantees	Disclosure is required for all significant guarantees provided by the Company.	In addition to the disclosure requirements, for all guarantees issued or modified after December 31, 2002, recognition of a liability is required at the fair value of the obligation assumed.
Future income tax asset and liability(1)	Future income tax liabilities and assets are recognized based on the differences between the accounting values of assets and liabilities and their related tax bases using income tax rates of enacted or substantially enacted tax law.	Future income tax liabilities and assets are recorded based on income tax rates of currently enacted tax law. Differences in the provisions for income taxes arise from differing accounting policies for assets and liabilities, and differences in the recognition of tax rate changes are disclosed in part C (vii) of this note.
Segregated funds(2)	Assets and liabilities of segregated funds are shown separately from general assets and liabilities of the Company. The Company's investment in segregated funds is included in other invested assets.	Assets and liabilities are called separate accounts and are required to be included within the financial statements of the Company. Any excess of the separate account assets over separate account liabilities primarily represents the Company's investment in segregated funds. The Company's investment in separate accounts is included in other invested assets, consistent with Cdn. GAAP.

(1) U.S. GAAP terminology is deferred income tax.
(2) U.S. GAAP terminology is separate accounts.

23. Summary of Differences Between Accounting Principles Generally Accepted in Canada and in the United States (Cont'd)

C) ADDITIONAL INFORMATION REQUIRED TO BE REPORTED UNDER U.S. GAAP

i) Realized gains (losses) from sales and redemptions of available-for-sale securities included in net realized gains:

	2005	2004	2003
Bonds:			
Gross realized gains	**$ 618**	$ 698	$ 618
Gross realized losses	**$ (122)**	$ (216)	$ (266)
Stocks:			
Gross realized gains	**$ 217**	$ 233	$ 27
Gross realized losses	**$ (65)**	$ (51)	$ (91)

ii) Change in net unrealized gains included in net investment income for securities classified as trading:

	2005	2004	2003
Bonds	**$ 12**	$ 41	$ 54
Stocks	**$ 348**	$ 201	$ 113

iii) Real estate: The depreciation expense included in the U.S. GAAP other expenses is as follows:

	2005	2004	2003
Depreciation expense	**$ 56**	$ 59	$ 37

iv) Derivatives: When the Company enters into a derivative contract, management decides if the derivative should be designated as a hedge of an identified risk exposure and documented in order to obtain hedge accounting following the requirements of Statement of Financial Accounting Standards No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities. With the exceptions noted below, hedge accounting is not pursued under SFAS 133 for most derivative instruments, and the derivatives are recorded on the balance sheet at their fair values with changes in their fair values reported in net investment income. As at December 31, 2005, the Company had equity forwards designated as cash flow hedges of the anticipated payments of awards under certain stock-based compensation plans expected to occur in 2007 and 2008. The difference between the forward price and the spot price of these forwards is excluded from the assessment of hedge effectiveness and was recorded in net investment income in 2004 and 2005. A portion of the amount included in OCI related to these forwards is reclassified to income as the liability is accrued for the stock-based compensation awards over the vesting period. In 2004, the Company had designated certain interest rate swaps as cash flow hedges of the interest rate risk relating to a floating rate loan. These swaps expired in 2005.

Additional information pertaining to these cash flow hedges is as follows:

	2005	2004
Change in fair value	**$ 8**	$ 3
Amount reclassified from OCI to income during the reporting period	**$ 4**	$ 1
Amount expected to be reclassified to income during the next 12 months	**$ 3**	$ 1
Component of loss excluded from hedge effectiveness assessment	**$ 2**	$ 2

The above numbers are all net of income taxes. There was no ineffectiveness from these hedges reported to net income in 2005 and 2004.

In both 2004 and 2005, the Company designated certain cross currency interest rate swaps and forwards as hedges of the currency exposure of net investments in foreign operations. The gain (loss) on these derivatives of $46 is included in the foreign currency translation account movement for 2005 ($85 in 2004) in the statements of comprehensive income. In 2005, the Company designated certain cross currency interest rate swaps as fair value hedges of the foreign currency exposure on foreign currency bonds. There was no ineffectiveness recorded to net income for any of these hedges**.**

23. Summary of Differences Between Accounting Principles Generally Accepted in Canada and in the United States (Cont'd)

v) Unrealized loss positions for which an other than temporary impairment has not been recognized

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual available-for-sale securities have been in a continuous unrealized loss position, at December 31, 2005.

	Less than 12 months		12 months or more		Total	
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities	$ 16,140	$ (322)	$ 3,755	$ (255)	$ 19,895	$ (577)
Common stock	174	(21)	40	(20)	214	(41)
Total temporarily impaired securities	$ 16,314	$ (343)	$ 3,795	$ (275)	$ 20,109	$ (618)

Available for sale debt securities have generally been identified as temporarily impaired if their amortized cost as at December 31, 2005, was greater than their fair value, resulting in an unrealized loss. Unrealized gains and losses in respect of investments designated as trading have been included in net income and have been excluded from the above table.

Unrealized losses are largely due to interest rate fluctuations and/or depressed fair values in sectors which have experienced unusually strong negative market reactions. In connection with the Company's asset/liability management practices, and based on a review of these investment holdings, it is believed that the contractual terms of these debt securities will be met and/or the Company can hold these investments until recovery in value.

A total of 3,101 debt securities were in an unrealized loss position at December 31, 2005, of which 2,460 were in a continuous loss position for less than 12 months and 641 positions for 12 months or more. Of the 2,460 debt securities, unrealized losses less than 12 months included 1,705 positions with an aggregate fair value of $6,060 (302 positions with an aggregate fair value of $514 for 12 months or more) having unrealized losses of less than one hundred thousand dollars per individual holding. A total of 107 common stock positions were in a loss position at December 31, 2005, of which 83 were in a continuous loss position for less than 12 months and 24 positions for 12 months or more. Of the 83 common stock positions, unrealized losses less than 12 months included 53 positions with an aggregate fair value of $39 (12 positions with an aggregate fair value of $3 for 12 months or more) having unrealized losses of less than one hundred thousand dollars per individual holding.

vi) Stock-based compensation: The intrinsic value method of accounting was used to account for stock options that were granted in 2001 under Cdn. and U.S. GAAP. In 2002, the Company changed its accounting policy for stock options granted to employees from the intrinsic value method to the fair value method effective January 1, 2002, on a prospective basis. Had the fair value method been used for the options granted in 2001, there would have been no net income impact for the year ended December 31, 2005 ($2 reduction in net income in 2004 and $6 in 2003). Basic and diluted earnings per share for 2005 and 2004 would not have been impacted while both basic and diluted earnings per share for 2003 would have been reduced by $0.01.

23. Summary of Differences Between Accounting Principles Generally Accepted in Canada and in the United States (Cont'd)

vii) Future income tax asset and liability (1)**:** Differences between Cdn. GAAP and U.S. GAAP that arise from differing accounting policies for assets and liabilities and differences in the recognition of tax rate changes are as follows:

	2005			
	Future Income Tax Asset(1)		**Future Income Tax Liability(1)**	
	Cdn. GAAP	**U.S. GAAP**	**Cdn. GAAP**	**U.S. GAAP**
Investments	**$ 198**	**$ (208)**	**$ 395**	**$ 1,852**
Actuarial liabilities	**18**	**978**	**(14)**	**(2,159)**
Deferred acquisition costs	**301**	**(506)**	**9**	**1,081**
Losses available for carry forward	**177**	**14**	**(2)**	**(166)**
Other	**74**	**(119)**	**114**	**478**
Future tax asset/liability before valuation allowance	**768**	**159**	**502**	**1,086**
Valuation allowance	**(101)**	**(6)**	**—**	**45**
Total	**$ 667**	**$ 153**	**$ 502**	**$ 1,131**

	2004			
	Future Income Tax Asset (1)		Future Income Tax Liability (1)	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Investments	$ 196	$ (262)	$ 484	$ 1,804
Actuarial liabilities	134	688	35	(2,424)
Deferred acquisition costs	300	(446)	(2)	682
Losses available for carry forward	250	16	(40)	(277)
Other	36	8	28	880
Future tax asset/liability before valuation allowance	916	4	505	665
Valuation allowance	(197)	—	—	367
Total	$ 719	$ 4	$ 505	$ 1,032

(1) U.S. GAAP terminology is deferred income tax.

viii) Acquisition: The Company acquired all of the outstanding common shares of CMG Asia effective October 18, 2005, as described in Note 3. The following amounts of the assets, liabilities and goodwill at the dates of acquisition under Cdn. and U.S. GAAP are different due to the different accounting policies used for the two standards.

	CMG Asia	
	Cdn. GAAP	**U.S. GAAP**
Invested assets acquired	**$ 1,548**	**$ 1,548**
Other assets acquired(1)	**122**	**422**
Segregated funds assets acquired	**—**	**532**
	1,670	**2,502**
Actuarial liabilities and other policy liabilities acquired	**1,453**	**1,344**
Amounts on deposit acquired	**159**	**159**
Other liabilities acquired	**40**	**38**
Segregated funds liabilities acquired	**—**	**532**
	1,652	**2,073**
Net balance sheet assets acquired	**$ 18**	**$ 429**
Considerations given:		
Cash cost of acquisition	**$ 535(2)**	**$ 513**
Transaction and other related costs	**9**	**9**
	$ 544	**$ 522**
Goodwill on acquisition	**$ 526**	**$ 93**

(1) Other assets acquired included value of business acquired of $287 under U.S. GAAP.

(2) Includes the cost to hedge the foreign exchange exposure of the purchase price.

23. Summary of Differences Between Accounting Principles Generally Accepted in Canada and in the United States (Cont'd)

The following supplemental unaudited pro forma information has been prepared to give effect to the acquisition of CMG Asia, as if the transaction had been completed at the beginning of 2003. This information is calculated by combining the results of operations of the Company for 2005, 2004 and 2003 with that of CMG Asia prior to the acquisition date. The pro forma information is not intended to reflect what would have actually resulted had the transaction been completed at the beginning of 2003 or what may be obtained in the future. Where applicable the impact of synergy savings and integration costs arising from the acquisition have been reflected.

Supplemental unaudited pro forma condensed information:

	2005	2004	2003
Revenue	**$ 17,136**	$ 16,809	$ 16,767
Total common shareholders' net income before realized gains	**$ 1,034**	$ 709	$ 792
Net realized gains	**791**	810	383
Common shareholders' net income	**1,825**	1,519	1,175
Weighted average number of shares outstanding (in millions)	**587**	599	608
Basic earnings per share	**$ 3.11**	$ 2.54	$ 1.93
Shareholders' net income on a diluted basis	**$ 1,820**	$ 1,517	$ 1,175
Weighted average number of shares outstanding on a diluted basis (in millions)	**590**	602	608
Diluted earnings per share	**$ 3.08**	$ 2.52	$ 1.93

ix) Earnings per share:

Details of the calculation of the net income and the weighted average number of shares used in the earnings per share computations are as follows:

	2005		2004		2003	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Common shareholders' net income before cumulative effect of accounting changes	**$ 1,843**	**$ 1,814**	$ 1,680	$ 1,665	$ 1,307	$ 1,145
Cumulative effect of accounting changes, net of income taxes		**—**		(179)		—
Common shareholders' net income	**$ 1,843**	**$ 1,814**	$ 1,680	$ 1,486	$ 1,307	$ 1,145
Less: Effect of stock options of subsidiaries	**5**	**5**	2	2	—	—
Common shareholders' net income on a diluted basis	**$ 1,838**	**$ 1,809**	$ 1,678	$ 1,484	$ 1,307	$ 1,145
Weighted average number of shares outstanding (in millions)	**587**	**587**	599	599	608	608
Add: Adjustments relating to the dilutive impact of stock options	**3**	**3**	3	3	—	—
Weighted average number of shares outstanding on a diluted basis (in millions)	**590**	**590**	602	602	608	608

x) Statements of cash flows: Under Cdn. GAAP, deposits, maturities and withdrawals related to investment-type contracts and universal life contracts are included in operating activities. Under U.S. GAAP, deposits, maturities and withdrawals are reflected as financing activities; these cash flow items are as follows:

	2005	2004	2003
Deposits and withdrawals reclassified to financing activities:			
Deposits to policyholders' accounts	**$ 6,401**	$ 5,656	$ 6,102
Withdrawals from policyholders' accounts	**$ 6,021**	$ 5,986	$ 6,363

xi) Guarantees: No material guarantees were identified that required recognition in these consolidated financial statements.

xii) Liabilities for Contract Guarantees: The Company offers various guarantees to certain policyholders including a return of no less than (a) total deposits made on the contract less any customer withdrawals, (b) total deposits made on the contract less any customer withdrawals plus a minimum return, or (c) the highest contract value on a specified anniversary date minus any customer withdrawals following the contract anniversary. These guarantees include benefits that are payable in the event of death, upon annuitization, or at specified dates during the accumulation period of an annuity.

For policies with a guaranteed minimum death benefit, the net amount at risk represents the excess of the value of the guaranteed minimum death benefit over the account value. This is a hypothetical amount that would only have been payable on December 31, 2005, had all of the policyholders died on that date. For policies with a guaranteed minimum income benefit, the net amount at risk represents the excess of the cost

of an annuity to meet the minimum income guarantee over the account value. For the most part, these guarantees may not yet be exercised and there are limitations on when these guarantees may be exercised.

23. Summary of Differences Between Accounting Principles Generally Accepted in Canada and in the United States (Cont'd)

The table below represents information regarding the Company's variable annuity and unit-linked pension contracts with guarantees at December 31, 2005:

Benefit type	Account Balance	Net Amount at Risk	Weighted Average Attained Age of Contract Holders
Minimum death	$ 34,164	$ 3,442	60
Minimum income	$ 3,006	$ 873	49
Minimum accumulation or withdrawal	$ 2,388	$ —	58

The following summarizes the additional reserve for the minimum guaranteed death benefit and income benefit at December 31, 2005:

	Minimum Guaranteed Death Benefit	Guaranteed Minimum Income Benefit	Total
Balance at January 1, 2004	$ 64	$ 183	$ 247
Incurred guaranteed benefits	30	1	31
Paid guaranteed benefits	(57)	(13)	(70)
Interest	1	21	22
Effect of changes in currency exchange rates	(1)	1	—
Balance at December 31, 2004	**37**	**193**	**230**
Benefit ratio and assumption changes	**19**	**—**	**19**
Incurred guaranteed benefits	**43**	**1**	**44**
Paid guaranteed benefits	**(43)**	**(22)**	**(65)**
Interest	**2**	**51**	**53**
Effect of changes in currency exchange rates	**10**	**(29)**	**(19)**
Balance at December 31, 2005	**$ 68**	**$ 194**	**$ 262**

The liability for death and income benefit guarantees is established equal to a benefit ratio multiplied by the cumulative contract charges earned, plus accrued interest less contract benefit payments. The benefit ratio is calculated as the estimated present value of all expected contract benefits divided by the present value of all expected contract charges. The benefit ratio may be in excess of 100%. For guarantees in the event of death, benefits represent the current guaranteed minimum death payments in excess of the current account balance. For guarantees at annuitization, benefits represent the present value of the minimum guaranteed annuity benefits in excess of the current account balance.

Projected benefits and assessments used in determining the liability for guarantees are developed using models and stochastic scenarios that are also used in the development of estimated expected future gross profits. Underlying assumptions for the liability related to income benefits include assumed future annuitization elections based upon factors such as eligibility conditions and the annuitant's attained age. The liability for guarantees will be re-evaluated periodically, and adjustments will be made to the liability balance through a charge or credit to policyowner benefits.

Guaranteed minimum accumulation benefits and withdrawal benefits are considered to be derivatives under SFAS No. 133, and are recognized at fair value through earnings. The guaranteed minimum accumulation and withdrawal benefits was a liability of $194 and $190 as at January 1, 2005 and December 31, 2005, respectively.

D) U.S. GENERALLY ACCEPTED ACCOUNTING STANDARDS ADOPTED BY THE COMPANY IN 2005

i) EITF 03-6 – Participating Securities and the Two-Class Method Under Financial Accounting Standards Board (FASB) Statement No. 128, Earnings Per Share: On March 21, 2004, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on EITF 03-6. This EITF requires the calculation of earnings per share to be changed to measure the impact of certain securities or other instruments or contracts that entitle their holders to participate in undistributed earnings of the reporting entity, provided such entitlement is nondiscretionary and objectively determinable. EITF 03-6 is effective for the first interim or annual reporting period that begins after March 31, 2004, and requires retroactive adjustment to earnings per share presented for prior periods. This change in accounting policy did not have a material impact on these consolidated financial statements.

23. Summary of Differences Between Accounting Principles Generally Accepted in Canada and in the United States (Cont'd)

E) U.S. GENERALLY ACCEPTED ACCOUNTING STANDARDS NOT YET ADOPTED BY THE COMPANY

i) FASB Statement No. 153 — Exchanges of Non-monetary Assets (SFAS 153): In December 2004, the FASB issued SFAS No. 153, an amendment of APB No. 29. This Statement amends Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The Statement specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for non-monetary asset exchanges occurring in fiscal periods beginning after the date this Statement is issued. Retroactive application is not permitted. The Company will apply the accounting requirements to non-monetary exchanges in 2006 but does not expect this Statement to have a material impact on its consolidated financial statements.

ii) FASB Statement No. 154 — Accounting Changes and Error Corrections (SFAS 154): FASB issued SFAS 154 **,** applying to all voluntary accounting principle changes as well as the accounting for and reporting of such changes. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS 154 requires that voluntary changes in accounting principles be retrospectively applied to financial statements from previous periods unless such application is impracticable. The Company will apply this Statement for accounting changes and error corrections occurring in 2006.

iii) FASB Statement No. 123R — Share-Based Payment (SFAS 123R): On December 16, 2004, the FASB issued SFAS 123R which replaces FASB Statement No.123 (SFAS 123), Accounting for Stock-Based Compensation, and eliminates the ability to account for share-based payment transactions using APB Opinion No.25, Accounting for Stock Issued to Employees. The Company is required to apply SFAS 123R effective January 1, 2006. SFAS 123R covers the accounting requirements for a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS 123R requires that compensation cost for employee stock-based compensation be measured based on the grant-date fair value and recognized in the financial statements over the vesting period. Costs related to liability instruments are to be based on its current fair value and remeasured subsequently at each reporting date. Since the Company is currently applying the fair value method of SFAS 123 for recognition of compensation cost, SFAS 123R will not have a material impact on its 2006 consolidated financial statements.

iv) Securities Exchange Commission (SEC) Staff Accounting Bulletin No.107 (SAB 107): The SAB is consistent with and does not alter any of the conclusions or requirements of Statement 123R. SAB 107 provides practical guidance regarding certain matters important to selecting and applying models. The Company does not expect this SAB to have a material impact on its consolidated financial statements in 2006.

24. Comparative Figures

Certain comparative figures have been restated to conform with the presentation adopted in 2005.

Appointed Actuary's Report

THE SHAREHOLDERS AND DIRECTORS
OF SUN LIFE FINANCIAL INC.

I have valued the policy liabilities of Sun Life Financial Inc. for its consolidated balance sheets at December 31, 2005 and 2004 and their change in the consolidated statements of operations for the years then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.



Robert W. Wilson
Fellow, Canadian Institute of Actuaries

Toronto, Canada
February 13, 2006

Auditors' Report

THE SHAREHOLDERS OF
SUN LIFE FINANCIAL INC.

We have audited the consolidated balance sheets of Sun Life Financial Inc. and the separate consolidated statements of segregated funds net assets as at December 31, 2005 and 2004, and the consolidated statements of operations, equity, cash flows and changes in segregated funds net assets for each of the years in the three-year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds as at December 31, 2005 and 2004 and the results of the Company's operations, its cash flows and the changes in its segregated funds net assets for each of the years in the three-year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.



Deloitte & Touche LLP
Chartered Accountants

Toronto, Canada
February 13, 2006

EXHIBIT 2



Sun Life Financial Inc.

Management's Discussion and Analysis

for the Year Ended December 31, 2005

February 13, 2006

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In this Management's Discussion and Analysis (MD&A), Sun Life Financial Inc. (SLF Inc.) and its consolidated subsidiaries, significant equity investments and joint ventures are collectively referred to as "Sun Life Financial" or the "Company". **Unless otherwise indicated, all information in this MD&A is presented as at and for the year ended December 31, 2005 and amounts are expressed in Canadian dollars**. Where information at and for the year ended December 31, 2005 is not available, information available for the latest period before December 31, 2005 is used. Financial information, except where otherwise noted, is presented in accordance with Canadian generally accepted accounting principles (GAAP), and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada (OSFI). Additional information relating to the Company can be found in SLF Inc.'s Consolidated Financial Statements and accompanying notes (Consolidated Financial Statements) and Annual Information Form (AIF) for the year ended December 31, 2005 and other documents filed with applicable securities regulators in Canada, which may be accessed at www.sedar.com and with the United States Securities and Exchange Commission (SEC), which may be accessed at www.sec.gov.

Use of Non-GAAP Financial Measures

Management evaluates the Company's performance on the basis of financial measures prepared in accordance with Canadian GAAP, including earnings, earnings per share (EPS) and return on equity (ROE). Management also measures the Company's performance based on certain non-GAAP measures, including operating earnings, operating EPS, dividend payout ratio, operating ROE and ROE for the Company's business segments. These non-GAAP financial measures exclude certain items that are not operational or ongoing in nature. Management also uses financial performance measures which exclude the impact of currency fluctuations during the period for which a comparison is made. These amounts are determined by reference to the exchange rates of the corresponding periods. Management believes that these non-GAAP financial measures provide information useful to investors in understanding the Company's performance and facilitate the comparison of the quarterly and full year results of the Company's ongoing business operations. These non-GAAP financial measures do not have any standardized meaning and may not be comparable with similar measures used by other companies. They should not be viewed as alternative to measures of financial performance determined in accordance with GAAP.

Additional information concerning the Company's use of non-GAAP financial measures and a reconciliation of those non-GAAP measures to the most directly comparable GAAP measures is included in this MD&A under the heading "*Non-GAAP Financial Measures*" on page 12.

Forward-looking Statements

Some of the statements contained or incorporated by reference in this MD&A, including those relating to Sun Life Financial's strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions, are forward-looking statements within the meaning of securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sun Life Financial set out under "*Enterprise Mission, Vision and Strategy*", "*Financial Performance and Objectives*", "*Business Overview*", "*Performance Overview*", "*SLF Canada*", "*SLF U.S.* ", "*MFS*", " *SLF Asia*", "*Corporate*", "*Investments*" and "*Financial Position and Liquidity*". These statements are not historical facts but instead represent only Sun Life Financial's expectations, estimates and projections regarding future events.

The forward-looking statements contained or incorporated by reference in this MD&A are stated as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. The future results and stockholder value of SLF Inc. may differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this MD&A due to, among other factors, the matters set out under " *Critical Accounting Estimates*" on page 29 and "*Risk Management*" on page 33 of this MD&A and " *Risk Factors*" contained in SLF Inc.'s AIF and the factors detailed in its other filings with Canadian and U.S. securities regulators, including its annual and interim financial statements and the notes thereto, which are available for review at www.sedar.com. SLF Inc. does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events, except as required by law.

FINANCIAL HIGHLIGHTS

(in millions of dollars, except earnings and dividends per share)	**2005**	2004*	2003*
Common shareholders' net income			
- Operating**	**1,906**	1,739	1,518
- Reported	**1,843**	1,680	1,307
Basic earnings per share (EPS)			
- Operating**	**3.24**	2.91	2.50
- Reported	**3.14**	2.81	2.15
Return on common shareholders' equity (ROE)			
- Operating**	**13.1%**	12.0%	10.6%
- Reported	**12.6%**	11.6%	9.2%
Dividends per common share	**0.99**	0.86	0.68
Dividend payout ratio***	**31%**	30%	27%
Fee income	**2,899**	2,903	2,810
Total revenue	**21,918**	21,730	22,056
Premiums, deposits and fund sales			
Premium revenue, including ASO premium equivalents	**15,329**	15,100	15,572
Segregated fund deposits	**7,205**	7,145	5,968
Mutual fund sales	**20,329**	19,884	27,491
Managed fund sales	**31,135**	23,981	25,202
Total premiums, deposits and fund sales	**73,998**	66,110	74,233
Assets under management (AUM) *(at December 31)*			
General fund assets	**110,866**	107,803	109,263
Segregated fund net assets	**60,984**	56,564	54,086
Other AUM	**215,539**	195,283	195,729
Total AUM	**387,389**	359,650	359,078
Capital *(at December 31)*			
Subordinated debt	**1,456**	1,462	1,730
Liabilities for Cumulative Capital Securities and Sun Life ExchangEable Capital Securities****	**1,849**	1,870	1,924
Preferred shares	**712**	152	155
Participating policyholders' equity	**85**	77	67
Total common shareholders' equity	**14,749**	14,338	13,913
Total capital	**18,851**	17,899	17,789

* Certain comparative figures have been restated to conform with presentations adopted in 2005 as described in Note 2 to SLF Inc.'s 2005 Consolidated Financial Statements.

** Operating earnings, operating EPS, operating ROE and dividend payout ratio are non-GAAP measures and exclude certain items described on page 12 under the heading *"Non-GAAP Financial Measures"*.

*** The dividend payout ratio represents ratio of common shareholders' dividends to operating earnings.

**** These securities qualify as capital for Canadian regulatory purposes. Cumulative Capital Securities (CCS) and Sun Life ExchangEable Capital Securities (SLEECS) have been deconsolidated and reclassified as debentures in other liabilities in SLF Inc.'s 2005 Consolidated Financial Statements. Additional information is available on page 40 under the heading *"Capital Structure"* and in Note 2 to SLF Inc.'s 2005 Consolidated Financial Statements.

Financial Performance

Sun Life Financial achieved strong results in 2005 with continued success in growing core earnings, improving ROE and expanding distribution capability. The Company exceeded its growth objectives for operating EPS, surpassing its 10% constant currency growth target with an increase of over 15%, and exceeded its objective to grow operating ROE between 75 and 100 basis points, with an increase of 110 basis points to 13.1%. Operating earnings grew to $1,906 million, an increase of 9.6% from 2004, and $1,843 million in reported earnings were 9.7% higher than 2004.

Total premiums, deposits and fund sales were up by $7.9 billion, reaching $74.0 billion for the year ended December 31, 2005. The Company's focus on creating excellence in customer service, providing a diverse array of competitive product offerings and increasing its presence in multiple distribution channels all contributed to the growth. Total revenue of $21.9 billion was $188 million higher than 2004. A $1.2 billion increase, in constant currency, mainly from the US$900 million sale of medium-term notes (MTNs) was mostly offset by a $1.0 billion

reduction from the strengthened Canadian dollar against foreign currencies compared to 2004. Fee income of $2,899 million was comparable to the 2004 full year amount with additional fees earned on higher AUM diminished by the unfavourable currency impact from a stronger Canadian dollar.

Financial Strength Ratings *(as at December 31, 2005)*	AM Best	Moody's	Standard & Poors
Sun Life Assurance Company of Canada	A++	Aa2	AA+
Sun Life Assurance Company of Canada (U.S.)	A++	Aa2	AA+

ENTERPRISE MISSION, VISION AND STRATEGY

Sun Life Financial is a leading financial services organization that provides a range of protection and wealth management products and services to both individual and corporate customers.

MISSION

To provide lifetime financial security

VISION

To be an international leader in protection and wealth management

STRATEGY

The Company's strategy is to focus on markets where effective scale and scope can be sustained, balancing the stability of mature businesses with the higher growth potential of emerging businesses.

The Company:

- Maintains a highly efficient and cost effective business platform characterized by **operational excellence**
- Focuses on markets where effective **scale and scope** can be built and sustained
- **Balances** the stability of mature businesses with the higher growth potential of emerging businesses
- Enhances **fit** among Sun Life Financial's various businesses; finding opportunities to integrate the businesses to create additional value

The Company has established the following enterprise-wide objectives to execute its strategy:

Value Building Growth	Sustain top-line growth and deliver on key medium-term financial targets
Intensify Customer Focus	Set the standard in providing distinctive financial solutions that customers can trust
Enhance Productivity and Efficiency	Achieve operational excellence by maintaining a highly efficient and cost effective platform
Strengthen Risk Management	Enhance risk identification, risk monitoring and control processes to maximize shareholder value
Innovation	Identify the processes that create innovation and embed innovation throughout the Company
Leverage International Resources	Enhance fit among the Company's businesses through the effective sharing of resources, technology and best practices internationally

FINANCIAL PERFORMANCE AND OBJECTIVES

MEASURE	MEDIUM-TERM GOALS	2005 RESULTS	2005 ACHIEVEMENTS VS. GOALS
Operating EPS (1) Growth Growth in EPS reflects the Company's focus on generating sustainable earnings for shareholders.	10%*	11.3%**	Exceeded target
Operating ROE(1) Growth Growth in ROE is a significant driver of shareholder value and continues to be a major focus for management across all businesses.	75 - 100 basis points*	110 basis points**	Exceeded target
Dividend Payout Ratio(1) (2) The payment of common share dividends is an indicator of management's confidence in the Company's long-term ability to generate capital as well as its significant capital strength and flexibility.	25% – 35%***	31%	Met target

* The medium-term goals assume the following conditions:

- A rise in the average level of key equity market indices, primarily the S&P 500, by approximately 7% - 8%
- A steady increase in North American interest rates of approximately 100 basis points across the yield curve, with 5-year and 10-year U.S. Treasury bonds as the primary focus
- Stability in exchange rates between the Canadian dollar and foreign currencies, primarily the U.S. dollar and the British pound sterling

** Excluding the impact of currency exchange rate changes, operating EPS and operating ROE would have been up 15.5% and 130 basis points, respectively, from 2004.

*** On February 9, 2006, the Board of Directors of Sun Life Financial Inc. approved an increase of this target to 30 - 40%.

(1) Operating EPS, operating ROE and the dividend payout ratio are non-GAAP measures. For additional information see the section under the heading "*Non-GAAP Financial Measures*" on page 12.

(2) The dividend payout ratio represents the ratio of common shareholders' dividends to operating earnings.

BUSINESS OVERVIEW

Sun Life Financial is an international provider of a wide range of savings, investment management, retirement, pension and life and health insurance products and services to both individual and corporate customers.

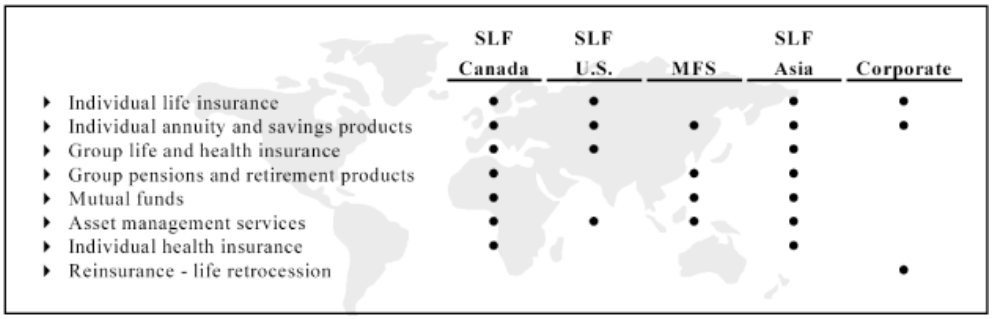
The Company operates under a balanced business model that strives to establish scale and stability in the diversified markets in which it chooses to compete. The higher growth prospects of emerging businesses and markets are balanced against the relative stability of earnings from more mature operations. In a similar way, the Company's protection business acts as a counterbalance to the wealth management business, ensuring that customers have access to complementary insurance, retirement and savings products that meet their specific needs.

Products and Services by Business Segment

Sun Life Financial manages its operations and reports its financial results in five business segments: Sun Life Financial Canada (SLF Canada), Sun Life Financial United States (SLF U.S.), MFS Investment Management (MFS), Sun Life Financial Asia (SLF Asia), and Corporate. The Corporate segment includes the operations of Sun Life Financial's United Kingdom business unit (SLF U.K.), the Company's active and run-off reinsurance businesses and income and expenses of a corporate nature not attributable to other segments.

Financial information on the Company's segments is presented in both Canadian dollars and the segments' local currency where appropriate.

The Company's portfolio of products and services by business segment is summarized below:



	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate
Individual life insurance	●	●		●	●
Individual annuity and savings products	●	●	●	●	●
Group life and health insurance	●	●		●	
Group pensions and retirement products	●		●	●	
Mutual funds	●		●	●	
Asset management services	●	●	●	●	
Individual health insurance	●			●	
Reinsurance - life retrocession					●

Drivers of Profitability

The profitability of the Company's operations is affected by the following primary factors:

- Mortality and morbidity rates
- Surrender and lapse rates
- Amount and composition of AUM
- Spreads between the interest credited to policy holders and investment returns
- Equity market performance, interest rates, credit experience, currency exchange rates, regulatory environment and other external factors

The Company's risk factors are described in SLF Inc.'s 2005 AIF under the heading *"Risk Factors".*

Distribution

The Company uses multiple distribution systems to deliver an optimal value proposition to individual customers. Individual wealth and protection products are distributed through a combination of direct sales agents, independent general agents and brokers, managing general agents, financial intermediaries and banks.

Group life and health products are distributed through sales representatives, in cooperation with independent brokers and benefit consultants. Group retirement products are distributed through pension consultants, an in-house sales force, brokers and advisors.

PERFORMANCE OVERVIEW

2005 Performance

The Company reported its fifth consecutive year of increasing earnings as a public company, with common shareholders' operating net income (1) for the year of $1,906 million, up 9.6% compared to $1,739 million in 2004. These solid financial results were achieved despite the significant strengthening of the Canadian dollar against foreign currencies during 2005, which reduced 2005 common shareholders' operating net income by $68 million based on 2004 exchange rates. Reported common shareholders' net income for the year was $1,843 million, up $163 million, or 9.7%, from $1,680 million in 2004.

In 2005, SLF Canada made significant progress in achieving its goals, growing its distribution channels, enhancing customer service and leveraging its Total Benefits offering, which integrates the products and services of Group Benefits and Group Retirement Services (GRS) into a seamless service. The Individual Insurance & Investments business unit continued to focus on the productivity of the Clarica Sales Force (CSF), its proprietary distribution channel, which improved 13% in 2005 as measured by sales per advisor. The wholesale distribution channel was strengthened with the addition of new distribution partners and achieved a 150% increase in sales over 2004. The Total Benefits offering enjoyed continued success in 2005 and demonstrated the synergy opportunities between business units. The percentage of GRS's top 200 clients that are also Group Benefits' clients rose from 23% at the beginning of 2004 to 38% at the end of 2005, an increase of over 65%. Technological innovation continued with the implementation of an enhanced Group Benefits members' enrolment tool and a single access website for both Group Benefits and GRS plan advisors.

SLF U.S. progressed steadily towards its goals of strengthening its distribution network, achieving top-line growth and improving efficiency. The Annuities business unit rejuvenated its wholesale distribution network by doubling the number of wholesalers in 2005, creating a strong platform for future growth. The Individual Life business unit maintained total new premium and deposits growth momentum with strong increases in both high net worth private placement variable universal life and corporate-owned life insurance products of 88% and 193%, respectively. The Group Life & Health business unit continued its successful growth pattern with record net sales of US$153 million for the year and a 19% growth in in-force business during the year to over US$1.0 billion at December 31, 2005. SLF U.S. also expanded its multi-service strategy to improve customer service while enhancing efficiency and won the Dalbar Financial Intermediary Post-Sales service award.

In 2005, MFS returned to its core focus of sales growth, resulting in an increase of 31.5% in gross sales from 2004 levels and positive net flows of US$7.5 billion. During 2005, MFS also continued to diversify its asset base beyond domestic funds. Non-domestic sales in 2005 represented over 25% of total sales, while non-domestic assets as a percentage of total assets were 5% at December 31, 2005.

SLF Asia executed on several key strategic initiatives to position itself as a long-term growth engine for Sun Life Financial. In October 2005, the Company completed the acquisition of CMG Asia Limited, CMG Asia Trustee Company Limited, CommServe Financial Limited and Financial Solutions Limited (collectively CMG Asia), which together formed the Hong Kong individual life insurance, group insurance, group pension and brokerage operations of the Commonwealth Bank of Australia, for $544 million. The acquisition significantly increased the Company's existing capital base in Asia. Additional information on the transaction is available in Note 3 to SLF Inc.'s 2005 Consolidated Financial Statements. The acquisition strengthened the Company's presence in Hong Kong by tripling its sales force to over 1,700, increasing its customer base and establishing Sun Life Financial as one of the top 10 life insurance providers in Hong Kong.

Sun Life Everbright Life Insurance Company Limited (Sun Life Everbright), the Company's joint venture in China, commenced life insurance operations in Hangzhou, its third city operation, and obtained a license to begin selling group life insurance throughout China. Birla Sun Life Asset Management Company Limited, the Company's India asset management joint venture, expanded its operations with the acquisition of the Indian mutual fund business of Alliance Capital Mutual Funds. SLF Asia also increased the diversity of its distribution platform with the signing of a distribution joint venture arrangement in the Philippines and bancassurance agreements in Hong Kong and Indonesia.

2006 Industry Outlook

Sun Life Financial is well positioned to take advantage of the changing environment as the global financial services industry evolves in response to demographic trends.

The graying of the population in developed markets will place a greater demand on wealth accumulation products for working-age savers, income distribution products for workers close to retirement and wealth transfer vehicles for those in retirement.

The aging of the population will also place a strain on existing health care systems, as a larger portion of the

(1) Operating earnings, operating EPS and operating ROE, are non-GAAP measures and exclude the items described in this MD&A under the heading "*Non-GAAP Financial Measures*" on page 12.

population will require treatment over a longer timeframe. Consumers will seek products such as long-term care and critical illness insurance that will ensure they have direct access to high-quality health care – both now and throughout their retirement years.

Likewise, the concern about inadequate public pension plans is leading to a dramatic rise in both mutual funds and other financial vehicles that address baby boomers' concerns about the need for adequate resources in retirement.

In contrast, the rising affluence of customers in emerging markets is stimulating the demand for financial products, including protection, savings and investment vehicles. The insurance market is expected to be particularly dynamic in China and India.

Against these demographic trends, financial services organizations must deal with the challenges associated with moderating economic growth, persistently low interest rates and increased regulation.

Through its balanced business model, the Company is well positioned to capitalize on these changes, while mitigating the risks brought on by market uncertainty.

CONSOLIDATED RESULTS OF OPERATIONS

Common Shareholders' Net Income

Operating earnings(1), which excluded certain items outlined on page 12, increased by 9.6% to $1,906 million in 2005 from $1,739 million in 2004. Basic operating EPS were $3.24, up 11.3% from $2.91 in 2004. The solid performance reflected the Company's continuing success in its core businesses and the diversification of its earnings stream. Excluding the impact of currency exchange rate changes, operating earnings would have been $1,974 million, up 13.5% from 2004, while operating EPS would have been $3.36, up 15.5%.

For the year ended December 31, 2005, reported common shareholders' net income reached $1,843 million, representing an increase of $163 million over $1,680 million for the year ended December 31, 2004. Basic EPS increased to $3.14 from $2.81 in 2004. The appreciation of the Canadian dollar against foreign currencies in the year reduced common shareholders' net income by $68 million compared to 2004.

Earnings and Earnings Per Share

($ millions)	**2005**	2004*	2003*
Total Net Income	**1,876**	1,693	1,306
Less:			
Participating policyholders' net income	**9**	13	(1)
Dividends paid to preferred shareholders'	**24**	–	–
Common Shareholders' Net Income	**1,843**	1,680	1,307
Plus: Special items	**63**	59	211
Operating earnings	**1,906**	1,739	1,518
Basic EPS from:			
- Common shareholders' net income	**3.14**	2.81	2.15
- Operating earnings	**3.24**	2.91	2.50
Diluted EPS from:			
- Common shareholders' net income	**3.12**	2.79	2.15
- Operating earnings	**3.23**	2.88	2.50
Common Shareholders' Net Income by Segment			
SLF Canada	963	895	773
SLF U.S.	495	391	303
MFS	179	114	(43)
SLF Asia	42	45	37
Corporate	164	235	237
Total	1,843	1,680	1,307

* Certain comparatives figures have been restated to conform with the presentation adopted in 2005 as described in Notes 2 and 4 to SLF Inc.'s 2005 Consolidated Financial Statements.

SLF Canada generated shareholders' net income earnings of $963 million, up 8% from 2004. The increase was primarily due to improved mortality experience of $35 million and gains from investment credit experience which contributed $20 million. Earnings from the Company's investment in CI Financial Inc. (CI Financial) increased 25% to $106 million, reflecting business growth. These increases were partially offset by slightly lower Group Benefits earnings.

SLF U.S. 2005 earnings of $495 million were up 27% from 2004. Excluding a $36 million unfavourable currency impact due to the strengthening of the Canadian dollar against the U.S. currency, SLF U.S. earnings were 36% higher than 2004 levels. The increase reflected improved Annuities results from wider interest spreads which contributed $28 million, and higher income from favourable equity market movements which added $49 million after tax to earnings. Individual Life earnings increased 10%, mainly arising from implementation of lower cost funding solutions for universal life products reserves (known as regulation AXXX). Group Life & Health 2005 results improved by 13% over 2004 on business growth.

In 2005, MFS contributed $179 million to common shareholders' net income. Operating earnings, which excluded a $59 million charge for a regulatory settlement in 2004 as described on page 12, were up $6 million year over year. Earnings in 2005 were reduced by $13 million due to the impact of currency exchange rates. Excluding the currency effect, operating earnings were up 11% primarily on higher fee income derived from increases in average AUM.

SLF Asia reported shareholders' earnings of $42 million in 2005, or $3 million lower than 2004, primarily due to CMG Asia integration expenses incurred in the fourth quarter of 2005. Favourable tax resolutions of $13 million in the Philippines were mostly offset by increased investment in business development activities, greater lapses which reduced earnings by $4 million, increased foreign exchange losses of $3 million and higher new business strain. On a local currency basis, earnings were comparable to 2004.

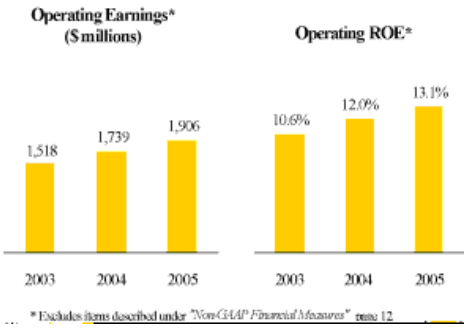
Corporate had common shareholders' net income for the full year of $164 million, $71 million lower than in 2004. Favourable results of $19 million in SLF U.K. and foreign exchange gains of $74 million on the repatriation of capital from the U.K. were more than offset by reserve changes of $34 million and worse mortality of $32 million in Reinsurance, CMG Asia integration costs of $9 million, the loss on the disposition of Administradora de Fondos de Pensiones Cuprum, S.A. (Cuprum) of $51 million and higher project costs of $28 million.

Return on Equity

In 2005, operating ROE was 13.1% compared to 12.0% in 2004. ROE based on common shareholders' net income was 12.6% in 2005, compared to 11.6% in 2004. The increase in ROE reflected higher earnings as well as the impact of SLF Inc.'s share repurchases, increased dividend

(1) Operating earnings, operating EPS and operating ROE, are non-GAAP measures and exclude the items described in this MD&A under the heading "*Non-GAAP Financial Measures*" on page 12.

payments and the effect of currency exchange rates on average equity levels. Excluding the impact of the strengthening of the Canadian dollar against foreign currencies, ROE based on operating and reported earnings would have been 13.3% and 13.0%, respectively, in 2005.



Assets Under Management

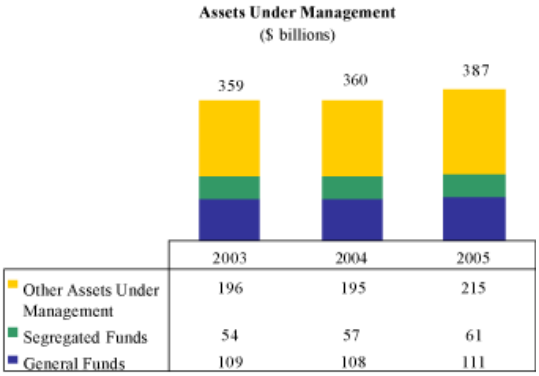
The Company's AUM comprise general funds, segregated funds and other AUM, which include mutual and managed funds consisting of institutional and other third-party assets that are managed by the Company. Total AUM were $387.4 billion as at December 31, 2005, up $27.7 billion, compared to $359.7 billion as at December 31, 2004. Net sales of mutual, managed and segregated funds, market improvements, continuing business growth and the increase from the impact of the CMG Asia acquisition more than offset the negative impact of the strengthening of the Canadian dollar against foreign currencies.

Total AUM exclude the assets managed by CI Financial in which the Company has a 35% equity interest. CI Financial's assets under management were $71.7 billion at December 31,2005 and $67.8 billion at December 31, 2004.

The Company's general fund assets increased to $110.9 billion, up $3.1 billion, or 3%, from the December 31, 2004 level. The increase, which reflected business growth in SLF Canada and SLF U.S. and $2.2 billion from the CMG Asia acquisition, was partially offset by a reduction of $2.8 billion due to the strengthening of the Canadian dollar against foreign currencies.

Segregated fund assets increased to $61.0 billion as at December 31, 2005, up 7.8% from December 31, 2004. Net inflows of $1.2 billion, including the $0.5 billion attributable to the CMG Asia acquisition, and increases in asset values of $5.0 billion due to market improvements were dampened by an unfavourable impact of $1.8 billion from the strengthening of the Canadian dollar.

Other AUM increased to $215.5 billion, $20.3 billion higher than at December 31, 2004. Net sales of $9.7 billion in mutual and managed funds, $1.7 billion from the CMG Asia acquisition and market growth of $14.2 billion were reduced by $5.4 billion due to the strengthened Canadian dollar.



Revenue

In 2005, the Company's total revenue increased to $21.9 billion, up $188 million from 2004. Premiums were flat, with higher health insurance premiums mostly offset by lower life insurance and annuity premiums. Net investment income contributed $155 million to the overall revenue increase due to favourable credit experience and currency gains on repatriation of capital. Fee income also remained flat from 2004. Revenue growth was suppressed by $1.0 billion as a result of the Canadian dollar appreciation against foreign currencies.

Total Revenue

($ millions)	**2005**	2004*	2003*
Premiums			
Annuities	**4,556**	4,588	4,805
Life insurance	**5,683**	5,948	6,325
Health insurance	**2,701**	2,367	2,413
Total premiums	**12,940**	12,903	13,543
Net investment income	**6,079**	5,924	5,703
Fee income	**2,899**	2,903	2,810
Total	**21,918**	21,730	22,056

* Certain comparative figures have been restated to conform with the presentation adopted in 2005 as described in Note 2 to SLF Inc.'s 2005 Consolidated Financial Statements.

Annuity premiums of $4,556 million for 2005 were mostly flat with 2004 levels. The contribution from the sale of US$900 million of fixed annuity backed MTNs was more than offset by lower regular fixed and equity-indexed annuity premiums in the U.S. of $1.1 billion and a decrease of $266 million arising from a stronger Canadian dollar.

Life insurance premiums declined by $265 million, largely due to the unfavourable impact of $246 million arising from the stronger Canadian dollar. The decline in premiums from the run-off of SLF U.K.'s Individual and Group Life insurance business units was largely offset by increases in most of the other business segments.

Health insurance premiums rose 14% to $2,701 million in 2005 mainly due to business growth. The increase was weakened by an unfavourable impact of $48 million arising from the strengthening of the Canadian dollar against foreign currencies.

Investment income was $6.1 billion in 2005, up from $5.9 billion in 2004. The increase was primarily due to increased earnings on a higher asset base, lower asset provisions of $68 million and foreign exchange gains of $74 million in relation to the repatriation of capital from the SLF U.K. operations, partially reduced by $43 million of the loss on the sale of Cuprum recorded in investment income and the $240 million unfavourable impact of currency fluctuations during the year.

Fee income of $2.9 billion in 2005 was consistent with 2004. The unfavourable impact of $176 million from an appreciated Canadian dollar relative to other currencies offset the higher fee income from growth in fee-based assets.

Benefit Payments

The Company has a variety of current and future benefit payment obligations that affect overall earnings. Payments to policyholders, beneficiaries and depositors in 2005 were $12.8 billion, up $270 million from 2004. Higher levels of maturities and surrenders of $196 million and health benefits of $148 million were partly offset by the effect of the strengthening of the Canadian dollar. Transfers to segregated funds increased 21% on higher demand for equity market-based products. The increase in actuarial liabilities in 2005 was $553 million lower than 2004. Net outflows of U.S. fixed annuities contributed $925 million to the reduction in the liability increase and an additional $255 million was attributable to U.S. individual insurance, mostly due to lower premiums. The impact of a stronger Canadian dollar caused a further reduction of $82 million to the liability change. These decreases were partially offset by a net increase in the change in actuarial liabilities for SLF U.S. Investment Products from the sales impact of $900 million of MTNs in 2005, which was partly dampened by redemptions.

Benefit Payments

($ millions)	**2005**	2004*	2003*
Payments to policyholders, beneficiaries and depositors	**12,802**	12,532	12,926
Net transfers to segregated funds	**704**	582	544
Increase in actuarial liabilities	**872**	1,425	1,510
Total	**14,378**	14,539	14,980

* Certain comparative figures have been restated to conform with the presentation adopted in 2005 as described in Note 2 to SLF Inc.'s 2005 Consolidated Financial Statements.

Expenses and Other

Commission expenses decreased $190 million in 2005, or 10%, largely reflecting the impact of lower fixed and equity-indexed annuity sales in the U.S. which reduced commissions by $128 million, and the strengthening of the Canadian dollar against the U.S. currency.

Operating expenses of $2.9 billion in 2005 were $152 million higher than 2004. The increase mostly arose from higher operating expenses in both SLF Canada of $47 million and SLF U.S. of $10 million due to organic business growth, additional expenses of $26 million in SLF Asia from the CMG Asia acquisition, and higher project and systems costs of $43 million pre tax. These increases were reduced by lower expenses of $17 million in SLF U.K. as a result of business run-off and a reduction of $128 million from the impact of currency fluctuations.

Interest expenses decreased $5 million to $273 million in 2005 from the effect of currency fluctuations during the year.

Expenses and Other

($ millions)	**2005**	2004*	2003*
Commissions	**1,726**	1,916	1,848
Operating expenses	**2,899**	2,747	2,744
Regulatory settlement provisions related to MFS	**–**	62	320
Intangibles amortization	**22**	22	24
Premium taxes	**190**	182	171
Interest expenses	**273**	278	292
Income taxes	**531**	263	357
Non-controlling interests in net income of subsidiaries	**23**	28	14
Participating policyholders' net income (loss)	**9**	13	(1)
Dividends to preferred shareholders	**24**	–	–
Total	**5,697**	5,511	5,769

* Certain comparatives figures have been restated to conform with the presentation adopted in 2005 as described in Note 2 to SLF Inc.'s 2005 Consolidated Financial Statements.

Quarterly Information

Key quarterly financial information for the most recent two fiscal years is summarized in the table below:

Quarterly Information

($ millions)	**2005**				2004*			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Common shareholders' net income								
- Operating**	**490**	**481**	**477**	**458**	438	439	438	424
- Reported	**478**	**430**	**477**	**458**	438	439	438	365
Basic EPS								
- Operating**	**0.84**	**0.82**	**0.81**	**0.77**	0.74	0.73	0.73	0.71
- Reported	**0.82**	**0.74**	**0.81**	**0.77**	0.74	0.73	0.73	0.61
Total revenue	**5,338**	**5,504**	**5,988**	**5,088**	5,260	5,387	5,547	5,536
Total AUM	**387,389**	**373,754**	**377,379**	**366,094**	359,650	355,445	373,009	369,656

* Certain comparative figures have been restated to conform with the presentation adopted in 2005 as described in Note 2 to SLF Inc.'s 2005 Consolidated Financial Statements.

** Operating earnings and operating EPS are non-GAAP measures and exclude the items described under the heading *"Non-GAAP Financial Measures* on page 12.

NON-GAAP FINANCIAL MEASURES

Management evaluates the Company's performance on the basis of financial measures prepared in accordance with GAAP, including earnings, EPS and ROE. Management also measures the Company's performance based on certain non-GAAP measures, including operating net income, operating earnings and financial measures based on operating earnings, such as operating EPS, operating ROE and the dividend payout ratio. These non-GAAP financial measures exclude certain items that are not operational or ongoing in nature. Management also uses financial performance measures that are prepared on a constant currency basis. Constant currency amounts are calculated using the applicable currency rates of the previous period but excluding the adjustment to the currency translation account on the repatriation of capital from the U.K. as described in Note 22 of the SLF Inc. 2005 Consolidated Financial Statements. Management calculates the ROE of its business segments using an allocation of common equity or risk capital to the business segments, using assumptions, judgments and methodologies that are regularly reviewed and revised by management. Other non-GAAP financial measures used by the Company include "sources of earnings", "embedded value", "sales", and "premiums and deposits". Management believes that these non-GAAP financial measures provide information useful to investors in understanding the Company's performance and facilitate the comparison of the quarterly and full-year results of the Company's ongoing operations. These non-GAAP financial measures do not have any standardized meaning and may not be comparable with similar measures used by other companies. They should not be viewed as an alternative to measures of financial performance determined in accordance with GAAP.

The items discussed below are not included in the Company's operating earnings, operating EPS and operating ROE.

In the fourth quarter of 2005, the Company took a $12 million after tax charge to income with respect to integration costs on the CMG Asia acquisition.

In the third quarter of 2005, the Company took a $51 million after tax charge to income in relation to the sale of Cuprum. The loss on the sale mostly arose from the depreciation of the Chilean peso against the Canadian dollar since the interest in Cuprum was acquired in 1998.

In the first quarter of 2004, the Company recorded a $59 million after tax charge to income related to the March 31, 2004 settlement by MFS of an administrative proceeding with the SEC regarding disclosure of brokerage allocation practices.

In the fourth quarter of 2003, the Company recorded a $211 million after tax charge to income in connection with the February 5, 2004 settlements with federal and state regulators with respect to alleged false and misleading information in certain MFS fund prospectuses, regarding market timing and related issues.

The impact of the items described above on the Company's EPS is summarized in the following table.

Impact of Special Items on Basic Earnings per Share

($ per share)	**2005**	2004	2003
EPS – Reported (GAAP-based)	**3.14**	2.81	2.15
Net gains (losses) on special items	**(0.10)**	(0.10)	(0.35)
EPS – Operating	**3.24**	2.91	2.50

Reconciliation of Operating Earnings

($ millions)	**2005**					2004*					2003*
	Q4	**Q3**	**Q2**	**Q1**	**Total**	Q4	Q3	Q2	Q1	Total	Total
Reported earnings (GAAP-based)	**478**	**430**	**477**	**458**	**1,843**	438	439	438	365	1,680	1,307
After-tax gains (losses) on special items											
CMG Asia integration costs	**(12)**				**(12)**						
Net loss on sale of Cuprum		**(51)**			**(51)**						
Provisions for MFS regulatory settlements									(59)	(59)	(211)
Total special items	**(12)**	**(51)**	**–**	**–**	**(63)**	–	–	–	(59)	(59)	(211)
Operating earnings	**490**	**481**	**477**	**458**	**1,906**	438	439	438	424	1,739	1,518

* Certain comparative figures have been restated to conform with the presentation adopted in 2005 as described in Note 2 to SLF Inc.'s 2005 Consolidated Financial Statements.

SLF CANADA

Business Profile

SLF Canada is a market leader with a customer base exceeding 7 million people. SLF Canada offers a full range of protection and wealth management products and services to individuals and corporate clients through its three operating units — Individual Insurance & Investments (which includes the Company's 35% interest in CI Financial), Group Benefits and Group Retirement Services & Institutional Investments (which includes the Company's 56% interest in McLean Budden Limited).

Industry Profile

The life insurance industry in Canada has undergone considerable consolidation in the past decade, resulting in three large insurers serving the core markets with a handful of medium-sized companies and a number of smaller companies operating in regional and niche markets. The three largest companies collectively represent approximately two-thirds of Canadian life and health insurance and annuity market segments by in-force business. With a slow-growing Canadian population, the Canadian insurance market is faced with limited opportunity for expansion. However, the aging of the population creates opportunities in other markets such as health and retirement products. Given the industry's structure and these demographic trends, economies of scale, customer service experience, distribution capabilities and technological innovation become increasingly critical to business success.

Competitive Position (1)

Sun Life Financial is a significant and leading player in most of the Canadian markets. It is:

- 1st in defined contribution pension plans, group RRSP plans and deferred profit sharing plans
- 2nd in individual life insurance based on direct premiums in-force
- 2nd in individual critical illness based on annualized premiums in-force
- 3rd in group benefits based on annualized premiums and premium equivalents in-force
- 3rd in individual annuities sales based on premiums and deposits

In addition, CI Financial is the second largest Canadian investment fund company based on long-term AUM. (2)

Strategy

SLF Canada's vision is to be the leader in all its markets and known for its outstanding performance.

SLF Canada serves its customers with competitive products and delivery systems marketed under two strong brands. The Sun Life Financial brand is used throughout SLF Canada's operations. The Clarica brand is used by SLF Canada's proprietary sales force and is widely known in the individual retail market.

SLF Canada's strategy is to:

- Solidify its leadership position in its core businesses with a focus on scale and operating capabilities
- Grow the Individual Insurance & Investments business by expanding its distribution network and leveraging its industry-leading brands
- Grow the group businesses by leveraging its ability to provide integrated service to both Group Benefits and GRS clients
- Be a high performance and customer-focused organization

(1) Competitive statistics are based on published information at and for the year ended December 31, 2005, or the information available for the latest period before December 31, 2005.

(2) Long-term AUM include mutual, segregated, labour-sponsored and other funds and pools, and exclude money market funds.

2005 Accomplishments

- Individual Insurance & Investments increased the productivity of its proprietary Clarica Sales Force (CSF) by an average of 13% per advisor and gained traction in the wholesale channel by achieving sales growth of $12 million, up 150% over 2004. It also strengthened and diversified its product offerings by launching several new products and revitalizing existing products within its life and health insurance product portfolio
- Individual Insurance & Investments' wealth product sales were up 21% over 2004
- The Total Benefits offering enjoyed continued success in 2005. Joint clients, measured as a percentage of GRS's top 200 clients, rose from 23% at the beginning of 2004 to 38% at the end of 2005. Also during 2005, a unique Plan Advisor website was launched that provides Group Benefits and GRS Plan advisors with a single point of access for their business needs
- GRS further strengthened its product portfolio by introducing the Milestone series of segregated funds, the first lifecycle funds for employer-sponsored group retirement and savings plans in Canada to feature a guaranteed unit value at maturity. GRS achieved continued strong sales results in all product categories and record asset retention levels of $500 million
- Group Benefits developed new strategic alliances with Warren Shepell, a leading provider of Employee Assistance Programs in North America, and with Medisys Health Group Inc., a provider of attendance support for salary continuance sick-leave plans. Enhancements to the Group Benefits members' enrolment tool and redesigned claim forms and statements also improved customer service

2006 Priorities

- Individual Insurance & Investments will continue to enhance its position in the retail market by increasing the productivity of the CSF distribution channel and by growing sales through the wholesale channel. It will also continue to leverage its strong partnership with CI Financial by offering an attractive suite of guaranteed and market based products
- Group Benefits will build on the strength of its National Accounts through innovation and service to drive aggressive growth
- GRS will continue to build on its leading market position as well as increase its rate of retaining member assets when the members leave their company-based retirement plan
- Group Benefits and GRS will continue to market Total Benefits as an important competitive advantage

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Financial and Business Results

SLF Canada common shareholders' net income increased to $963 million, up $68 million, or 8%, from $895 million in 2004. The increase reflected improved mortality experience of $35 million, gains from investment credit experience of $20 million and increased earnings of $21 million from the Company's investment in CI Financial.

Revenue for the year was $8.7 billion, up 6% over 2004 with growth in each of premiums, investment income and fee income. Improving equity markets throughout the year and increased deposits and sales in the asset-based lines of business helped increase fee income by 6% to $564 million.

ROE for SLF Canada(1) rose to 14.5% compared to 13.5% a year ago, reflecting growth in earnings.

Total AUM were $114.3 billion at the end of 2005, up 9% from the 2004 level. The growth was driven by higher equity market levels and net sales of segregated and managed funds.

Outlook

SLF Canada will continue to focus on customer service, product development, technological innovation and operational efficiencies. It is well positioned to capitalize on its competitive strengths to retain existing customers and acquire new business.

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(1) ROE for the business segments is a non-GAAP measure. For additional information see *"Non-GAAP Financial Measures"* on page 12.

Summary Statement of Operations

($ millions, except as noted)	**2005**	2004*	2003*
Premiums	**5,314**	4,970	5,197
Net investment income	**2,780**	2,660	2,512
Fee income	**564**	532	480
Total revenue	**8,658**	8,162	8,189
Client disbursements & change in actuarial liabilities	**5,625**	5,345	5,587
Commissions & other expenses	**1,660**	1,603	1,499
Income taxes	**385**	293	322
Non-controlling interests in net income of subsidiaries	**17**	14	11
Par policyholders' income (loss)	**8**	12	(3)
Common Shareholders' Net Income	**963**	895	773
Selected Financial Information			
Earnings by Business Unit			
Individual Insurance & Investments	**572**	511	431
Group Benefits	**246**	252	236
Group Retirement Services & Institutional Investments	**145**	132	106
Total	**963**	895	773
ROE	**14.5%**	13.5%	12.0%
Total AUM ($billions)	**114.3**	105.1	99.1

* Certain comparative figures have been restated to conform with the presentation adopted in 2005 as described in Notes 2 and 4 to SLF Inc.'s 2005 Consolidated Financial Statements.

Results by Business Unit

Individual Insurance & Investments

SLF Canada's Individual Insurance & Investments business unit offers a full range of individual life and health insurance products as well as savings and retirement products. Its principal insurance products include universal life, term life, permanent life, critical illness, long-term care and personal health insurance. Its principal investment products include accumulation and payout annuities. It also has a distribution agreement to sell CI Financial's segregated and mutual funds. These products are marketed through a distinctive, multi-channel distribution model composed of the exclusive CSF, SLF Long Term Care Specialists, and a wholesale distribution channel consisting of partnerships with investment dealers, mutual fund dealers, managing general agents and other insurance companies.

Individual Insurance & Investments' earnings increased to $572 million in 2005 from $511 million in 2004. These increased earnings were a result of improved mortality experience of $18 million, reduced unit expenses which improved earnings $17 million and an increased contribution of $21 million from CI.

Individual life and health insurance sales were up 11% over 2004 from $136 million to $151 million. In particular, wholesale insurance sales grew from $8 million in 2004 to $20 million due to new distribution partnerships and renewed product offerings. Long-term care insurance also experienced double-digit growth, benefiting from growth in the number of specialists.

Consumer preference for market-based funds, due to strong market performance and lower interest rates, resulted in increased segregated fund and mutual fund deposits but lower premiums from guaranteed products.

Earnings from the Company's investment in CI Financial are included in the results of SLF Canada's Individual Insurance & Investments unit. Common shareholders' net income from the Company's 35% ownership interest in CI Financial was $106 million after tax in 2005, up 25% from 2004. As one of Canada's largest investment fund companies, CI Financial had AUM of $71.7 billion as at December 31, 2005, up $3.9 billion over the prior year. The increase in CI Financial's earnings and AUM was due to both net sales and growth in the market value of assets. As an important contributor to CI Financial's growth, the CSF accounted for 37.5% of the retail net sales of CI Financial's funds.

Group Benefits

SLF Canada's Group Benefits business unit is a leading provider of group life and health insurance products in Canada, providing services to more than 10,000 employers. The business unit has a market share of approximately 21% based on premium and premium equivalents, and provides life, dental, drug, extended health care and disability benefit programs to employers of all sizes. SLF Canada competes on the strength of its scale, product and service offerings, regional delivery model, industry-leading technology and the innovative Total Benefits offering. Group Benefits products are marketed and distributed across Canada by experienced sales representatives in cooperation with independent brokers and benefit consultants.

In 2005, Group Benefits focused on reinforcing the foundation of its business through customer focused initiatives leading to service excellence and laid the groundwork for an innovative health and disability management strategy called Healthy Returns™. This focus allowed Group Benefits to retain key clients, including the Ontario Hospital Association.

Group Benefits' 2005 common shareholders' net income decreased slightly to $246 million from $252 million in 2004.

Group Benefits recognized continued growth through its Total Benefits offering, which integrates Group Benefits and GRS client interfaces. The launch of the Plan Advisor website improved the integration of services between the business units, enhancing the customer experience. Total

Benefits also partnered with best-in-class pension, payroll and human resources information system suppliers to provide one-stop service for clients.

Sales, measured by annualized premiums and premium equivalents, increased 39% to $295 million in 2005 from $212 million in 2004. The increase reflected the addition of several large cases. Client retention also remained strong, with cancellation rates at less than 3% of premium and premium equivalents. Business in-force increased by 9% to $5.2 billion at December 31, 2005.

Group Retirement Services & Institutional Investments (GRS&II)

SLF Canada's GRS&II business unit consists of the GRS operation as well as the Company's 56% ownership interest in McLean Budden Limited, a premier institutional provider of investment management services in Canada. GRS is the largest provider of funding and recordkeeping services to defined contribution pension plans in Canada(1). GRS also offers other group retirement services and products, group annuity policies to fund defined benefit pension plans, fixed rate annuities, group life annuities and pensioner payroll services. With its strength in product and investment offerings, plan sponsor and member services, and technological capabilities, GRS is well equipped to meet the complex plan and service requirements of medium to large organizations, while still being able to provide cost effective solutions to the small employer market. GRS had a 31% market share(1) in Canada based on defined contribution plan AUM, and its products covered over 1.2 million plan participants at the end of 2005. GRS's products and services are distributed through pension consultants, brokers and advisors.

GRS&II net income increased by $13 million in 2005 to $145 million from $132 million in 2004, primarily due to increased earnings from fee-based businesses. AUM grew by 12% due to strong sales results and improved equity markets.

In 2005, GRS continued its focus on sales, asset retention and improving the client, advisor and member experience. It led the Canadian industry in total market activity wins with over $1.9 billion in sales and retained member assets. GRS successfully completed the implementation of the Deferred Profit Sharing Plans (DPSP) for employees of the Canadian operations of the Magna International Inc. group of companies (Magna). The addition of the DPSP plan makes Sun Life Financial the sole provider of group retirement services to all of Magna's Canadian employees. Magna's DPSP is one of the largest defined contribution plans to change providers in Canada.

GRS payout annuity premiums increased by $60 million in 2005 to $89 million from $29 million in 2004, while guaranteed annuity premiums decreased by $49 million in 2005 to $341 million from $390 million in 2004 as participants continued to shift their contributions towards market-based products over guaranteed funds.

(1) As measured by *Benefits Canada* magazine's 2005 Defined Contribution Plan Survey.

SLF U.S.

Business Profile

SLF U.S. focuses on the delivery of innovative wealth accumulation and protection products to individuals and businesses. SLF U.S. has three operating units: Annuities, Individual Life insurance for affluent consumers and business owners, and Group Life, disability and stop-loss insurance for employers.

- The Annuities business unit offers variable annuities, fixed annuities, private placement variable annuities for high net worth clients, equity-indexed annuities and investment management services
- The Individual Life business unit offers single and joint universal life and variable universal life, corporate-owned and bank-owned life insurance (COLI/BOLI) and variable universal life for high net worth clients
- The Group Life & Health business unit offers group life insurance, short-term and long-term disability insurance and medical stop-loss insurance

Industry Profile

The life, health and annuity insurance markets in the United States of America comprise a large number of industry players. Ongoing consolidation has led to dominance by the top 10 competitors, representing over half of the overall market share. The marginalization of smaller players creates potential acquisition opportunities for larger, better-capitalized organizations.

The aging of the baby boomer population, which now exceeds 75 million in the United States of America, provides significant opportunities for SLF U.S. An increasing number of Americans are entering retirement, at a time when life expectancy is on the rise. Together with heightened consumer awareness of the value of asset allocation and diversification, and shifts in corporate retirement programs, these trends provide a significant opportunity for both wealth accumulation and protection products.

The employee benefits marketplace continues to be dominated by issues associated with rising health care costs. To try to control the cost of corporate benefit programs, employers are increasingly shifting the costs of benefits to employees. Opportunities exist for group carriers who can successfully attract a share of employee dollars allocated to benefits.

Competitive Position (1)

SLF U.S. is a provider of products and services in the U.S. annuity and high-end specialty insurance markets:

- #2 in individual universal life average face amount issued, demonstrating SLF U.S.'s competitiveness in the affluent market segment
- #3 in medical stop-loss insurance based on business in-force

Strategy

SLF U.S.'s long-term strategy is to achieve a top 10 market rank in selected markets through the following initiatives:

- Enhancing distribution capabilities and productivity
- Achieving recognition as a product and solution expert by leveraging customer knowledge, risk management and investment expertise
- Strengthening operational scale and efficiency by the implementation of a service centre multi-site strategy
- Focusing on deeper penetration into existing distributor networks and adding specialty distributors
- Extending product range, distribution and market reach in all core business lines
- Pursuing bolt-on acquisitions and joint ventures for scale efficiency and enhanced growth

(1) Competitive statistics are based on published information at and for the year ended December 31, 2005, or the information available for the latest period before December 31, 2005.

2005 Accomplishments

- Grew earnings by 36% on a US dollar basis and increased ROE to 12.9%, 250 basis points over 2004 levels
- Increased Group Life & U.S. Health business in-force to over US$1.0 billion by December 31, 2005, an increase of 19% over December 31, 2004
- Achieved record net sales of US$153 million in Group Life & Health, up 45% from 2004
- More than doubled the number of Annuities wholesale distributors to 78 at December 31, 2005
- Introduced a number of new product enhancements to the Sun Life Financial Masters annuity product portfolio, including withdrawal-benefit-for-life and refund-of-fees features
- Achieved high net worth new premium and deposits of US$32 million in individual life and US$104 million in annuity, a combined increase of 109% from 2004
- Achieved US$165 million of COLI new premium deposits, a 193% increase from 2004
- Issued US$900 million of fixed annuity backed medium term notes
- Received the Financial Intermediary Post-Sale award for 2005, the highest post sale service award given by Dalbar
- Implemented an innovative structure to deal with U.S. statutory reserve requirements for the no-lapse guarantee on universal life products (known as regulation AXXX), which reduces the company's costs of funding

2006 Priorities

- Achieve variable annuity growth
- Enhance Individual Life sales growth within the existing distributor network by more than doubling the number of account relationship managers, expanding distribution reach to new channels, and extending the geographic reach and range of product offerings
- Continue to improve Individual Life new business and underwriting operational efficiencies
- Gain market share in larger case and employee-paid group insurance market
- Build payout annuity capabilities to capitalize on demographic trends and to position for future growth of this business
- Continue service centre cost improvement initiatives
- Pursue bolt-on acquisitions for scale efficiencies and enhanced growth

Financial and Business Results

For the year ended December 31, 2005, SLF U.S. reported earnings of $495 million, up $104 million, or 27%, from 2004. The strengthening of the Canadian dollar against the U.S. dollar during 2005 decreased earnings by $36 million based on 2004 exchange rates.

On a U.S. dollar basis, earnings increased US$109 million to US$409 million from US$300 million in 2004, primarily due to improved interest rate spreads which contributed US$21 million, higher income from equity markets which increased earnings by US$40 million after tax and lower costs of funding universal life reserves for U.S. regulatory purposes which helped improve individual life earnings by US$19 million. Revenue for the year was US$7.5 billion, up US$294 million, or 4%, from 2004, as the increase in investment product sales more than offset a decline in fixed and equity-indexed annuity sales.

SLF U.S.'s ROE(1) improved to 12.9% in 2005 from 10.4% in 2004 as a result of higher earnings and the benefits of continued capital efficiency measures.

Outlook

The U.S. marketplace faces increasing levels of competition, regulation and consolidation. The core business units of SLF U.S. will benefit from scale efficiencies resulting from service centre improvements, the organic growth from distribution expansion and external growth from joint ventures and acquisitions.

Summary Statement of Operations

(C$ millions)	**2005**	2004	2003
Premiums	**6,246**	6,465	6,666
Net investment income	**2,298**	2,355	2,433
Fee income	**617**	609	564
Total revenue	**9,161**	9,429	9,663
Client disbursement & change in actuarial liabilities	**6,993**	7,330	7,709
Commissions & other expenses	**1,560**	1,652	1,552
Income taxes	**113**	55	97
Non-controlling interests in net income of subsidiaries	**(1)**	–	–
Par policyholders' income (loss)	**1**	1	2
Common Shareholders' Net Income	**495**	391	303
Selected Financial Information (US$ millions, except as noted)			
Earnings by Business Unit			
Annuities	**268**	184	111
Individual Life	**100**	81	77
Group Life and Health	**41**	35	30
Total	**409**	300	218
Total revenue	**7,539**	7,245	6,887
Common shareholders' net income	**409**	300	218
ROE	**12.9%**	10.4%	7.3%
Total AUM (US$ billions)	**58.4**	56.1	52.7

Results by Business Unit

Annuities

The SLF U.S. Annuities business unit is an integral part of the Company's growth platform in the United States. SLF U.S. provides fixed, variable and equity-indexed annuity products and investment management services. The product portfolio is supported by broad distribution, product and solution capabilities arising from a combination of market focus and expertise in investment and risk management. The Annuities business unit includes SLF U.S.'s distribution subsidiaries, Sun Life Financial Distributors, Inc. (SLFD), Independent Financial Marketing Group, Inc. (IFMG) and its investment management company, Sun Capital Advisers LLC.

Annuity earnings improved to US$268 million, up 46% from 2004. The increase was primarily due to improved fixed annuity interest rate spreads which contributed US$21 million and higher income from equity markets which increased earnings US$40 million. Improvements in fixed annuity spreads were the result of interest rate management, higher investment income and favourable credit experience.

Overall annuity sales for 2005 of US$3.4 billion, excluding the US$900 million from the issue of MTNs in 2005, were down 17% from 2004, primarily due to reduced equity- indexed annuity sales, which decreased 38% from a year ago. This decline reflected an increasingly competitive and dynamic environment.

Fixed annuity sales of US$337 million decreased 29% from 2004, as the low interest rate environment continued to challenge the sales of fixed income products.

Variable annuity sales increased slightly to US$2.1 billion in 2005 from US$2.0 billion in 2004 primarily due to higher sales of private placement variable products.

At December 31, 2005, total AUM were US$42.3 billion, flat from a year ago.

Individual Life

SLF U.S.'s Individual Life business unit serves high net worth individuals and business owners through competitively priced, high-quality products including single and joint universal life, corporate-owned and bank-owned life insurance and private placement variable universal life products. The

business unit accesses its target customers through general agents and third-party intermediaries.

Individual Life continued to deliver solid performance in 2005. Earnings were US$100 million compared to US$81 million in 2004. The increase of US$19 million was driven by reductions in costs of funding universal

(1) ROE for the business segments is a non-GAAP measure. For additional information see "*Non-GAAP Financial Measures*" on page 12.

life products using the innovative AXXX funding structure.

Sales, excluding specialty product sales (COLI, BOLI and Private Placement Variable Universal Life and offshore), were up 10% over 2004. The increase reflected the introduction of re-priced universal life single and joint life products. High net worth private placement variable universal life sales grew to US$32 million, an 88% increase from 2004, due to expanded distributor relationships and increased market awareness of the three-year-old product. COLI sales were up by US$25 million, or 106%, in 2005. BOLI sales were down by US$75 million due to the extremely competitive BOLI large case market during 2005.

Group Life & Health

SLF U.S.'s Group Life & Health business unit currently provides customer-focused products and services to meet the group insurance needs of small to medium-sized companies. Growth strategies include expanding into the larger case and employee-paid markets. Group Life and Health leverages its strong underwriting expertise and extensive distribution capabilities to provide group life, long-term and short-term disability and medical stop-loss insurance to nearly 6 million group plan members. The business unit's group insurance products are marketed and distributed by its 129 sales representatives in 24 regional sales offices in the United States. These representatives maintain close relationships with independent brokers and consultants who deal directly with employers.

Group Life & Health earnings in 2005 were US$41 million, an increase of 17% over 2004. The increase was primarily due to a larger block of business in-force. The operating expense-to-insurance premium ratio held steady at 14% in 2005 compared to a year ago.

Revenue for the year increased to US$924 million, up US$138 million, or 18%, from 2004 primarily driven by higher sales from sales force expansion.

Business in-force as of December 31, 2005 increased to over US$1.0 billion, up 19% from December 31, 2004. A reputation for quality service and the financial strength of the Company resulted in a persistency rate of 82%.

MFS

Business Profile

MFS is a global investment management company which offers products and services that address the varying needs of investors over time. Individual investors have access to a broad selection of financial products, including mutual funds, variable annuities, separate accounts, college and retirement savings plans, and offshore investment products. These products are distributed through financial intermediaries that provide sales support, product administration and client services. MFS services institutional clients by providing asset management services for corporate retirement plans, separate accounts, public or government funds, and insurance company assets. Institutional clients are serviced through a direct sales force and a network of independent consultants. As at December 31, 2005, the Company's ownership interest in MFS was 98%, with the remainder owned by MFS's employees.

Industry Profile

The global investment management industry is exceedingly competitive, driven by high standards for investment performance and customer service. Individual and institutional investors alike demand a wide array of investment options, as they look for greater absolute returns. Investors have also forced changes in the distribution systems with their focus on greater transparency and disclosure. Increasingly, the industry is migrating toward open architecture platforms that place more emphasis on relative performance. Along with these competitive pressures, the industry is also faced with higher levels of regulation.

Competitive Position(1)

With total AUM of US$162 billion as at December 31, 2005, MFS is a leading player in the domestic U.S. market and a growing player in the global market:

- 12th largest U.S. retail mutual fund company based on long-term AUM of US$75 billion at December 31, 2005
- 5th largest investment manager of variable annuity assets, with US$29 billion under management at September 30, 2005
- Over 25% of gross sales are now sourced from non-U.S. retail and institutional clients
- Serves over 6 million investor accounts through 15 global offices

Strategy

- Deliver superior long-term investment performance built on the strength of disciplined investment research
- Achieve a balanced business model, servicing the needs of individual and institutional investors, in the U.S. and globally
- Improve position in the U.S. retail distribution channel by developing superior products and offering quality service and value-added sales support
- Diversify the mix of AUM across the full range of asset categories
- Capitalize on efficient operating infrastructure

2005 Accomplishments

- Gross sales across all products increased 31.5% over 2004 to US$38.8 billion
- Returned to positive net flows in aggregate with over US$7.5 billion in 2005
- Lipper Inc.(2) ranked 67% and 69% of funds in the top half of their respective categories for 3-year and 5-year performance
- Consolidated multiple offshore retail fund groups into one family registered in Luxembourg with US$7 billion in AUM
- Continued expansion of asset allocation mutual fund product line with the launch of 5 target maturity lifetime funds

2006 Priorities

- Improve and sustain long-term investment performance
- Realign distribution organization into three channels: retail, advisor and institutional
- Achieve positive net flows through organic growth in the retail channel and improve net flows in the institutional distribution channel in the U.S. and globally

(1) Competitive statistics are based on published information at and for the year ended December 31, 2005, or for the latest period before December 31,2005.

(2) Lipper Inc. is an independent company providing mutual fund analysis and benchmarking services.

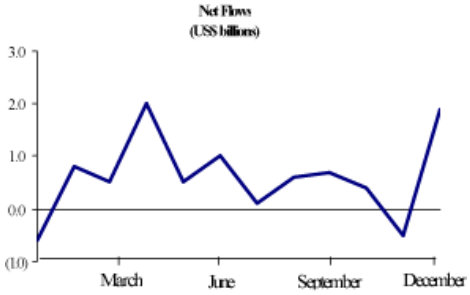
Financial and Business Results

MFS common shareholders' net income for 2005 rose $65 million, or 57%, from the prior year. Operating earnings (1) were up $6 million, or 3.5%, from 2004 levels in spite of the strengthening of the Canadian dollar against the U.S. currency, which decreased MFS's earnings by $13 million based on 2004 exchange rates. On a U.S. dollar basis, operating earnings grew by US$14 million, or 10.5%, to US$147 million in 2005.

AUM ended 2005 at US$162 billion, an increase of 11.0% for the year with both positive net flows of US$7.5 billion and positive market action of US$8.6 billion contributing to the growth. Average net AUM increased by 9% to US$151 billion in 2005, up from US$138 billion in 2004.

Revenue for the year of US$1,360 million was up 4.1% from a year ago on higher average net assets. Year-over-year advisory revenue growth of 8% was consistent with the increase in average net assets; however lower distribution fees on mutual fund products and the impact of a US$25 million reduction in fees as a result of the regulatory settlement reported in 2003 diminished the overall growth in revenues. Higher operating earnings and relative revenue margins reflected scale improvements in the institutional product lines as well as benefits from infrastructure changes over the past two years.

Gross sales were strong in 2005, growing 31.5% to US$38.8 billion. Over 50% of sales came through traditional institutional product lines, subadvised insurance assets and structured fixed income products.



MFS's total net flows were consistently positive throughout most of 2005. The full year total for 2005 of US$7.5 billion net inflows was a significant turnaround from the 2004 net outflows of US$8.9 billion. During 2005, the strength in institutional product lines more than offset continuing net outflows in U.S. retail mutual funds and Sun Life Financial variable annuity products managed by MFS.

Summary Statement of Operations

(C$ millions)	**2005**	2004	2003
Total revenue	**1,648**	1,700	1,684
Commissions & other expenses	**1,355**	1,471	1,727
Income taxes	**110**	108	5
Non-controlling interests in net income of subsidiaries	**4**	7	(5)
Common Shareholders' Net Income (Loss) – Reported	**179**	114	(43)
Plus: Regulatory settlement provisions	**–**	59	211
Common Shareholders' Net Income - - Operating	**179**	173	168

Selected Financial Information

(US$ millions, except as noted)			
Total revenue	**1,360**	1,306	1,206
Common shareholders' net income			
- Reported	**147**	88	(39)
- Operating	**147**	133	121
Sales (US$ billions)			
Gross	**38.8**	29.5	34.2
Net	**7.5**	(8.9)	4.2
AUM (US$ billions)	**162**	146	140
Average net assets (US$ billions)	**151**	138	125

Outlook

Positive net flows are expected to increase in 2006 with continued strong growth of institutional business lines and a return to positive net flows in U.S. retail mutual funds by the end of 2006. Positive net flows, combined with stable equity markets, should produce a healthy organic growth in overall AUM.

Continued sales growth will put pressure on wholesaling costs and dealer commission expenses. Though investments in technology infrastructure and regulatory compliance will continue, the rate of expense growth should decline from recent years. MFS management expects the growth in assets and revenue in 2006 to produce consistent improvements in operating earnings and margins.

(1) Operating earnings for 2004 excluded a $59 million charge for regulatory settlement.

SLF ASIA

Business Profile

SLF Asia operates through subsidiaries in the Philippines, Hong Kong and Indonesia, and through joint ventures with local partners in India and China. It provides individual life insurance products and services in all operations, and savings, retirement and pension products and services in India, the Philippines and Hong Kong. Group insurance is offered in India, the Philippines, Hong Kong and China.

Industry Profile

SLF Asia competes in environments ranging from well-developed markets in the Philippines to largely state-dominated, emerging markets in India and China. Life insurance penetration(1) ranges from almost 8% in Hong Kong to under 1% in Indonesia, underscoring the significant opportunity for future sales. Competition is increasingly intense in the emerging markets as multi-national insurers look to Asia for growth opportunities. As China lifts restrictions and opens its market further, the Company expects the pace of expansion of foreign insurance companies in the country to accelerate.

Competitive Position (2)

SLF Asia has already achieved a strong regional presence:

- 2nd in individual life insurance by total premiums in the Philippines
- 7th in individual life insurance by in-force premiums in Hong Kong (including CMG Asia)
- 4th in the private sector for the protection business and 5th in wealth management business in India, based on first-year premiums and AUM, respectively

Strategy

- Develop SLF Asia into a significant long-term revenue and earnings growth operation, focusing on becoming or remaining a market leader in a select number of geographies
- Build multiple distribution channels that can deliver innovative products that meet customer needs
- Provide a customer service focused operation

2005 Accomplishments

- On October 18, 2005, the Company acquired CMG Asia, moving Sun Life Financial Hong Kong to the #7 position from #19 in 2004 and increasing its market share from 1.5% to 3.9% based on in-force individual life premiums
- The Hong Kong operations also strengthened its distribution network by forming a new bancassurance partnership in Hong Kong with China Construction Bank Corporation (CCB)
- In September, SLF Asia's China joint venture started selling life insurance products in its third China city location, Hangzhou, the capital of the Zhejiang province. It also entered the group insurance business in late 2005
- SLF Asia's India wealth management joint venture acquired the Indian mutual funds assets of Alliance Capital Mutual Funds, adding $350 million in AUM
- The Philippines diversified its distribution network by establishing a joint venture with Standard Chartered Bank

2006 Priorities

- Fully integrate CMG Asia operations with Sun Life Financial's existing Hong Kong operations, capitalizing on the expanded distribution capacity and synergies created by the acquisition
- Rapidly expand the India life insurance joint venture branch network by opening 50 new branches and increasing the number of agents to 20,000
- Launch operations in two important cities in China – Shanghai and Nanjing
- Enhance customer service capabilities throughout the region, to provide effective and efficient services that meet the needs of the various market segments
- Achieve individual sales growth in excess of 50% with Hong Kong nearly double the 2005 level and significant growth in India and China.

(1) Premium as percentage of Gross Domestic Product. Source: Swiss Re – Sigma, volume 2/2005.

(2) Competitive statistics are based on published information at and for the year ended December 31, 2005, or the information available for the latest period before December 31, 2005.

Financial and Business Results

SLF Asia contributed $42 million in shareholders' net income for the year ended December 31, 2005, a decline of $3 million from the prior year. Excluding CMG Asia net integration costs, operating earnings were largely unchanged from 2004. Favourable tax resolutions of $13 million in the Philippines were offset by increased investments in business development, greater lapses which reduced earnings by $4 million, additional foreign exchange losses of $3 million and higher new business strain.

SLF Asia's premium revenue increased by 4% to $524 million in 2005, mainly as a result of the increase in premiums from the CMG Asia acquisition. The increase was partially reduced by the unfavourable currency impact of $37 million from the stronger Canadian dollar. Investment income increased $38 million, or 20.5%, from a year ago on a larger asset base. The increase was partly offset by the $14 million unfavourable currency effect of a strengthened Canadian dollar relative to 2004 exchange rates. AUM of $7.3 billion nearly tripled from a year ago due to the acquisition of CMG Asia.

Summary Statement of Operations

($millions, except as noted)	**2005**	2004*	2003*
Premiums	**524**	506	439
Net investment income	**223**	185	168
Fee income	**12**	3	4
Total revenue	**759**	694	611
Client disbursements & change in actuarial liabilities	**499**	470	400
Commissions & other expenses	**201**	165	162
Income taxes	**17**	14	12
Common Shareholders' Net Income	**42**	45	37
Selected Financial Information			
Sales – New annualized premiums			
Individual life **	**261**	239	128
Total AUM ($ billions)	**7.3**	2.5	2.1

* Certain comparative figures have been restated to conform with the presentation adopted in 2005 as described in Notes 2 and 4 to SLF Inc.'s 2005 Consolidated Financial Statements.

** Includes 100% of sales for joint ventures. Individual life sales would be $181 million, $162 million and $97 million for 2005, 2004 and 2003, respectively, if joint venture sales were included at 50%.

Operations by Business unit

Philippines

Sun Life Financial has been operating in the Philippines for over 100 years. With a solid reputation, the Company was #2 in the life insurance market by total insurance premiums, #3 in mutual funds by AUM, and #3 in sales of savings plans through November 2005 based on initial contributions. The Sun Life Financial brand is strong in the high-end market in the Philippines, and is recognized for its professional agency force, quality business and high service standards. The Company is also known for risk management leadership, witnessed by its ability to leverage robust risk management practices and financial strength to capitalize on opportunities in the marketplace.

Hong Kong

SLF Asia's Hong Kong operations offer traditional and unit-linked products to the mass affluent market in Hong Kong through a multi-channel distribution system that includes career agency, bancassurance and broker/independent financial advisors. With the completion of the CMG Asia acquisition, the career agency force expanded to over 1,700 agents and the customer base grew from 100,000 to 350,000. The Company also expanded its Hong Kong product portfolio to include group life and medical, and pension businesses.

Indonesia

SLF Asia's Indonesia operations distribute traditional and unit-linked individual life insurance, largely through a career agency distribution system. A bancassurance partnership with Citibank was established in the fourth quarter of 2005, providing another complementary distribution vehicle. The Company was ranked #3 for unit-linked products, #18 for traditional products and #7 overall based on first-year premiums for the first 9 months of 2005.

With a 40% increase in average case size, 2005 sales in local currency increased by 34% over 2004. The demand for unit-linked products was high, with new business growing 186% over 2004, compared to a decrease of 59% in new premiums for traditional products over the same period.

India

Birla Sun Life Insurance Company Limited (Birla Sun Life), the Company's insurance joint venture in India, ranked #5 in the overall market and #4 in the private sector in individual life insurance and total sales for the period ended December 2005. It markets a full array of individual life insurance, group insurance and group savings products to the affluent market segment through three distribution channels: its career agent sales force which is approaching 14,000, bancassurance arrangements and corporate agents. Birla Sun Life's group insurance and pension clients include several of the largest local companies as well as multi-national corporations in India.

Birla Sun Life Asset Management Company Limited, the Company's asset management joint venture in India, ranked 5 th in the marketplace amongst private players, based on AUM as at December 2005. It markets a full array of mutual fund products to the middle income consumer market and corporate accounts in India through a network of over 2,000 distributors. The acquisition of the Indian mutual fund business of Alliance Capital Mutual Funds in September added approximately 10% to the AUM.

The Company's joint ventures partner, the Aditya Birla Group, is one of India's largest conglomerates and enjoys strong brand recognition in India. This strong market presence has been an integral contributor to the life and mutual fund operations' success.

China

Sun Life Everbright, the Company's joint venture in China, sells individual and group products to individuals and organizations in Tianjin, Beijing, and the Zhejiang province in China. The operation continues to develop a multi-channel distribution model that combines a direct sales force for individual and group business, and third-party distribution arrangements with banks and Tianjin Post for single-premium savings business.

CORPORATE

Business Profile

Corporate includes the results of SLF U.K., the active Reinsurance business unit and run-off reinsurance as well as investment income, expenses, capital and other items not attributable to the Company's other business groups.

2005 Accomplishments

- Continued to optimize capital with additional capital repatriated from SLF U.K.
- Reinsurance business unit maintained its position as one of the leaders in the North American life retrocession market with a 30% market share of the in-force business and secured several large in-force mortality blocks resulting in a year-over-year sales increase of 50%
- Purchased and cancelled approximately 13.2 million common shares for $544 million as part of a share repurchase program. This level of repurchase exceeded the Company's stated objective of $500 million for 2005

2006 Priorities

- Continue to enhance shareholder value through capital optimization and productivity improvements
- Leverage reinsurance capabilities in other parts of the organization
- Continue to expand the Reinsurance business unit's European operations

Financial and Business Results

For the year ended December 31, 2005 Corporate reported common shareholders' net income for the full year of $164 million, $71 million lower than in 2004. Favourable results of $19 million in SLF U.K. and foreign exchange gains of $74 million on the repatriation of capital from the U.K. were more than offset by reserve strengthening of $34 million and worse mortality of $32 million in Reinsurance, CMG Asia integration costs of $9 million, the $51 million loss on the disposition of Cuprum and higher project costs of $28 million in 2005.

Summary Statement of Operations*

($ millions)	**2005**	2004**	2003**
Premiums	**856**	962	1,241
Net investment income	**791**	725	599
Fee income	**45**	58	69
Total revenue	**1,692**	1,745	1,909
Client disbursements & change in actuarial liabilities	**1,261**	1,394	1,284
Commissions & other expenses	**334**	316	459
Income taxes	**(94)**	(207)	(79)
Non-controlling interests in net income of subsidiaries	**3**	7	8
Dividends paid to preferred shareholders	**24**	–	–
Common Shareholders' Net Income	**164**	235	237
Selected Financial Information Earnings by Business Unit			
SLF U.K.	**192**	173	203
Reinsurance	**5**	72	56
Corporate Other	**(33)**	(10)	(22)
Total	**164**	235	237

* Including consolidation adjustments related to activities between segments.

** Certain comparative figures have been restated to conform with the presentation adopted in 2005 as described in Notes 2 and 4 to SLF Inc.'s 2005 Consolidated Financial Statements.

Results by Business Unit

SLF U.K.

SLF U.K. no longer offers products to new customers. The in-force life and pension policies constitute a run-off block of business which is managed by a small corporate governance team, with most operating functions outsourced to external service providers.

For the year ended December 31, 2005, SLF U.K. earned $192 million compared with $173 million in the prior year. Lower policy review and other provisions of $41 million and the absence of the previous year's adverse claims experience in the group life business improved earnings $20 million. These increases more than offset the impact of strengthening expense reserves of $6 million and the weakening of the British pound sterling against the Canadian dollar which reduced 2005 earnings by $15 million at 2004 rates. The 2005 results included a $34 million contribution to earnings from the recognition of future tax assets. The group life business has now substantially run off, following the sale of the renewal rights to this business in 2003.

SLF U.K. continues to focus on managing its expenses as the in-force block of business runs off. In 2005, SLF U.K. undertook a number of initiatives to reduce ongoing expenses including additional outsourcing arrangements. As the in-force block continues to decline, expense reduction will continue to be a management focus.

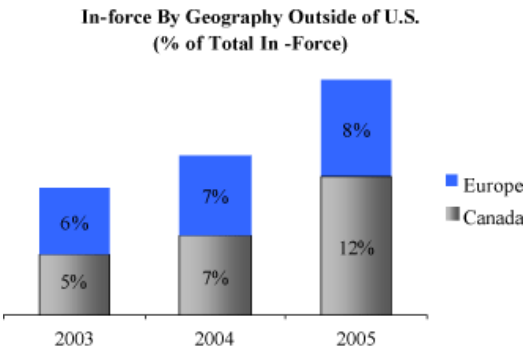
Reinsurance

The active Reinsurance business unit provides customized reinsurance and risk management solutions, primarily for the life retrocession business. It enjoys a leadership position in the North American retrocession market with a 30% market share and has an expanding presence within the European market.

For the year ended December 31, 2005, the Reinsurance business unit earned $5 million compared with $72 million in the prior year. A combination of reserve strengthening in 2005 and more favourable mortality experience in 2004 resulted in the earnings decline.

In 2005, the Reinsurance business unit capitalized on industry consolidation by acquiring several large in-force mortality blocks of business, increasing sales by 50%. While these opportunities are not likely to reoccur, the operation will continue to seek one-off opportunities with appropriate risk profiles that provide attractive returns.

The Reinsurance business unit continues to expand its European operations with a focus on the life, critical illness and longevity lines of business. Between 2003 and 2005, the business mix of its life and critical illness business from Europe increased from 6% to 8% of the unit's total business. Total Canadian in-force business also increased as a result of mortality blocks written in Canada in 2005.



To position itself for profitable future growth, the Reinsurance business unit will continue to focus on improving operational and organizational efficiency, and increasing its reinsurance capacity.

Corporate Other

This business area includes investment income, expenses, capital and items not allocated to Sun Life Financial's other segments, as well as the Company's run-off reinsurance business which consists mostly of accident and health reinsurance business.

For the year ended December 31, 2005, Corporate Other had a loss of $33 million compared with a loss of $10 million in the prior year as higher foreign exchange gains of $74 million on the repatriation of capital were more than offset by the $51 million loss on the disposition of Cuprum, higher project costs of $28 million and costs of $9 million related to the integration of CMG Asia.

CORPORATE DEVELOPMENTS

The following significant developments occurred in 2005.

Corporate Reorganization

On January 4, 2005, Sun Life Financial completed a reorganization under which most of its asset management businesses in Canada and the United States, including the majority of its U.S. annuities business, were transferred to Sun Life Financial Corp., a subsidiary of SLF Inc. The reorganization positions Sun Life Financial to benefit from the capital guideline, Capital Regime for Regulated Insurance Holding Companies and Non-Operating Life Companies, issued by OSFI in July 2005.

Sale of Cuprum

On August 26, 2005, the Company sold its 31.72% interest in Cuprum for $130 million. As a result of the transaction, the Company took a $51 million charge to earnings primarily arising from the depreciation of the Chilean peso against the Canadian dollar since the interest was acquired in 1998. The sale was consistent with the Company's ongoing focus on building scale in core strategic markets and exiting those where it does not have a meaningful presence. Additional information on the transaction is available in Note 3 to SLF Inc.'s 2005 Consolidated Financial Statements.

Share Repurchase Program

SLF Inc. continued its share repurchase program in 2005 with the repurchase and cancellation of 13,230,736 common shares at a cost of $544 million. On January 10, 2006, SLF Inc. announced its repurchase program for 2006 for the purchase of up to 5% of its outstanding common shares, starting January 12, 2006.

Increased Quarterly Shareholder Dividends

In 2005, SLF Inc. increased its quarterly common share dividend by 16%, reflecting the Company's strong financial performance, continued capital strength and positive outlook for the Company's future. The quarterly dividend payout per common share was increased from $0.22 to $0.24 in the first quarter of 2005, and from $0.24 to $0.255 in the third quarter of 2005.

On December 8, 2005, SLF Inc. announced a change in the payment date for its third quarter 2005 dividend for common shares and Class A Preferred Shares from December 30, 2005 to January 3, 2006. This change was made to enable Canadian shareholders to take advantage of the announced Canadian legislation which, if passed, will reduce the effective income tax rate on dividend income for individual taxpayers starting in January 2006.

On February 9, 2006, the Board of Directors approved an additional 7.8% increase in the quarterly dividend to $0.275 per share.

Financing Arrangements

The Company routinely reviews its financing arrangements to enhance its capital efficiency and optimize its capital structure. Two series of Class A non-cumulative preferred shares were issued by SLF Inc. in 2005 and an additional series of Class A non-cumulative preferred shares was issued on January 13, 2006. Also, in June 2005, Sun Life Assurance redeemed all of its outstanding Class E Preferred Shares.

On November 23, 2005, SLF Inc. issued $600 million of Series A Senior Unsecured 4.8% Fixed/Floating Debentures due November 23, 2035.

Additional details of these transactions can be found on page 40 in this MD&A in the " *Capital Structure*" section under the heading "*Financial Position and Liquidity*" and in Notes 11 and 15 to SLF Inc.'s 2005 Consolidated Financial Statements.

CRITICAL ACCOUNTING ESTIMATES

SLF Inc.'s significant accounting and actuarial policies are described in detail in Notes 1, 2, 6, 7 and 10 to its 2005 Consolidated Financial Statements. Management must make judgments involving assumptions and estimates, some of which may relate to matters that are inherently uncertain under these policies. The estimates described below are considered particularly significant to understanding the Company's financial performance. As part of the Company's financial control and reporting, judgments involving assumptions and estimates are reviewed internally, by SLF Inc.'s independent auditor and by other independent advisors on a periodic basis. Accounting policies requiring estimates are applied consistently in the determination of the Company's financial results.

BENEFITS TO POLICYHOLDERS

The Company's benefit payment obligations over the life of its annuity and insurance products are determined by internal valuation models and are recorded in its financial statements, primarily in the form of actuarial liabilities. The determination of the value of these obligations is fundamental to the Company's financial results and requires management to make certain assumptions about mortality and morbidity rates, policy terminations, equity market performance, interest rates, asset default, inflation, expenses and other factors over the life of its products.

The Company uses best estimate assumptions for expected future experience. Some assumptions relate to events that are anticipated to occur many years in the future and are likely to require subsequent revision. Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to change or if there is uncertainty about the underlying best estimate assumption, a correspondingly larger provision is included in the actuarial liabilities.

In determining these provisions, the Company ensures

- when taken one at a time, each provision is reasonable with respect to the underlying best estimate assumption and the extent of uncertainty present in making that assumption; and
- in total, the cumulative effect of all provisions is reasonable with respect to the total actuarial liabilities.

With the passage of time and resulting reduction in estimation risk, excess provisions are released into income. In recognition of the long-term nature of policy liabilities, the margin for possible deviations generally increases for contingencies further in the future. The best estimate assumptions and margins for adverse deviations are reviewed annually and revisions are made where deemed necessary and prudent.

The following table summarizes the significant factors affecting the determination of policyholders' benefits, the methodology on which they are determined, and their significance to the Company's financial conditions and results of operations:

Critical Accounting Estimate	Determination Methodology and Assumptions	Financial Significance (measured as at December 31, 2005)
Mortality – the rate of death for a defined group of people	• Generally based on the Company's average five-year experience • Industry experience considered where the Company's experience is not sufficient • Rates on annuities, where lower mortality rates result in an increase in actuarial liabilities, are adjusted to reflect estimated future improvements in lifespan • Rates for life insurance contracts do not reflect any future improvement that might be expected	• For products for which higher mortality would be financially adverse to the Company, a 1% increase in the best estimate assumption would decrease net income by $80 million • For products for which lower mortality would be financially adverse to the Company, a 1% reduction in the mortality assumption would decrease net income by $40 million
Morbidity – both the rates of accident or sickness, and the rates of subsequent recovery for defined groups of people	• Generally based on the Company's average five-year experience • Industry experience considered where the Company's experience is not sufficient • Long-term care and critical illness insurance assumptions developed in collaboration with reinsurers and largely based on their experience • For those benefits where the Company or industry experience is limited, larger provisions for adverse deviation are included	• For products for which the morbidity is a significant assumption, a 1% adverse change in that assumption would reduce net income by $16 million

Critical Accounting Estimate	Determination Methodology and Assumptions	Financial Significance (measured as at December 31, 2005)
Policy Termination Rates – the rates at which policies terminate prior to the end of the contractual coverage periods	• Generally based on the Company's average five-year experience • Industry studies used where the Company's experience is not sufficient • Rates may vary by plan, age at issue, method of premium payment and policy duration • Assumptions for premium cessation occurring prior to termination of the policy required for universal life contracts	• For individual life insurance products for which fewer terminations would be financially adverse to the Company, net income would decrease $93 million if the termination rate assumption were reduced by 10% starting in policy year six (5% for participating policies and policies with adjustable premiums) • For products for which more terminations would be financially adverse to the Company, net income would decrease $81 million if an extra 1% of the in-force policies were assumed to terminate each year beginning in policy year six (0.5% for participating policies and policies with adjustable premiums)
Equity Markets – the value of the Company's policyholder obligations for certain products is dependent on assumptions about the future level of equity markets	• The calculation of actuarial liabilities for equity market-sensitive products includes adequate provisions to absorb moderate changes in rates of equity market return with provisions determined using scenario testing under the standards established by the Canadian Institute of Actuaries	• For participating insurance products, a portion of the effect of changes in equity market movements is passed through to policyholders as changes in the amount of dividends declared • For variable annuity guarantees primarily in SLF U.S. (including reinsured business) and for certain annuity options in SLF U.K., a 1% reduction in the expected long-term equity market return assumption would decrease net income by $36 million
Interest Rates – the value of the Company's policyholder obligations for all policies is sensitive to changes in interest rates	• The calculation of actuarial liabilities for all policies includes adequate provisions to absorb moderate changes in interest rates with provisions determined using scenario testing under the standards established by the Canadian Institute of Actuaries	• For certain product types, including participating insurance policies and certain forms of universal life policies and annuities, the effect of changes in interest rates is largely passed through to policyholders as changes in the amount of dividends declared or in the rate of interest credited • An immediate 1% increase in interest rates across the entire yield curve would result in an estimated increase in net income of $29 million • An immediate 1% parallel decrease in interest rates would result in an estimated decrease in net income of $143 million
Asset Default provisions are included in actuarial liabilities for possible future asset defaults and loss of asset value in current assets and future purchases	• Based on a reduction in the expected future investment yield or a reduction in the value of equity assets recognized in the computation of actuarial liabilities	• Asset default provisions included in actuarial liabilities amounted to $2.4 billion on a pre-tax basis as at December 31, 2005
Operating Expenses and Inflation – actuarial liabilities provide for future policy-related expenses	• Mainly based on recent Company experience using an internal expense allocation methodology • The increases assumed in future expenses are consistent with the inflation rate used in the scenario testing under the standards established by the Canadian Institute of Actuaries	• A 10% increase in maintenance unit expenses Company-wide would result in a decrease in net income of $253 million

FAIR VALUE OF INVESTMENTS

As described in Note 1 to SLF Inc.'s 2005 Consolidated Financial Statements, stocks, including certain other equity type investments, and real estate are originally recorded at cost and the carrying value is adjusted toward fair value at 5% and 3%, respectively, of the difference between fair value and carrying value per quarter.

The fair value of the majority of stocks is determined based on quoted market prices. For other equity holdings for which quoted market prices are not available, discounted cash flows and other valuation techniques are used to determine the fair market value. For real estate, fair market values are determined by reference to sales of comparable properties in the marketplace and the net present value of the expected future cash flows. Where valuation is not based on quoted market prices, management is required to make judgments and assumptions, which are subject to changes in economic and business conditions. The use of different methodologies and assumptions may have a material effect on the estimates of fair market values.

As at December 31, 2005, the market value of stocks and real estate comprised approximately 7% of the market value of total invested assets.

ALLOWANCE FOR INVESTMENT LOSSES

The carrying value of invested assets reflects allowances for losses, the calculation for which is based on estimates of net realizable value of the assets. The use of different methodologies and assumptions may have a material effect on the estimates of net realizable value.

The carrying value of invested assets is adjusted by allowances for losses, which are established when an asset is classified as impaired. Management considers various factors to identify invested assets of potential impairment concern. In addition to the Company's ability and intent to hold the invested assets to maturity or until a recovery in value, consideration is given to general economic and business conditions, industry trends, specific developments with regard to security issuers, and available market values.

Sectoral allowances are also established for classes of assets when there is concern about the ultimate collection of principal or interest because of a general deterioration of a particular business sector. These allowances represent management's best estimate, based on market conditions, of probable losses within a portfolio that have not yet been specifically identified.

As at December 31, 2005, total allowances for losses were $140 million, representing 44% of gross impaired assets. Specific allowances were $119 million and sectoral allowances were $21 million at December 31, 2005. Provisions for losses on investments, which increase the allowances, are charged against net investment income. Write-offs, net of any recoveries, reduce the allowances.

As at December 31, 2005, the Company's total impaired assets, net of specific allowances of $119 million, amounted to $202 million. The corresponding market value of these impaired assets was approximately $203 million as at December 31, 2005.

GOODWILL AND OTHER INTANGIBLES

The fair value of intangible assets is determined using various valuation models which require management to make certain judgments and assumptions that could affect the fair value estimates and resulting impairment write-downs. As at December 31, 2005, the fair values of the appropriate operating business segments, including any associated subsidiary segments as required, and the fair values of the indefinite-life intangible assets were well in excess of their carrying values.

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net identifiable tangible and intangible assets and is not amortized. Rather, it is assessed for impairment annually by comparing the carrying values of the appropriate business segments, including any associated subsidiary segments, as required, to their respective fair values. If any potential impairment is identified, it is quantified by comparing the carrying value of the respective goodwill to its fair value.

The Company had a carrying value of $6.0 billion in goodwill as at December 31, 2005, consisting primarily of $3.7 billion arising from the 2002 Clarica acquisition, $1.5 billion arising from the acquisition of Keyport Life Insurance Company in the United States in 2001, and $495 million arising from the acquisition of CMG Asia in Hong Kong in 2005. An additional $310 million of goodwill related to the Company's equity holdings in CI Financial and Birla Sun Life is included in the Other Invested Assets.

Identifiable intangible assets consist of finite-life and indefinite-life intangible assets. Finite-life intangibles are amortized, while indefinite-life intangibles are assessed for impairment annually by comparing their carrying values to their fair values. If the carrying values of the indefinite-life intangibles exceed their fair values, these assets are considered impaired and a charge for impairment is recognized.

As at December 31, 2005, the Company's finite-life intangible assets had a carrying value of $655 million, reflecting primarily the value of certain distribution channels and asset administration contracts acquired as part of the IFMG and Clarica Life Insurance Company acquisitions. The Company's indefinite-life intangible assets had a carrying value of $890 million, reflecting fund management contracts and state licenses.

Income Taxes

Sun Life Financial's provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Company's consolidated statements of operations for a particular period. The determination of the required provision for current and future income taxes requires the Company to interpret tax legislation in the jurisdictions in which it operates and to make assumptions about the expected timing of realization of future tax assets and liabilities. To the extent that the Company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience. The amount of any increases or decreases cannot be reasonably estimated.

ACCOUNTING POLICIES

Changes in Accounting Policies in 2005

In 2005, SLF Inc. adopted certain new accounting standards and policies that are detailed in Note 2 to SLF Inc.'s 2005 Consolidated Financial Statements. None of these changes are considered material to the determination of the Company's financial position or results.

Consolidation of Variable Interest Entities

The Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Accounting Guideline 15, Consolidation of Variable Interest Entities, on January 1, 2005, on a retroactive basis. Prior period financial statements have been restated accordingly.

This Guideline provides guidance for application of consolidation principles to those entities defined as variable interest entities (VIEs). Under this Guideline, the Company is required to consolidate only those VIEs where it is exposed to the majority of the VIEs' expected losses and/or expected residual returns. As a consequence of implementing this guideline, the Company reclassified approximately $1.2 billion of non-controlling interest in subsidiaries and US$0.6 billion of subordinated debt to debentures recorded in other liabilities.

The Company also has greater than 20% involvement in 25 VIEs, which were used to finance commercial mortgages, franchise receivables, auto receivables, retail stores and equipment, and to make private debt and equity investments. The Company's maximum exposure to loss related to all of these investments is $192 million, the carrying amount of these assets.

Additional details about the Consolidation of Variable Interest Entities are described in Note 2 to SLF Inc.'s 2005 Consolidated Financial Statements.

Financial Instruments-Disclosure and Presentation

The Company adopted the amendments to the accounting requirements in CICA Handbook Section 3860, Financial Instruments — Disclosure and Presentation, on January 1, 2005. Securities issued by the company that give the Company an unrestricted obligation to settle the principal amount in cash or in the equivalent value of its own shares must be classified as debt. These amendments did not have a material impact on its consolidated financial statements.

Future Adoption

Financial Instruments, Hedges and Comprehensive Income

The Company will adopt CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; CICA Handbook Section 3865, Hedges; CICA Handbook Section 1530, Comprehensive Income, and the amendments to CICA Handbook Sections and Accounting Guidelines resulting from the issuance of these Sections, on January 1, 2007. Under the new standards, all financial instruments will be classified either as held-to-maturity, loans and receivables, held-for-trading or available-for-sale. Financial instruments classified as held-for-trading will be measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables, and financial liabilities not classified as held-for-trading will be measured at amortized cost. Available-for-sale financial instruments will be measured at fair value with changes in fair value recognized in other comprehensive income (OCI).

All derivative financial instruments will be reported on the balance sheet at fair value with changes in fair value recognized in net income unless the derivative is part of a hedging relationship that qualifies as a fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation. The Company is required to present OCI and its components as well as the components of accumulated other comprehensive income in its consolidated financial statements.

The Company is assessing the impact that these Sections will have on its 2007 consolidated financial statements. Additional information on these prospective changes is available in Note 2 to SLF Inc.'s 2005 Consolidated Financial Statements.

RISK MANAGEMENT

Introduction

The Company's enterprise-wide risk management framework establishes policies, risk tolerance limits and worldwide practices for risk management. It provides oversight to the risk management activities within the Company's business segments, ensuring discipline and consistency are applied to the practice of risk management.

Risk Framework

Objectives

The risk management program is designed to:

(i) avoid risks that could materially affect the value of the Company,
(ii) contribute to sustainable earnings,
(iii) take risks that the Company can manage in order to increase returns, and
(iv) provide transparency of the Company's risks through internal and external reporting.

Risk Philosophy

The Company is in the business of accepting risks for appropriate return and takes on those risks that meet its objectives. The program design aligns risk management with the Company's vision and strategy and embeds it within the business management practices of the business groups.

Risk Culture

The Company has an internal culture that supports an effective risk management program. The elements of this risk culture include:

(i) acting with integrity,
(ii) understanding the impact of risk on customers,
(iii) embedding risk management into the business,
(iv) promoting full and transparent communications,
(v) collaboration, and
(vi) aligning of objectives and incentives.

Accountabilities

Accountability provides clear lines of responsibility and authority for risk acceptance and risk taking. The Risk Review Committee of SLF Inc.'s Board of Directors, composed of independent directors, has oversight responsibility for enterprise-wide risk management and ensures that management has appropriate and effective policies, operating guidelines and procedures in place to manage risk. Management is responsible for managing risks and for reporting on key risk issues to the committee on a regular basis.

Key Risk Processes

The Company has implemented a formal risk management program in each business segment. This program includes a process that applies qualitative and quantitative analysis of the risk exposures, with appropriate reporting to senior management and the Board of Directors. The results of this reporting are used to develop an annual enterprise-wide view of the most significant risks, which is reported to the Risk Review Committee.

Risk Identification

The Company has established a formal risk identification program whereby each business group identifies the current key risks that may impact its business. Exposures to these risks are assessed on a qualitative and quantitative basis. Risk control programs are documented and action plans are established for mitigating the exposure. The Company then identifies the key risks that may materially impact the organization as a whole. These risks are monitored by senior management and reported to the Risk Review Committee on an annual basis. Additional information on these risks is available in SLF Inc.'s 2005 AIF under the heading *"Risk Factors"*.

Business Practices Reviews

Sun Life Financial maintains an enterprise-wide policy on the "Management of Risk to Reputation". In accordance with that policy, the Company reviews its business practices on an ongoing basis with regard to evolving and emerging business practices and standards, and legal and regulatory requirements.

Risk Policies

The Company has adopted worldwide consolidated risk management policies to provide a consistent approach to measurement, mitigation and control, and monitoring of risk exposures.

Risk Measurement

Market Risk Tolerance and Earnings-at-Risk

The Company has established market risk tolerance limits that set out the maximum target income sensitivity of its business groups to changes in interest rates and the equity and foreign exchange markets. These limits are based on the sensitivity of a one-year forward projection of income tested by business groups against a set of internally prescribed market shocks. Deviations from the applicable limits are reported to the Risk Review Committee.

The Company has also developed an Earnings-at-Risk measurement model, which analyzes capital market risks. The Earnings-at-Risk model also projects a distribution of possible deviations of earnings to further assist in risk management activities.

Sensitivity of Earnings

The following table sets out the sensitivity of the Company's earnings to changes in the interest rate environment and equity markets based on the existing business mix. These amounts are estimated assuming limited management actions to mitigate the impact of the changes.

($ millions)	Increase (Decrease) in Earnings
Interest Rate Sensitivity (1)	
1% Increase	37
1% Decrease	(118)
Equity Market Sensitivity (2)	
10% Increase	108
10% Decrease	(123)

(1) Represents a 100 basis point parallel shift in assumed interest rates across the entire yield curve.

(2) Represents the percentage change in equity markets.

Risk Categories

The risks facing the Company can generally be classified into the following categories:

Risk Category	How Risk is Managed
Market Risk Management ***Market Risk —*** the uncertainty in the valuation of assets and the cost of embedded options and guarantees arising from changes in equity markets and/or interest rates	• The Company's insurance liabilities are segmented according to major product type, with investment guidelines established for each segment • Exposure to capital markets is monitored and managed against established risk tolerance limits • Individual stock holdings are diversified by industry type and corporate entity • Real estate holdings are diversified by location and property type • Effects of large and sustained adverse market movement in real estate values are monitored through Dynamic Capital Adequacy Testing and other stress-testing techniques • Considerations are given to the use of derivatives and the Company's policies regarding liquidity management and foreign exchange risks (see pages 39 to 43 in this MD&A under the heading "*Financial Position and Liquidity*")
Interest Rate Risk – the risk of asset-liability mismatch resulting from interest rate volatility	• Matching policy established for each portfolio of assets and associated liabilities to keep potential losses within acceptable limits • "Key rate duration" technique employed for interest-sensitive businesses (e.g. individual and group annuities) to examine duration gaps of assets, liabilities and off-balance sheet instruments at discrete points on the yield curve and to manage these gaps within specified tolerance limits
Credit Risk Management **Credit Risk** - the uncertainty surrounding the likelihood of default or credit downgrade	• Credit risks associated with fixed income investments are managed by major business groups and the Company in aggregate using: o Detailed credit and underwriting policies o Specific diversification requirements o Comprehensive due diligence and ongoing credit analysis o Aggregate counterparty exposure limits o Monitoring against pre-established limits • Provisions for impaired assets are charged against the carrying value of the asset with additional allowances provided for in actuarial liabilities
Reinsurance Ceded Risk – the counterparty risk relating to externally reinsuring exposures	• Policy established to limit and monitor the level of reinsurance ceded to any single reinsurer or group of reinsurers and prevent ceding to companies which are poor credit risks

Risk Category	How Risk is Managed
Insurance Risk Management ***Product Design and Pricing Risk –*** the risk arising from inappropriate or inadequate product design and pricing, including deviations from the assumptions used in pricing products as a result of uncertainty concerning future investment yields, mortality and morbidity experience, expenses, rates of policy termination, and taxes	• Annual compliance assessment is performed by all business units against standards and guidelines for product design and pricing methods, pricing assumptions, profit margin objectives, required scenario analysis, documentation, internal peer review and pricing approval processes • Internal audit of business unit pricing processes is performed on a rotating basis
Mortality and Morbidity Risk - the risk of incurring higher than anticipated mortality and morbidity claim losses on any one policy or group of policies	• Detailed uniform underwriting procedures have been established to determine the insurability of applicants and to manage exposure to large claims • Underwriting requirements are regularly scrutinized against industry guidelines • Group insurance policies are underwritten prior to initial issue and renewals, driven by risk selection, plan design and rating techniques • Risk policies approved by the Board of Directors include limits on the maximum amount of insurance that may be issued under one policy and the maximum amount that may be retained, varying by geographical region • Amounts in excess of limits are reinsured
Operational Risk Management ***Legal, Regulatory and Market Conduct Risk Management*** –the risk associated with failure to comply with laws or to conduct business consistent with changing regulatory or public expectations	• A strong compliance culture is promoted by setting the appropriate tone at the top with respect to compliance with laws and regulations • Worldwide compliance policies and framework have been established • Compliance and legal obligations are monitored at the corporate and business group levels
Operational Risk - the uncertainty arising from internal events caused by failures of people, process and technology as well as external events	• Worldwide and business-specific policies and guidelines have been established Comprehensive • insurance program, including appropriate levels of self-insurance, is maintained to provide protection against potential losses • Environmental risk management program is maintained to help protect investment assets (primarily real estate, mortgage and structured finance portfolios) from losses due to environmental issues and to help ensure compliance with applicable laws

CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and the Executive Vice President and Chief Financial Officer (CFO), on a timely basis so that the appropriate decisions can be made regarding public disclosure.

As of December 31, 2005, an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15 under the *United States Securities and Exchange Act* of 1934 and under *Multilateral Instrument* 52-109, was carried out under the supervision of and with the participation of management, including the CEO and the CFO. Based on that evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and compliance with Canadian and U.S. generally accepted accounting principles in its financial statements.

In August 2005, the Company implemented controls and procedures in conjunction with a new general ledger system, and related financial systems. During the year, the Company has continued to review its controls in various financial and actuarial systems, and made corrections to the processes, data and computations where necessary. The impact of these changes was not material to the

financial statements of the Company. Other than these changes, no other changes were made in the Company's internal control over financial reporting during the year ended December 31, 2005, that have materially affected, or are reasonably likely to materially affect its internal control over financial reporting.

INVESTMENTS

The Company strives to ensure that all general fund investments are properly aligned with business objectives, including ensuring policyholder obligations are being met and that adequate liquidity is maintained at all times. The Risk Review Committee reviews and approves investment policies that contain prudent standards and procedures for the investment of the Company's general fund assets. These policies include requirements, restrictions and limitations for interest rate, credit, equity market, real estate market, liquidity, concentration, currency and derivative risks. Compliance with these policies is monitored on a regular basis and reported annually to the Risk Review Committee.

Investment Profile

The Company invests the majority of its general funds in medium- to long-term fixed income instruments such as bonds and mortgages. The Company's portfolio composition is conservative, with approximately 90% of the general funds in cash and fixed income investments as at December 31, 2005. While real estate and common stock comprised 3% and 4%, respectively, of the general funds portfolio, the majority of these assets, 68% and 66%, respectively, are related to the participating policyholders' account. The performance of investments relating to participating policyholders is largely passed on to policyholders over time.

The Company had total consolidated general fund invested assets of $98.6 billion at December 31, 2005, compared to $96.9 billion at December 31, 2004. The increase was primarily due to the impact of growth in business during the year and a contribution of $1.6 billion from the CMG Asia acquisition, partially offset by the strengthening of the Canadian dollar against foreign currencies during 2005, which reduced assets by $2.6 billion.

The market value of the Company's invested assets was $105.4 billion at December 31, 2005, up $2.6 billion from December 31, 2004. The increase was primarily due to organic business growth, the expansion from the CMG Asia acquisition and the favourable impact of changes in equity market levels on the valuation of stock holdings, partially offset by the effect of the strengthening of the Canadian dollar against foreign currencies during 2005.

Additional details on the Company's investments are provided in Note 6 to SLF Inc.'s 2005 Consolidated Financial Statements.

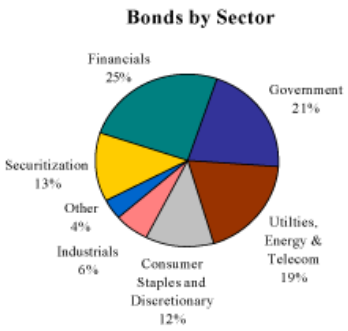
Investments

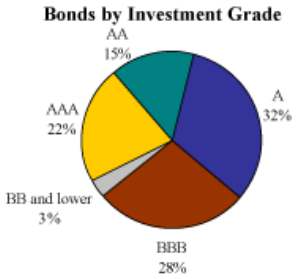
($ millions)	**2005**		2004*		2003*	
	Carrying Value	**% of Total**	Carrying Value	% of Total	Carrying Value	% of Total
Bonds	**66,154**	**67**	64,496	67	66,090	68
Mortgages	**14,561**	**15**	13,862	14	13,601	14
Stocks	**3,856**	**4**	3,463	4	3,473	4
Real estate	**3,241**	**3**	3,148	3	3,067	3
Cash and equivalent investments	**5,091**	**5**	5,958	6	4,969	5
Policy loans and other invested assets	**5,689**	**6**	5,984	6	5,975	6
Total carrying value	**98,592**	**100**	96,911	100	97,175	100
Total market value	**105,358**		102,792		102,252	

* Certain comparative figures have been restated to conform with the presentation adopted in 2005 as described in Note 6 to SLF Inc.'s 2005 Consolidated Financial Statements.

Bonds

The Company's bond portfolio is actively managed through a regular program of purchases and sales aimed at optimizing yield, quality and liquidity, while ensuring that the asset portfolio remains diversified and matched to liabilities by duration.





As at December 31, 2005, the Company held $16.5 billion of non-public bonds, which constituted 25% of the Company's overall bond portfolio. Non-public bonds rated "A" or higher represented 60% of total non-public bonds, and non-public bonds rated "BBB" or higher represented 96% of total non-public bonds at December 31, 2005.

Corporate bonds represented 68% of the total carrying value of the bond holdings at December 31, 2005, compared to 63% at December 31, 2004. The increase reflects Sun Life Financial's ongoing investment management practices whereby the mix of investment holdings is realigned periodically to reflect the ongoing evolution of the business activities of the company.

Mortgages

The Company's mortgage portfolio is almost entirely comprised of first mortgages. While the Company generally requires a maximum loan-to-value ratio of 75%, it may invest in mortgages with a higher loan-to-value ratio in Canada if the mortgage is insured.

As at December 31, 2005, the mix of the Company's mortgage portfolio was 75% commercial and 25% residential. Approximately 42% of mortgage loans mature by December 31, 2010. As part of its ongoing investment activities, the Company seeks to renew a significant proportion of its mortgages that continue to meet the Company's investment criteria.

Stocks

The Company's equity portfolio is diversified by country. As at December 31, 2005, $721 million, or 19%, of the Company's equity portfolio consisted of Canadian issuers; $1.4 billion, or 37%, of U.S. issuers; $1.2 billion, or 31%, of U.K. issuers; and $513 million, or 13%, to issuers from other jurisdictions. Excluding the Company's equity interest in CI Financial, no single issuer exceeded 2% of the portfolio at December 31, 2005.

Real Estate

Commercial office properties are the major component of the Company's real estate portfolio, representing approximately 88% of real estate investments at December 31, 2005. Real estate investments are diversified by country, with 63% of the portfolio located in Canada, 27% in the United States of America and 10% in the United Kingdom at December 31, 2005.

Impaired Assets

Total impaired assets, net of total specific and sectoral allowances, amounted to $181 million at December 31, 2005, comparable to the December 31, 2004 level. Impaired assets were primarily bonds in the U.S. transportation, utilities and consumer discretionary sectors. The net impaired ratio, defined as net impaired assets to total invested assets, was 0.18% at December 31, 2005, equal to the December 31, 2004 level.

In addition to specific and sectoral allowances reflected in the carrying value of invested assets, the Company had $2.4 billion for possible future asset defaults included in its actuarial liabilities as at December 31, 2005, compared with $2.2 billion in 2004.

The Company takes provisions for certain bonds and mortgages designated as impaired. In 2005, the Company had investment credit recoveries of $47 million on invested assets compared to provisions of $21 million in 2004.

($ millions)	**2005**	2004
As at December 31		
Gross impaired assets	**321**	441
Specific allowance	**119**	165
Sectoral allowance	**21**	98
Net impaired assets	**181**	178
Net impaired ratio	**0.18%**	0.18%
For the Year Ended December 31		
Provisions (recoveries) for impaired assets	**(47)**	21

Deferred Net Realized Gains

Deferred net realized gains represent net gains on the sale of invested assets that have not yet been recognized in income. In accordance with Canadian generally accepted accounting principles for insurance companies, net realized gains on the sales of bonds and mortgages are deferred and amortized into future investment income on a constant yield basis over the remaining period to maturity. Net realized gains on the sale of stocks and real estate are deferred and amortized into future investment income at the quarterly rate of 5% and 3%, respectively, of the unamortized balance.

The Company had $3.9 billion in deferred net realized gains as at December 31, 2005, of which $3.0 billion represented net gains on invested assets backing actuarial liabilities and the balance represented net gains on invested assets backing capital. Gains on bonds and stocks collectively represented 85% of total deferred net realized gains as at December 31, 2005.

Net Unrealized Gains

Net unrealized gains represent the difference between market value and carrying value of investments that are not recorded on the Company's balance sheet other than with respect to stocks and real estate. Carrying values for stocks and real estate are determined on a moving average market method of accounting whereby a portion of unrealized gains or losses is included in the carrying value of investments. The related changes in unrealized gains and losses are credited to or charged against income.

The Company had $6.8 billion in net unrealized gains as at December 31, 2005 compared to $5.9 billion as at December 31, 2004. A significant portion of the net unrealized gains relate to invested assets backing actuarial liabilities. Additional information is provided in Notes 5 and 6 to SLF Inc.'s 2005 Consolidated Financial Statements.

FINANCIAL POSITION AND LIQUIDITY

The Company maintains a strong financial position, with adequate liquidity to ensure it can meet its obligations.

Principal Sources of Funds

The Company's primary source of funds is cash provided by operating activities, including premiums, investment management fees and net investment income. These funds are used primarily to pay policy benefits, dividends to policyholders, claims, commissions, operating expenses, interest expenses and shareholder dividends. Cash flows generated from operating activities are generally invested to support future payment requirements, including the payment of dividends to shareholders. The Company also raises funds from time to time, through borrowing and issuing of securities, to finance growth, acquisitions or other needs.

At December 31, 2005, the Company maintained cash, cash equivalents and short-term securities totalling $5.1 billion, of which 38% were held in relation to certain derivative strategies and bond repurchase agreements. The corresponding percentage was 32% at the end of 2004. In addition to providing for near-term funding commitments, cash, cash equivalents and short-term securities include amounts which support short-term liabilities.

Net cash, cash equivalents and short-term securities decreased by $867 million in 2005 primarily because of higher net cash used in investing activities, partly offset by cash generated from financing activities. Net cash used in investing activities was higher primarily due to a net increase in the level of investments in long-term assets compared to a year ago and the acquisition of CMG Asia this year. Financing activities mainly reflected the proceeds from the issuances of $725 million of preferred shares and $600 million of fixed/floating debentures during 2005.

Cash Flow

($ millions)	**2005**	2004 *	2003 *
Net cash provided by operating activities **	**2,481**	3,225	3,242
Net cash provided by (used in) financing activities	**290**	(1,102)	(1,204)
Net cash provided by (used in) investing activities	**(3,678)**	(1,460)	(2,564)
Changes due to fluctuations in exchange rates	**(101)**	(90)	(455)
Increase (decrease) in cash and cash equivalents	**(1,008)**	573	(981)
Cash and cash equivalents, beginning of period	**3,748**	3,175	4,156
Cash and cash equivalents, end of period	**2,740**	3,748	3,175
Short-term securities, end of period	**2,351**	2,210	1,794
Cash, cash equivalents and short-term securities, end of period	**5,091**	5,958	4,969

* Certain comparative figures have been restated to conform the presentations adopted in 2005 as described in Note 2 to SLF Inc.'s 2005 Consolidated Financial Statements.

** Includes net cash provided by discontinued operations.

Liquidity

The Company generally maintains a conservative liquidity position that exceeds all the liabilities payable on demand. To strengthen its liquidity further, the Company actively manages and monitors its:

- capital levels,
- asset levels,
- matching position,
- diversification and credit quality of its investments, and
- cash forecasts and actual amounts against established targets.

In addition, the Company maintains standby credit facilities with a variety of banks. The agreements relating to the Company's debt, letters of credit, and lines of credit contain typical covenants regarding solvency, credit ratings and other such matters.

The Company is subject to various regulations in the jurisdictions in which it operates. The ability of SLF Inc.'s subsidiaries to pay dividends and transfer funds is regulated in certain jurisdictions and may require local regulatory approvals and the satisfaction of specific conditions in certain circumstances. Through effective cash management and capital planning, SLF Inc. ensures that its subsidiaries, as a whole and on a stand-alone basis, are properly funded and maintain adequate liquidity to meet obligations, both individually and in aggregate.

Based on the Company's historical cash flows and current strong financial performance, management believes that the cash flow from the Company's operating activities will

continue to provide sufficient liquidity for the Company to satisfy debt service obligations and to pay other expenses.

Capital Structure

As at December 31, 2005, the Company's capital consisted of common shares and preferred shares issued by SLF Inc., and subordinated debentures issued by Sun Life Assurance and Sun Canada Financial Co. For Canadian regulatory purposes, the Company's capital also included Sun Life ExchangEable Capital Securities (SLEECS) issued by Sun Life Capital Trust (SLCT) and cumulative capital securities issued by a subsidiary of Sun Life Assurance. The Company deconsolidated the SLEECS and cumulative capital securities in 2005 as a result of certain changes in accounting policies described in Note 2 to SLF Inc.'s 2005 Consolidated Financial Statements.

As at December 31, 2005, shareholders' equity, including SLF Inc.'s preferred share capital, was $15.5 billion, up $1.1 billion from the December 31, 2004 level. The increase was primarily due to shareholders' net income of $1.9 billion and the net issuance of $712 million in preferred shares, partially reduced by net share repurchases of $544 million and payment of shareholder dividends of $605 million. There were additional reductions of $380 million due to the strengthening of the Canadian dollar against foreign currencies and $22 million from the adjustment of foreign exchange gains as described in Note 22 to the SLF Inc. 2005 Consolidated Financial Statements.

The number of SLF Inc. common shares outstanding as at December 31, 2005 decreased by approximately 10 million to 582 million as a result of SLF Inc.'s share repurchase program, through which approximately 13.2 million common shares were repurchased and cancelled in 2005. This reduction was partly offset by new shares issued for the exercise of stock options.

SLF Inc. granted stock options to certain employees and directors, which may be exercised at the closing price of the common shares on the trading day preceding the grant date.

As at January 31, 2006, 581,788,975 common shares of SLF Inc. and 9,983,563 options to acquire SLF Inc. common shares were outstanding.

On January 13, 2006, SLF Inc. issued $250 million of Class A Non-Cumulative Preferred Shares Series 3, yielding 4.45% annually.

On July 15, 2005, SLF Inc. issued $325 million of Class A Non-Cumulative Preferred Shares Series 2, yielding 4.80% annually.

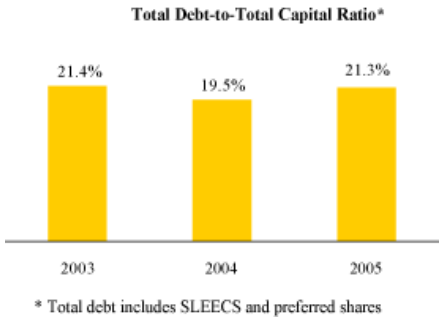
On February 25, 2005, SLF Inc. issued $400 million of Class A Non-Cumulative Preferred Shares Series 1, yielding 4.75% annually.

On June 30, 2005, Sun Life Assurance redeemed all of its outstanding Non-Cumulative Redeemable Class E Preferred Shares, Series 1, carrying a dividend yield of 6.50%.

Effective January 1, 2005, the change in accounting guidelines, described in Note 2 to SLF Inc.'s 2005 Consolidated Financial Statements, led to the deconsolidation of SLCT. As a result, SLF Inc. deconsolidated $1,150 million of non-controlling interest in subsidiaries and recorded $1,200 million of senior debentures payable to SLCT in other liabilities. Details of the senior debentures issued are outlined in Note 11 to SLF Inc.'s 2005 Consolidated Financial Statements. Prior years' financial statements have been restated to reflect retroactive application of this change in accounting guidelines.

At December 31, 2005, the Company's long-term debt consisted of: (i) cumulative capital securities of $699 million, which were issued in U.S. dollars with no scheduled maturity date, (ii) $1.8 billion of debentures issued in Canadian dollars with maturities between 2015 and 2035, and (iii) subordinated notes of $207 million issued in U.S. dollars with maturities between 2007 and 2015.

Sun Life Financial's debt-to-total capital ratio, including the SLEECS and preferred shares issued by SLF Inc. and Sun Life Assurance as part of debt, increased to 21.3% as at December 31, 2005, from 19.5% at December 31, 2004.



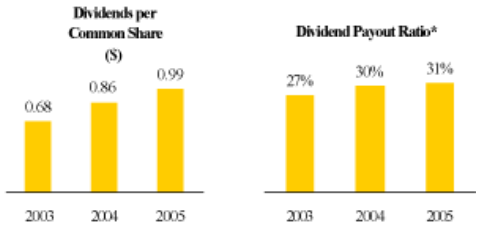
* Total debt includes SLEECS and preferred shares

Shareholder Dividends

SLF Inc. increased its quarterly common shareholder dividend to $0.24 per share in the first quarter of 2005 and to $0.255 per share in the third quarter of 2005. Total common shareholder dividends paid in 2005 were $0.99 per share, up 15% from $0.86 in 2004. On February 9, 2006, the

Board of Directors approved an additional 7.8% increase in quarterly dividends on SLF Inc.'s common shares to $0.275 per share. SLF Inc.'s dividend policy is reviewed periodically by the Board of Directors, and is dependent upon the Company's earnings, financial condition and capital requirements.

On February 9, 2006, the Board of Directors approved an increase in the target dividend payout ratio from 25% to 35% to 30% to 40%.



* Represents common shareholder dividends to shareholders' operating net income ratio.

Capital Adequacy

The Company has a policy designed to ensure that adequate capital is maintained to provide flexibility necessary to take advantage of growth opportunities and to support the risk associated with its subsidiaries businesses. The approach to managing capital has been developed to ensure that an appropriate balance is maintained between the internal assessment of capital required and the requirements of regulators and rating agencies. The Company's capital base is structured to maximize the level of permanent capital while maintaining a cost efficient structure at the desired leverage ratio. Capital is managed on a consolidated basis under principles that consider all the risks associated with the business as well as at the business unit level under the principles appropriate to the jurisdiction in which it operates.

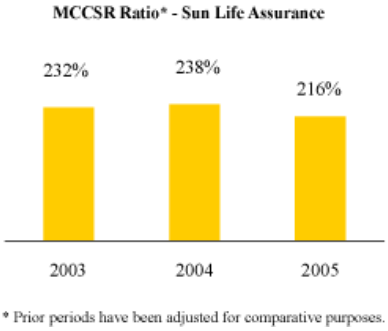
In July 2005, OSFI issued guidelines regarding capital framework for regulated insurance holding companies and non-operating life companies (collectively, Insurance Holding Companies). These guidelines apply to SLF Inc. Under these guidelines, Insurance Holding Companies and certain of their significant life insurance company subsidiaries will not be subject to the Minimum Continuing Capital Surplus Requirements (MCCSR) that apply to Canadian life insurance companies. The new guidelines do not establish minimum or targeted capital requirements for Insurance Holding Companies. As an Insurance Holding Company, SLF Inc. will be expected to manage its capital in a manner commensurate with its risk profile and control environment.

For the purposes of determining available capital, an Insurance Holding Company will deduct the capital of its significant foreign life subsidiaries and then add back any excess capital or deduct any capital deficit of such subsidiaries, based upon the capital adequacy rules of the jurisdictions in which these subsidiaries operate. For purposes of determining required capital under the new capital risk metrics, the risk component factors for significant foreign life subsidiaries are not included in the Insurance Holding Company's total capital required. OSFI may intervene and assume control of an Insurance Holding Company or a Canadian life insurance company if it deems the amount of available capital insufficient. Capital requirements may be adjusted by OSFI in the future as experience develops, the risk profile of Canadian life insurers changes, or to reflect other risks. SLF Inc. was well above its internal minimum capital levels at December 31, 2005.

Significant foreign life subsidiaries that are not subject to the MCCSR rules are expected to comply with the capital adequacy requirements imposed in the foreign jurisdictions in which they operate. The Company expects that its principal operating life insurance company in the United States, Sun Life Assurance Company of Canada (U.S.) will be qualified as a significant foreign life subsidiary.

Sun Life Assurance continues to be subject to the MCCSR required capital for a life insurance company in Canada. OSFI generally expects life insurance companies to maintain a minimum MCCSR of 150% or greater, based on the risk profile of the relevant insurance company. Sun Life Assurance's MCCSR ratio as at December 31, 2005 well exceeded the levels that would require any regulatory or corrective action. Additional details concerning the calculation of available capital and MCCSR are included in the 2005 AIF of SLF Inc. under the heading "*Regulatory Matters*".

Sun Life Assurance Company of Canada (U.S.) is subject to the Risk-Based Capital rules issued by the National Association of Insurance Commissioners (NAIC). The NAIC generally expects insurance companies to maintain 200% of minimum risk-based capital. Sun Life Assurance Company of Canada (U.S.)'s risk-based capital was well above the minimum level as at December 31, 2005. In addition, other foreign operations and foreign subsidiaries of SLF Inc. must comply with local capital requirements in the jurisdictions in which they operate. These foreign operations and subsidiaries all maintained capital levels well above the minimum local requirements as at December 31, 2005.



* Prior periods have been adjusted for comparative purposes.

Off-Balance Sheet Arrangements

In the normal course of business, the Company is engaged in a variety of financial arrangements. The principal purposes of these arrangements are to:

- earn management fees and additional spread on a matched book of business,
- hedge and match the Company's liabilities, and reduce risks associated with currency, interest rate and stock market fluctuations,
- reproduce permissible investments, and
- reduce financing costs.

While most of these activities are reflected on the Company's balance sheet with respect to assets and liabilities, certain of them are either not recorded or are recorded on the Company's balance sheet in amounts that differ from the full contract or notional amounts. The types of off-balance sheet activities the Company undertakes primarily include:

- asset securitizations,
- securities lending, and
- financial derivatives.

Asset Securitizations

The Company engages in asset securitization activities primarily to earn origination and/or management fees by leveraging its investment expertise to source and manage assets for investors. The Company sells mortgage and/or bond assets to a non-consolidated special purpose entity (SPE), which may also purchase investment assets from third parties. The SPE funds the asset purchase by selling securities to investors. As part of the SPE arrangement, the Company may subscribe to a subordinated investment interest in the issued securities. The Company is generally retained to manage the assets in the SPE on a fee-for-service basis. All of the asset securitization transactions undertaken by the Company are structured on a non-recourse basis so that the Company has no exposure to the default risks associated with the assets in the SPEs other than through any retained interests held by the Company.

The following table summarizes the Company's asset securitization program. Additional information is available in Note 6 to SLF Inc.'s 2005 Consolidated Financial Statements.

($ millions)	**2005**	2004
As at December 31		
Securitized assets under management	**2,829**	3,178
The Company's retained interests	**117**	138
For the year ended December 31		
Cash flow received on retained interests and servicing fees	**33**	57
Proceeds from sale of company assets through securitization including pre-tax gains	**–**	179

Securities Lending

The Company lends securities in its investment portfolio to other institutions to generate additional fee income. The Company conducts its program only with well-established, reputable banking institutions that carry a minimum credit rating of "AA". It is the Company's practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency, in securities lending transactions. Additional information on securities lending is available in Note 6 to SLF Inc.'s 2005 Consolidated Financial Statements.

Financial Derivatives and Risk Mitigation

The Company uses derivative instruments to manage risks related to interest rate, equity market and currency fluctuations and in replication strategies to reproduce permissible investments. The Company does not engage in speculative investment in derivatives. The primary uses of derivatives are summarized in the table below.

Products/Application	Use of Derivative	Derivative Used
U.S. universal life contracts, certain Canadian group annuity contracts containing minimum interest rate guarantees, and U.K. unit-linked pension products with guaranteed annuity rate options	To limit potential financial losses from significant reductions in asset earned rates relative to contract guarantees	Interest rate options and swaps
Interest rate exposure in relation to asset/liability management	To manage the sensitivity of the duration gap between assets, liabilities and off-balance sheet instruments to interest rate changes	Interest rate swaps and options
U.S. variable annuities and reinsurance on variable annuity guarantees offered by other insurance companies	To manage the exposure to product guarantees sensitive to movement in equity market levels	Put options on equity index; futures on equity indices and on interest rates
U.S. equity-indexed annuities	To manage the exposure to product guarantees related to equity market performance	Equity-indexed futures and options
U.K. With Profit Fund	To protect the fund from the impact of a significant fall in the U.K. equity market below a predetermined level	Collar option on equity index maturing in 2006 and put options on equity index maturing in 2007
Currency exposure in relation to asset/liability management	To reduce the sensitivity to currency fluctuations by matching the value and cash flows of specific assets denominated in one currency with the value and cash flows of the corresponding liabilities denominated in another currency	Currency swaps and forwards

The Company generally enters into derivative transactions with counterparties with "AA" credit ratings or better. Where a counterparty's rating is downgraded to below this level, the Company has credit support arrangements in place which require additional collateral.

The values of the Company's derivative instruments are summarized in the following table.

($ millions)	**2005**	2004
As at December 31		
Net fair value	**1,195**	1,080
Total notional amount	**38,364**	30,217
Credit equivalent amount	**2,463**	2,480
Risk-weighted credit equivalent amount	**53**	59

The use of derivatives is measured in terms of notional amounts, which serve as the basis for calculating payments and are generally not actual amounts that are exchanged. Total notional amount increased to $38.4 billion at December 31, 2005, from $30.2 billion at the end of 2004, primarily due to the increased use of derivatives to manage equity and currency risks. The net fair value, which represents the unrealized gains, net of unrealized losses, of all derivative financial instruments, grew to $1.2 billion from $1.1 billion year over year. The increase primarily reflected changes in market conditions affecting the valuation of the derivative instruments.

As the regulator of the Canadian insurance industry, OSFI provides guidelines to quantify the use of derivatives. The credit equivalent amount, a measure used to approximate the potential credit exposure, is determined as the replacement cost of the derivative contracts having a positive fair value plus an amount representing the potential future credit exposure. The risk-weighted credit equivalent amount is a measure used to determine the amount of capital necessary to support derivative transactions for certain Canadian regulatory purposes. It is determined by weighting the credit equivalent amount according to the nature of the derivative and the creditworthiness of the counterparties.

As at December 31, 2005, the credit equivalent amounts for interest rate contracts, foreign exchange contracts, and equity and other contracts were $361 million, $980 million and $1,122 million, respectively. The corresponding risk-weighted credit equivalent amounts were $9 million, $21 million and $23 million, respectively.

Additional details in respect of derivatives are described in Notes 1, 6 and 7 of SLF Inc.'s 2005 Consolidated Financial Statements.

Commitments, Guarantees, Contingencies and Reinsurance Matters

In the normal course of business, the Company enters into leasing agreements, outsourcing arrangements, and agreements involving indemnities to third parties. The Company is also engaged in arbitration proceedings in the U.S. and U.K. with certain companies that have contracts to provide reinsurance to the Company. Details regarding the Company's commitments, guarantees and contingencies are summarized in Note 20 of SLF Inc.'s 2005 Consolidated Financial Statements.

Outsourcing Agreements

The Company enters into long-term outsourcing contracts from time to time to allow the Company to focus on its core business, enhance customer services and reduce operating costs and risks. Its material long-term outsourcing contracts are described below.

In January 2002, the Company signed an outsourcing contract with Marlborough Stirling Group, a U.K. based software and service provider, to outsource the administration of the Company's closed block of U.K. individual life and pension business until 2009. In May 2005, Vertex Data Science Limited, a subsidiary of United Utilities PLC, purchased all the outstanding shares of Marlborough Stirling Group. The existing outsourcing contract with SLF U.K. remained in place after this change in control. The value of the main contract is estimated at approximately $312 million over its term. Future contract payments are estimated to be approximately $31 million in 2006 and $62 million for the remaining period of the contract.

In 2002, the Company entered into a seven-year outsourcing contract with IBM Canada Limited (IBM), under which IBM provides a wide range of technology services to the Company. The value of this contract is estimated to be approximately $270 million over its life. The future payments to IBM, based on currently anticipated usage levels, are estimated to be approximately $36 million a year for the remaining term of this contract.

Contractual Obligations

	Payments Due by Period				
($ millions)	Total	Within 1 Year	1-3 Years	4-5 Years	Over 5 Years
Long-term debt	3,905	–	32		3,873
Operating leases	452	103	149	82	118
Credit-related arrangements					
Contractual commitments	2,166	1,472	694	–	–
Letters of credit	209	209	–	–	–
General fund policyholder liabilities (1)	174,231	12,378	14,731	12,946	134,176
Total contractual obligations	180,963	14,162	15,606	13,028	138,167

(1) General fund policyholder liability cash flows include estimates related to the timing and payment of death and disability claims, policy surrenders, policy maturities, annuity payments, minimum guarantees on segregated fund products, policyholder dividends, commissions and premium taxes offset by contractual future premiums and fees on in-force contracts. These estimated cash flows are based on the best estimate assumptions used in the determination of policy liabilities. These amounts are undiscounted and do not reflect recoveries from reinsurance agreements. The actuarial and other policy liabilities amounts included in the 2005 SLF Consolidated Financial Statements are based on the present value of the estimated cash flows and are net of reinsured amounts. Due to the use of assumptions, actual cash flows will differ from these estimates.

LEGAL AND REGULATORY PROCEEDINGS

SLF Inc. and certain of its subsidiaries or their properties are subject to various legal actions in the ordinary course of business. A description of such proceedings is presented in Note 20 to SLF Inc.'s 2005 Consolidated Financial Statements. SLF Inc. cannot predict the outcome of these actions.

EXHIBIT 3

SUN LIFE FINANCIAL INC.

Renewal Annual Information Form

For the Year Ended December 31, 2005

February 13, 2006



PRESENTATION OF INFORMATION

In this Annual Information Form (AIF), Sun Life Financial Inc. (SLF Inc.) and its consolidated subsidiaries, significant equity investments and joint ventures are collectively referred to as "Sun Life Financial" or the "Company".

Unless otherwise indicated, all information in this AIF is presented as at and for the year ended December 31, 2005, and amounts are expressed in Canadian dollars. Financial information is presented in accordance with Canadian generally accepted accounting principles (GAAP) and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada (OSFI).

Documents Incorporated by Reference

The following documents are incorporated by reference in and form part of this AIF: (i) SLF Inc.'s Management's Discussion and Analysis (MD&A) for the year ended December 31, 2005, and (ii) SLF Inc.'s Consolidated Financial Statements and accompanying notes (Consolidated Financial Statements) for the year ended December 31, 2005. These documents have been filed with applicable securities regulators in Canada and may be accessed at www.sedar.com and have been filed with the United States Securities and Exchange Commission (SEC) and may be accessed at www.sec.gov.

Forward-looking Statements

Some of the statements contained or incorporated by reference in this AIF, including those relating to Sun Life Financial's strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" or similar expressions, are forward-looking statements within the meaning of securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sun Life Financial set out under "*General Development of the Business*" and "*Business of Sun Life Financial*". These statements are not historical facts but instead represent only Sun Life Financial's expectations, estimates and projections regarding future events.

The forward-looking statements contained or incorporated by reference in this AIF are stated as of the date hereof and are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. SLF Inc.'s future results may differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this AIF due to, among other factors, the matters set out in this AIF under the heading "*Risk Factors*" and the factors detailed in SLF Inc.'s other filings with Canadian and U.S. securities regulators, including its 2005 annual MD&A under the heading "*Benefits to Policyholders*" and its interim MD&As and annual and interim financial statements and the notes thereto which are available for review at www.sedar.com.

The Company does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required by law.

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CORPORATE STRUCTURE

Incorporation

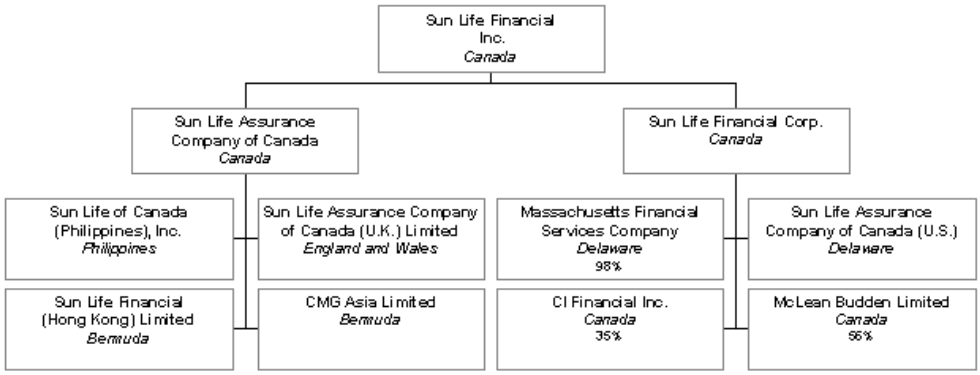
Sun Life Assurance Company of Canada (Sun Life Assurance) was incorporated as a stock company by a Special Act of the Parliament of Canada in 1865. It was converted into a mutual company through a process that was completed in 1962. On March 22, 2000, Sun Life Assurance was converted from a mutual insurance company to a stock insurance company pursuant to Letters Patent of Conversion issued under the *Insurance Companies Act* (Canada) (Insurance Act). At that time, SLF Inc. became the public holding company of Sun Life Assurance.

Sun Life Financial Services of Canada Inc. was incorporated under the Insurance Act on August 5, 1999 pursuant to Letters Patent of Incorporation, for the purposes of becoming the publicly traded holding company of Sun Life Assurance. Sun Life Financial Services of Canada Inc. changed its name to Sun Life Financial Inc. on July 2, 2003 pursuant to Letters Patent of Amendment.

The locations of Sun Life Financial's principal offices are listed in Appendix A.

Principal Subsidiaries and Significant Equity Investments

Sun Life Financial's corporate structure as at December 31, 2005, including SLF Inc.'s principal direct and indirect subsidiaries and significant equity investments (with the jurisdiction of incorporation of each indicated in italics), is shown below. Unless otherwise indicated, all companies shown below are 100% owned.



GENERAL DEVELOPMENT OF THE BUSINESS

Overview

Sun Life Financial's strategy is to balance the stability of mature businesses with the higher growth potential of emerging markets, while maintaining an increasingly efficient and cost effective business platform. The Company's operations in the mature markets of Canada, the United States and the United Kingdom provide a steady stream of increased earnings. Over the past three years, common shareholders' net income has increased from $1.3 billion in 2003 to $1.8 billion in 2005. In recent years, the Company has looked to the emerging markets of Asia for long-term growth. In particular, the Company has focused on India and China where the Company operates through joint ventures with established local partners.

Acquisitions, Disposals, Business Combinations and Other Developments

Sun Life Financial assesses its businesses and corporate strategies on an ongoing basis to ensure that it makes the optimal use of its capital and provides maximum value to its shareholders. The following summary outlines the acquisitions, disposals and business combination activities within the past three years. Financial details on most of these activities are discussed in Note 3 to SLF Inc.'s 2005 Consolidated Financial Statements.

Corporate Reorganization

On January 4, 2005, the Company completed a reorganization plan (Reorganization) under which most of Sun Life Assurance's investment management businesses in Canada and the United States, including the majority of its U.S. annuities business, were transferred to Sun Life Financial Corp. (SLF Corp.), a subsidiary of SLF Inc.

Under the Reorganization, Sun Life Assurance transferred its shares of CI Financial Inc., formerly CI Fund Management Inc. (CI Financial), McLean Budden Limited, Massachusetts Financial Services Company (MFS) and Sun Life Assurance's other U.S. subsidiaries to SLF Corp. After the Reorganization, the operations remaining in Sun Life Assurance consisted primarily of the life, health and annuities businesses of the Company's Canadian operations, the majority of the life and health businesses of its United States operations, and all of its operations in the United Kingdom and Asia.

CI Financial Inc.

On March 20, 2003, Sun Life Financial increased its ownership interest in CI Financial by issuing approximately 2 million common shares of SLF Inc. in exchange for approximately 5 million common shares of CI Financial. As a result of this transaction, the Company's economic interest in CI Financial increased from the 31.7% acquired in 2002 to approximately 34%.

In the fourth quarter of 2003, CI Financial acquired Synergy Asset Management Inc. and the Canadian operations of Assante Corporation. Sun Life Financial supported the transaction and maintained its 34% ownership interest in CI Funds by acquiring additional CI Financial common shares for $266 million.

On June 3, 2004, the Company sold two distribution subsidiaries, IQON Financial Management Inc. and Synera Financial Services Inc., to Assante Corporation.

Clarica U.S. Inc.

On January 7, 2003, the Company sold Clarica U.S. Inc. (a subsidiary acquired as part of its acquisition of Clarica Life Insurance Company (Clarica) in 2002) to Midland National Life Insurance Company after concluding that it was not a strategic fit with the Company's U.S. operations.

Sun Life Financial United Kingdom Operations

On February 28, 2003, the Company sold its United Kingdom group income protection business as well as the renewal rights to its group life business to UNUM Limited.

Sun Life Financial Asia Operations

In the first quarter of 2005, Sun Life Everbright Life Insurance Company Limited (Sun Life Everbright), the Company's joint venture in China, received regulatory approvals from the China Insurance Regulatory Commission to start selling life insurance products in Hangzhou, the capital city of the Zhejiang province. In the second quarter of 2005 the Company received approval to commence selling group insurance. Sales in Hangzhou began in September, while group insurance sales commenced in the fourth quarter.

On October 18, 2005, the Company completed its acquisition of CMG Asia Limited, CMG Asia Trustee Company Limited, CommServe Financial Limited and Financial Solutions Limited, which together formed the Hong Kong individual life insurance, group insurance and group pension and brokerage operations of Commonwealth Bank of Australia. This acquisition enhanced Sun Life Financial's position in the Hong Kong life insurance market and gave

it a strong presence in the pension and group insurance markets. As a result of this transaction, the Company now has a more solid platform that it can use as a base for further expansion in Asia.

Other Operations

On August 26, 2005, the Company sold its 31.72% investment in Administradora de Findos de Pensiones Cuprum S.A., a Chilean pension fund manager, to Empresas Penta S.A.

BUSINESS OF SUN LIFE FINANCIAL

General Summary

Sun Life Financial is a leading international financial services organization, providing a wide range of savings, retirement, pension, mutual funds, investment management, and life and health insurance products and services to individual and corporate customers. At December 31, 2005, Sun Life Financial was one of the three largest Canadian life insurance organizations based on total assets under management of $387 billion. Sun Life Financial recorded total revenue of $21.9 billion and common shareholders' net income of $1.8 billion for the year ended December 31, 2005. As at that date, SLF Inc. and its subsidiaries had approximately 14,300 employees worldwide. Sun Life Financial also has an extensive global distribution network consisting of career sales forces in certain countries, independent insurance agents, managing general agents, investment dealers and banks.

Sun Life Financial divides its operations into reportable segments that reflect management and internal financial reporting structures. Each segment has its own management responsible for financial performance. As at December 31, 2005, the Company had five reportable segments: Sun Life Financial Canada (SLF Canada**),** Sun Life Financial United States (SLF U.S.), MFS, Sun Life Financial Asia (SLF Asia) and Corporate. These reportable segments derive their revenues principally from mutual funds, investment management and annuities, life and health insurance and life retrocession. The Corporate segment includes Sun Life Financial's United Kingdom operations (SLF U.K.), its active and run-off reinsurance businesses, and income and expenses of a corporate nature not attributable to other segments.

The business of the Company and its operating segments, including its risk management policies and investment activities, are described in more detail in SLF Inc.'s 2005 MD&A which is incorporated by reference in this AIF.

Wealth and Protection Industries

The wealth and protection industries cover a wide array of products and services including savings and retirement vehicles, pensions and mutual funds, investment management and life and health insurance products and services. These industries are transforming rapidly in response to demographic shifts, changing customer expectations, changing government regulations, advances in technology, increased competition and consolidation. Dependency ratios (the ratio of non-workers to workers) are rising in the more mature economies while declining in emerging economies. As a result, there is expected to be an increased demand for retirement products and long-term care insurance in the developed countries, while products that combine wealth protection with investment opportunities are expected to become increasingly popular in the developing countries.

Increasing life expectancies and an aging population have highlighted North American demographic shifts and, along with certain economic events, have given rise to several key trends.

The first trend is the maturing of the protection market in North America. This trend has resulted in a decline in the importance of traditional life insurance products. At the same time, under-funded healthcare systems have propelled consumers to focus on products that protect against the potentially devastating impact of critical or long-term illnesses on family savings.

The second trend is an increased emphasis in North America on retirement planning and saving. Concerns about the future of government pension plans have highlighted the need for financial products that will supplement this traditional source of retirement income. Customers are becoming more sophisticated and are increasingly concerned

about the risk of outliving their savings. As a consequence, there has been a shift from traditional life insurance products to savings vehicles such as annuities and mutual and segregated funds, including self-directed investments. Finally, the downturn of the North American equity markets in the early 2000s heightened consumers' awareness of the value of asset allocation and diversification and led to a greater interest in guarantees.

The financial services industry in Asia ranges from mature well-developed markets to emerging, high growth markets that in many cases are still largely state-dominated. While growth in insurance premiums in the emerging markets has outpaced some of the more mature markets in other parts of the world, the percentage of insurance premiums to gross domestic product still remains relatively low, indicating significant untapped potential for growth. As the level of affluence rises in these markets, the demand for savings and investment vehicles is expected to increase.

Products and Distribution

Financial services companies, particularly in North America and Asia, are increasing their focus on multiple distribution channels, including independent third party brokers and financial planners, and making increasing use of electronic communication channels, such as the Internet, to target customers and provide enhanced service. The development of effective and efficient distribution systems is becoming increasingly important to attract and maintain relationships with more sophisticated customers.

The Company's products and services as well as their methods of distribution are described in SLF Inc.'s 2005 MD&A under the heading "*Business Overview*".

Competition

The markets in which Sun Life Financial engages are highly competitive. Sun Life Financial's competitors include not only other insurance companies, but also investment managers, mutual fund companies, banks, financial planners and other financial service providers. Frequently competition is based on pricing and the ability to provide value-added services to distributors and customers. Increased competition has been a contributing factor to the global trend of consolidation within the financial services industry.

Mergers and acquisitions in the Canadian insurance industry over the past three years have significantly changed the competitive landscape, as the three largest companies now serve more than two-thirds of the Canadian insurance market. In the United States, the market is more fragmented, raising the likelihood of consolidation as insurers look to achieve scale to compete effectively.

Changes in the regulation of the financial services industry in North America have reduced the traditional barriers between the banking, insurance and investment industries, heightening competition in these markets. Canadian financial services legislation provides a regulatory framework for further convergence of the banking, insurance and investment industries and several major Canadian banks have significant securities, wealth management and insurance operations. At present, there is no clear timetable for the Government to announce possible legislation or policy changes relating to bank/bank and bank/insurer mergers and acquisitions. The legislation governing Canada's federally regulated financial institutions is subject to review every five years. The next review is scheduled to occur in 2006.

Within the emerging market sector, the regulatory environments are moving towards market liberalization, opening their markets to foreign participants and aligning their regulatory environments more closely with standards prevalent in more mature markets. In 2004, China lifted its previous restrictions that limited foreign insurers to 15 cities and that prohibited the sale of group insurance. India is planning to open up the pension market and continues to consider increasing the limits on foreign ownership of insurance companies from 26% to 49%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SLF Inc.'s 2005 MD&A is incorporated by reference into this AIF and should be read in conjunction with SLF Inc.'s 2005 Consolidated Financial Statements.

CAPITAL STRUCTURE

General

SLF Inc.'s authorized capital consists of unlimited numbers of common shares (Common Shares), Class A Shares (the Class A Preferred Shares) and Class B Shares (the Class B Preferred Shares), each without nominal or par value.

The Class A Preferred Shares and Class B Preferred Shares may be issued in series as determined by SLF Inc.'s Board of Directors. The Board is authorized to fix the number, consideration per share, designation, and rights and restrictions attached to each series of shares. The holders of Class A Preferred Shares and Class B Preferred Shares are not entitled to any voting rights except as described below or as otherwise provided by law. Three series of Class A Preferred Shares have been created, designated the Class A Non-Cumulative Preferred Share Series 1 (Class A Preferred Shares Series 1), the Class A Non-Cumulative Preferred Shares Series 2 (Class A Preferred Shares Series 2) and Class A Non-Cumulative Preferred Shares Series 3 (Class A Preferred Shares Series 3).

As at January 31, 2006, the issued share capital of SLF Inc. consisted of 581,788,975 Common Shares, 16,000,000 Class A Preferred Shares Series 1, 13,000,000 Class A Preferred Shares Series 2 and 10,000,000 Class A Preferred Shares Series 3. The Common Shares, Class A Preferred Shares Series 1, Class A Preferred Shares Series 2 and Class A Preferred Shares Series 3 are widely held. The Common Shares are listed on the Toronto Stock Exchange (TSX), the New York Stock Exchange (NYSE) and the Philippine Stock Exchange (PSE). The Class A Preferred Shares Series 1, the Class A Preferred Shares Series 2 and the Class A Preferred Shares Series 3 are listed on the TSX.

Common Shares

Each Common Share is entitled to one vote at meetings of the shareholders of SLF Inc. except for meetings at which only holders of another specified class or series of shares are entitled to vote separately as a class or series. Each Common Share is entitled to receive dividends if and when declared by the Board of Directors of SLF Inc. All dividends must be declared and paid in equal amounts per share on all Common Shares, subject to the rights of holders of the Class A Preferred Shares and Class B Preferred Shares. Holders of Common Shares will participate in any distribution of the net assets of SLF Inc. upon its liquidation, dissolution or winding-up on an equal basis per share, subject to the rights of the holders of the Class A Preferred Shares and Class B Preferred Shares. There are no pre-emptive, redemption, purchase or conversion rights attaching to the Common Shares.

Class A Preferred Shares

The Class A Preferred Shares of each series rank on a parity with the Class A Preferred Shares of each other series with respect to the payment of dividends and the return of capital on the liquidation, dissolution or winding-up of SLF Inc. The Class A Preferred Shares are entitled to preference over the Class B Preferred Shares, the Common Shares and any other shares ranking junior to the Class A Preferred Shares with respect to the payment of dividends and the return of capital. The special rights and restrictions attaching to the Class A Preferred Shares as a class may not be amended without such approval as may then be required by law, subject to a minimum requirement of approval by the affirmative vote of at least two-thirds of the votes cast at a meeting of the holders of Class A Preferred Shares held for that purpose.

The Class A Preferred Shares Series 1 were issued for $25 per share and holders are entitled to receive, non-cumulative quarterly dividends of $0.296875 per share. Subject to regulatory approval, on or after March 31, 2010, SLF Inc. may redeem these shares in whole or in part at a declining premium. At any time, subject to regulatory approval, SLF Inc. may issue a separate series of Class A Preferred Shares and holders of the Class A Preferred Shares Series 1 would be able to convert their Class A Preferred Shares Series 1 shares into the new series of Class A Preferred Shares. Additional information concerning these preferred shares is contained in the prospectus issued on February 17, 2005, which may be accessed at www.sedar.com.

The Class A Preferred Shares Series 2 were issued for $25 per share and the holders are entitled to receive non-cumulative quarterly dividends of $0.30 per share. Subject to regulatory approval, on or after September 30, 2010, SLF Inc. may redeem these shares in whole or in part at a declining premium. At any time, subject to regulatory approval, SLF Inc. may issue a separate series of Class A Preferred Shares and holders of the Class A Preferred Shares Series 2

would be able to convert their Class A Preferred Shares Series 2 shares into the new series of Class A Preferred Shares. Additional information concerning these preferred shares is contained in the prospectus issued on July 8, 2005, which may be accessed at www.sedar.com.

The Class A Preferred Shares Series 3 were issued for $25 per share and the holders are entitled to receive non-cumulative quarterly dividends of $0.278125 per share. Subject to regulatory approval, on or after, March 31, 2011, SLF Inc. may redeem these shares in whole or in part at a declining premium. At any time, subject to regulatory approval, SLF Inc. may issue a separate series of Class A Preferred Shares and holders of the Class A Preferred Shares Series 3 would be able to convert their Class A Preferred Shares Series 3 shares into the new series of Class A Preferred Shares. Additional information concerning these preferred shares is contained in the prospectus issued on January 6, 2006, which may be accessed at www.sedar.com.

Class B Preferred Shares

The Class B Preferred Shares of each series rank on a parity with the Class B Preferred Shares of each other series with respect to the payment of dividends and the return of capital on the liquidation, dissolution or winding-up of SLF Inc. The Class B Preferred Shares are entitled to preference over the Common Shares and any other shares ranking junior to the Class B Preferred Shares with respect to the payment of dividends and the return of capital, but are subordinate to the Class A Preferred Shares and any other shares ranking senior to the Class B Preferred Shares with respect to the payment of dividends and return of capital. The special rights and restrictions attaching to the Class B Preferred Shares as a class may not be amended without such approval as may then be required by law, subject to a minimum requirement of approval by the affirmative vote of at least two-thirds of the votes cast at a meeting of the holders of Class B Preferred Shares held for that purpose.

CONSTRAINTS ON SHARES

The Insurance Act and the regulations thereunder contain restrictions on the purchase or other acquisition, issue, transfer and voting of the shares of a demutualized insurance company or, when a holding company structure is used, its corporate holding body. Information on those restrictions can be found in this AIF under the heading *"Regulatory Matters – Canada"*.

MARKET FOR SECURITIES

Selected monthly trading information for SLF Inc.'s Common Shares on the TSX during 2005 is set out below:

Month	Price ($)			Trading Volume (000s)
	High	Low	Close	
January	40.86	38.55	40.15	20,900
February	42.46	39.10	39.10	26,391
March	42.20	38.00	39.45	29,459
April	39.93	37.18	39.28	24,922
May	40.33	38.65	39.55	21,643
June	43.18	38.57	41.27	25,842
July	45.06	41.05	44.06	20,800
August	45.70	43.15	43.80	23,191
September	45.30	42.08	43.65	27,066
October	44.61	41.75	44.05	18,953
November	47.75	43.71	46.35	30,952
December	48.44	45.39	46.73	18,819

Selected monthly trading information for SLF Inc.'s Class A Preferred Shares Series 1 on the TSX during 2005 is set out below:

Month	Price ($)			Trading Volume (000s)
	High	Low	Close	
March	24.34	23.80	24.15	1,644
April	24.49	23.96	24.40	2,497
May	24.90	24.30	24.75	1,732
June	25.05	24.61	24.75	2,899
July	25.00	24.58	24.80	744
August	25.10	24.51	24.90	632
September	25.18	24.71	24.94	350
October	24.93	24.57	24.65	203
November	25.70	24.60	25.35	913
December	26.30	25.08	26.00	462

Selected monthly trading information for SLF Inc.'s Class A Preferred Shares Series 2 on the TSX during 2005 is set out below:

Month	Price ($)			Trading Volume (000s)
	High	Low	Close	
July	24.98	24.70	24.80	949
August	25.00	24.70	25.00	369
September	25.27	24.76	24.86	874
October	25.00	24.51	24.75	262
November	25.75	24.76	25.43	714
December	26.00	25.22	25.55	455

PRIOR SALES OF UNLISTED SECURITIES

On November 23, 2005, SLF Inc. issued $600 million of Series A Unsecured Senior Fixed/Floating 4.8% Debentures due in 2035 (Series A Debentures). The Series A Debentures are not listed or quoted on a marketplace.

DIVIDENDS

SLF Inc.'s policy is to pay dividends on its Common Shares in a range that is comparable to that of common shareholder dividends paid by other publicly traded North American financial institutions. On February 9, 2006, the Board of Directors approved an increase in the target dividend payout ratio from a range of 25% to 35% to a range of 30% to 40%. The policy is subject to periodic review by the Board of Directors. The declaration and payment of dividends is at the Board's sole discretion and is dependent on SLF Inc.'s earnings, financial condition and capital requirements. Dividends may be adjusted or eliminated at the Board's discretion on the basis of these or other considerations.

SLF Inc. declared total Common Share dividends of $0.68, $0.86, and $0.99 per share in 2003, 2004 and 2005, respectively. In 2005, SLF Inc. declared total dividends of $1.00 per share on its Class A Preferred Shares Series 1 and $0.553 per share on its Class A Preferred Shares Series 2.

In early December, SLF Inc. announced the postponement from December 30, 2005 to January 3, 2006 of the quarterly dividends payable to holders of Common Shares, Class A Preferred Shares Series 1 and Class A Preferred Shares Series 2 of record on November 23, 2005. This change was made to enable Canadian shareholders to take advantage of the announced Canadian legislation which, if passed, will reduce the effective income tax rate on dividend income for individual taxpayers starting in January 2006.

SLF Inc. is prohibited under the Insurance Act from declaring or paying a dividend if there are reasonable grounds for believing that it is, or the payment would cause it to be, in contravention of any regulation under the Insurance Act with respect to the maintenance of adequate capital and adequate and appropriate forms of liquidity, or

any direction to SLF Inc. made by the Superintendent of Financial Institutions, Canada (the Superintendent) pursuant to subsection 515(3) of the Insurance Act regarding its capital or liquidity. In addition, the Insurance Act prohibits an insurance company from declaring or paying a dividend without the Superintendent's approval if the total of all dividends declared by that company in that year would exceed the aggregate of the company's net income up to the date of the dividend and its retained net income for the preceding two years. As of the date hereof, these limitations would not restrict a payment of dividends on SLF Inc.'s shares, and no such direction to SLF Inc. has been made. In addition, SLF Inc. must provide at least 10 days' prior notice to the Superintendent before paying any dividends and, in certain limited circumstances, would be required to obtain the Superintendent's approval before declaring or paying dividends.

As a holding company, SLF Inc. depends primarily on the receipt of funds from its subsidiaries to pay shareholder dividends and operating expenses. The source of these funds is primarily dividends and capital repayments that SLF Inc. receives from its subsidiaries. The inability of its subsidiaries to pay dividends or return capital in the future may materially impair SLF Inc.'s ability to pay dividends to shareholders or to meet its cash obligations. Additional information concerning legislation regulating the ability of SLF Inc.'s subsidiaries in Canada, the U.S. and the U.K. to pay dividends or return capital can be found in this AIF under the heading *"Regulatory Matters"*.

SLF Inc. and Sun Life Assurance have covenanted that, if a distribution is not paid when due on any outstanding Sun Life ExchangEable Capital Securities (the SLEECS) issued by Sun Life Capital Trust, a subsidiary of Sun Life Assurance, Sun Life Assurance will not pay dividends on its "Public Preferred Shares", if any are outstanding. If no Public Preferred Shares are outstanding, SLF Inc. will not pay dividends on its preferred shares or Common Shares, in each case, until the 12th month following the failure to pay the required distribution in full, unless the required distribution is paid to the holders of SLEECS. "Public Preferred Shares" means preferred shares issued by Sun Life Assurance which: (a) have been issued to the public (excluding any preferred shares held beneficially by affiliates of Sun Life Assurance); (b) are listed on a recognized stock exchange; and (c) have an aggregate liquidation entitlement of at least $200 million. None of Sun Life Assurance's issued shares, as at the date of this AIF, qualify as "Public Preferred Shares".

SECURITY RATINGS

The following table summarizes the security ratings that SLF Inc. has received from two approved rating agencies pertaining to its outstanding securities as at the date of this AIF. Approved rating agencies are defined by Canadian securities laws to mean Dominion Bond Rating Service Limited (DBRS), Fitch Ratings Ltd. (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's (S&P).

Security	DBRS	S&P
Class A Preferred Shares Series 1	Pfd-1 n (low)	P-1 (low)/A
Class A Preferred Shares Series 2	Pfd-1 n (low)	P-1 (low)/A
Class A Preferred Shares Series 3	Pfd-1 n (low)	P-1 (low)/A
Series A Debentures	AA (low)	AA-

The security ratings accorded to securities by the rating agencies are not a recommendation to purchase, hold or sell these securities, in as much as such ratings do not comment as to market price or suitability for a particular investor. Security ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The Company provides certain rating agencies with confidential, in-depth information in support of the rating process.

DBRS Ratings

DBRS's ratings for long-term debt range from "AAA" to "D" and its ratings for preferred shares range from Pfd-1 to D. These ratings are meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both interest and principal commitments. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity. Each rating category is denoted by the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category. These ratings are appended with one of three rating trends — "Positive", "Stable", or "Negative". The ratings trend help to give investors an understanding of DBRS's opinion regarding the outlook for the rating in question. The "n" designation is attached to all ratings for securities that are non-cumulative. DBRS believes that risk added under a non-cumulative covenant is a market risk and not a credit risk. DBRS will attach the "y" appendage to a rating of

securities that carry unique covenants, such as interest deferral, that can add a variety of risks that are not captured in the DBRS rating.

SLF Inc.'s Class A Preferred Shares Series 1, Class A Preferred Shares Series 2 and Class A Preferred Shares Series 3 have been assigned a Pfd-1 rating by DBRS, first out of 6 on the rating scale, as they are considered to be of superior credit quality and are supported by entities with strong earnings and balance sheet characteristics. SLF Inc.'s Series A Debentures have been assigned an AA (low) rating by DBRS, second out of 10 on the rating scale, as they are considered to be of superior credit quality with a high level of protection of interest and principal.

S&P's Ratings

S&P's ratings for long-term debt range from "AAA" to "D" and provide an opinion of the creditworthiness of an obligor with respect to a specific financial obligation. These ratings are based, in varying degrees, on the considerations of likelihood of payment capacity and willingness of the obligor to meet its financial commitments on an obligation in accordance with the terms of the obligation; nature of and provisions of the obligation; and protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights. The rating definitions are expressed in terms of default risk. The ratings from "AA" to "CCC" may be modified by the addition of a plus "+" or minus "-" sign to show relative standing within the major rating categories. A rating outlook assesses the potential direction of a long-term credit rating over the intermediate to longer term. In determining a rating outlook, consideration is given to any changes in economic and/or fundamental business conditions.

SLF Inc.'s Series A Debentures have been assigned an AA- (positive) rating by S&P, second out of 10, on the rating scale. The AA rating denotes that the specific obligation is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than other obligations in higher rated categories. However, SLF Inc.'s capacity to meet its financial obligation is still strong.

S&P's Canadian preferred share rating scale expresses preferred share ratings (determined in accordance with global rating criteria) in terms of rating symbols that have been actively used in the Canadian market for a number of years. An S&P preferred share rating on the Canadian scale is a current assessment of the creditworthiness of an obligor with respect to a specific preferred share obligation issued in the Canadian market. There is a direct correspondence between the specific ratings assigned on the Canadian preferred share scale and the various rating levels on the global debt rating scale of S&P. The Canadian scale rating is fully determined by the applicable global scale rating and there are no additional analytical criteria associated with the determination of ratings on the Canadian scale. It is the practice of S&P to present an issuer's preferred share ratings on both the global rating scale and on the Canadian national scale when listing the ratings for a particular issuer.

SLF Inc.'s Class A Preferred Shares Series 1, Class A Preferred Shares Series 2 and Class A Preferred Shares Series 3 have been assigned a P-1 rating by S&P, which is first out of 5 on the Canadian Preferred ratings scale and A rating which is fourth out of 20 on the Global Preferred scale. The P-1 (low)/A rating denotes that the specific obligation is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than other obligations in higher rated categories. However, SLF Inc.'s capacity to meet its financial commitment is still strong.

ASSET-BACKED SECURITIES

Sun Life Financial issues asset-backed securities from time as part of its normal course of business. The details of Sun Life Financial's asset securitization program are presented in SLF Inc.'s 2005 MD&A under the heading "*Financial Position And Liquidity – Off-Balance Sheet Arrangements – Asset Securitization"* and in Note 6 to SLF Inc.'s 2005 Consolidated Financial Statements.

TRANSFER AGENTS AND REGISTRAR

The transfer agents for SLF Inc.'s Common Shares and the location of the registrar of transfers of the Common Shares are as follows:

Shareholder's Country of Residence	Transfer Agent and Location
Canada and the United States	CIBC Mellon Trust Company PO Box 7010, Adelaide Street Postal Station, Toronto, Ontario, Canada M5C 2W9
United Kingdom	Capita IRG Plc Bourne House, 34 Beckenham Road, Beckenham, Kent, United Kingdom BR3 4TU
Philippines	The Hong Kong and Shanghai Banking Corporation Limited 30/F The Discovery Suites, #25 ADB Avenue, Ortigas Centre, Pasig, Metro Manila, Philippines
Hong Kong	Computershare Hong Kong Investor Services Limited 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

CIBC Mellon Trust Company Limited is the transfer agent for SLF Inc.'s Class A Preferred Shares Series 1, Class A Preferred Shares Series 2 and Class A Preferred Shares Series 3 and the registrar for SLF Inc.'s Series A Debentures. The register of transfers for these securities is located at PO Box 7010, Adelaide Street Postal Station, Toronto, Ontario, Canada, M5C 2W9.

DIRECTORS AND EXECUTIVE OFFICERS

Board of Directors

At December 31, 2005, the Board of Directors of SLF Inc. had four standing committees: (1) Audit and Conduct Review, (2) Risk Review, (3) Management Resources, and (4) Governance.

The following table sets out the Directors of SLF Inc. as of the date of this AIF and, for each Director, the province or state and country of his or her residence, principal occupation, years as a Director, and membership on board committees. The term of each Director expires at the close of business of the Annual Meeting in 2006. Each of the Directors of SLF Inc. is an independent Director, except Messrs. Stewart and Prieur who are executive officers of SLF Inc.

Name and Province/State and Country of Residence	Principal Occupation	Director Since	Board Committee Membership
James C. Baillie Ontario, Canada	of Counsel, Torys LLP	2000	Audit and Conduct Review Risk Review
George W. Carmany, III Massachusetts, USA	President, G.W. Carmany and Company, Inc.	2004	Management Resources Risk Review
John H. Clappison Ontario, Canada	Retired Greater Toronto Area Managing Partner, PricewaterhouseCoopers LLP	2006	Audit and Conduct Review Risk Review
William R. Fatt Ontario, Canada	C.E.O., Fairmont Hotels & Resorts Inc.	2001	Management Resources Risk Review
David A. Ganong New Brunswick, Canada	President, Ganong Bros. Limited	2002	Governance Management Resources
Germaine Gibara Quebec, Canada	President, Avvio Management Inc.	2002	Audit and Conduct Review Governance
Krystyna T. Hoeg Ontario, Canada	President & C.E.O., Corby Distilleries Limited	2002	Audit and Conduct Review Risk Review
David W. Kerr Ontario, Canada	Chairman, Falconbridge Limited	2004	Audit and Conduct Review Management Resources
Idalene F. Kesner Indiana, USA	Chairperson, MBA Program, Frank P. Popoff Chair of Strategic Management, Kelley School of Business, Indiana University	2002	Governance Risk Review
Bertin F. Nadeau Quebec, Canada	Chairman and C.E.O., GescoLynx Inc.	1999	Governance Management Resources
Ronald W. Osborne Ontario, Canada	Chairman SLF Inc. and Sun Life Assurance	1999	Audit and Conduct Review[1] Governance Management Resources[1] Risk Review[1]
C. James Prieur Ontario, Canada	President & C.O.O., SLF Inc. and Sun Life Assurance	2002	(none)
Donald A. Stewart Ontario, Canada	C.E.O., SLF Inc. and Sun Life Assurance	1999	(none)
W. Vickery Stoughton California, USA	Principal, Anvil Entertainment Inc. and Partner, Wear It Now	1999	Governance Management Resources

[1]Mr. Osborne is an ex-officio member of these committees.

Each Director of SLF Inc. has been engaged for more than five years in his or her present principal occupation or in other capacities with the company or organization (or predecessor thereof) in which he or she currently holds his or her principal occupation, except Mr. Osborne who, prior to December 2003, was President and Chief Executive Officer of Ontario Power Generation Inc.

To the knowledge of the Company, no Director or executive officer of the Company is or has been, in the 10 years before the date of this AIF, a Director or executive officer of a company that, while that person was acting in that capacity, (a) was the subject of a cease trade order or similar order or an order that denied the issuer access to any exemptions under Canadian securities legislation, for a period of more than 30 consecutive days, (b) was subject to an event that resulted, after that person ceased to be a Director or executive officer, in the issuer being the subject of a cease trade or similar order or an order that denied the issuer access to any exemption under Canadian securities

legislation, for a period of more than 30 consecutive days, or (c) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets except for the following:

(i) Professor Kesner, a Director of SLF Inc., was a director of Harriet & Henderson Yarns, Inc. until May 2003. In July 2003 Harriet & Henderson Yarns, Inc. filed a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States. Ms. Kesner is no longer a director of Harriet & Henderson Yarns, Inc.;

(ii) Messrs. Ganong and Osborne, Directors of SLF Inc., were directors of Air Canada when it filed for protection under the Companies' Creditors Arrangement Act in April 2003. Air Canada successfully emerged from those proceedings and was restructured pursuant to a plan of arrangement in September 2004. Messrs. Ganong and Osborne are no longer directors of Air Canada; and

(iii) Mr. Stoughton, a Director of SLF Inc., was a director of Careside, Inc. when it filed a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States in October 2002. Mr. Stoughton is no longer a director of Careside, Inc.

Audit and Conduct Review Committee

The responsibilities and duties of the Audit and Conduct Review Committee are set out in its charter, a copy of which is attached as Appendix B.

The Board of Directors has determined that each member of its Audit and Conduct Review Committee is independent and financially literate. In the Board's judgment, a member of the Committee is financially literate if, after seeking and receiving any explanations or information from senior financial management of the Company or the auditors of the Company that the member requires, the member is able to read and understand the consolidated financial statements of the Company to the extent sufficient to be able to intelligently ask, and to evaluate the answers to, probing questions about the material aspects of those financial statements.

The members of the Audit and Conduct Review Committee as of the date of this AIF and their qualifications and education are set out below.

Krystyna T. Hoeg (Chair) received her designation as a Chartered Accountant in Canada in 1980 while working at the firm of Touche Ross. She joined the Allied Domecq group of companies in 1985 and has held a number of senior financial positions with Hiram Walker & Sons Ltd., Hiram Walker – G&W Ltd. and Allied Domecq. In 1996, she was appointed President and Chief Executive Officer of Corby Distilleries Limited, now a member of the Pernod Richard group of companies. Ms. Hoeg joined the board of directors and audit committee of Clarica in 1999 and was appointed Chair of Clarica's audit committee in 2000. She joined the Boards of Directors and the Audit and Conduct Review Committees of SLF Inc. and Sun Life Assurance in 2002 and became a member of their Risk Review Committees in 2004. In 2005, she was appointed Chair of the Audit and Conduct Review Committee. Ms. Hoeg is also a director and a member of the audit committee of Ganong Bros. Limited and a director of Shoppers Drug Mart Corporation.

James C. Baillie is of Counsel at Torys LLP, a Toronto-New York business law firm. He was called to the Bar in 1963 and has been with the Torys firm since then, first as an associate, then a partner, then of Counsel. The only exception is his service as Chairman of the Ontario Securities Commission from 1979 to 1981. Mr. Baillie joined the Boards of Directors of SLF Inc. and Sun Life Assurance in 2000. He joined the Audit and Conduct Review Committees of SLF Inc. and Sun Life Assurance in 2001 and became a member of their Risk Review Committees in 2003. He was appointed the Chairman of the Risk Review Committees in 2004. Mr. Baillie is a director of MFS and the chair of its audit committee. He is also the Chair of the Auditing and Assurance Standards Oversight Council, which oversees the Assurance Standards Board, a national body with the authority and responsibility for setting auditing and assurance standards for the public and private sectors in Canada. He is a director of Decision Dynamics Technology Ltd.

John H. Clappison is a Chartered Accountant who joined the firm of Price Waterhouse in 1968. He became a Partner of the firm in 1980 and in 1990 became Managing Partner of the Greater Toronto Area office, a position he

continued to hold after the merger of Price Waterhouse with Coopers & Lybrand in 1998 until he retired in December 2005. He was appointed a Fellow of the Institute of Chartered Accountants of Ontario in 1988. He has lectured on accounting practices at Ryerson University, the University of Toronto and the Ontario Institute of Chartered Accountants School of Accountancy. Mr. Clappison joined the Boards of Directors, the Audit and Conduct Review Committees and the Risk Review Committees of SLF Inc. and Sun Life Assurance in 2006. He is a director of Cameco Corporation and Summit Energy Management Inc. He is currently a Trustee of the Shaw Festival Theatre Endowment Foundation and a member of the Board of Trustees and chairman of the finance and audit committee of The Art Gallery of Ontario Endowment Foundation.

Germaine Gibara received her designation as a Certified Financial Analyst in 1984. She received a Masters of Economics and Political Science degree from Dalhousie University and completed the Program for Management Development at Harvard Business School. Ms. Gibara has held senior positions with a number of financial service and resource-based companies, including Alcan Automotive Structures, TAL Global Asset Management Inc. and Caisse de depot et placement du Quebec. She is currently President of Avvio Management Inc. Ms. Gibara joined the Clarica Board of Directors in 1997. She joined the Boards of Directors and Risk Review Committees of SLF Inc. and Sun Life Assurance in 2002 and joined their Audit and Conduct Review Committees in 2004. Ms. Gibara is a director of the CPP Investment Board and is a director of the Canadian Auditing and Assurance Standards Oversight Council. She is also a director of Agrium Inc. and a director and member of the audit committee of Cogeco Cable Inc. and St. Lawrence Cement Group Inc. She was a director of the Economic Council of Canada between 1991 and 1993.

David W. Kerr received his designation as a Chartered Accountant in Canada in 1969 while working at the firm of Touche Ross. He joined what became the Brascan Corporation group of companies in 1972, serving in various senior financial positions. Most recently, he was President and Chief Executive Officer of Falconbridge Limited (formerly Noranda Inc.) from 1990 to 2002. In 2002, he became Chairman of Falconbridge Limited. Mr. Kerr joined the Boards of Directors and Audit and Conduct Review Committees of SLF Inc. and Sun Life Assurance in December 2004. He is also a director and member of the audit committee of Shell Canada Limited and Chair of the audit committee of Sustainable Development Technology Canada.

SLF Inc.'s Board of Directors has determined that Ms. Krystyna T. Hoeg is an audit committee financial expert as defined by the SEC and is independent as defined by the NYSE's corporate governance standards. The SEC has indicated that the designation of a person as an audit committee financial expert does not make that person an "expert" for any purpose, or impose any duties, obligations or liabilities on that person that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation or affect the duties, obligations or liabilities of any other member of the audit committee or board of directors.

Executive Officers

As at the date of this AIF, the executive officers of SLF Inc. were as follows:

Name and Province/State and Country of Residence	Position
Donald A. Stewart Ontario, Canada	Chief Executive Officer
C. James Prieur Ontario, Canada	President and Chief Operating Officer
James M.A. Anderson Ontario, Canada	Executive Vice-President and Chief Investment Officer
Thomas A. Bogart Ontario, Canada	Executive Vice-President and Chief Legal Officer
David W. Davies Epsom, Surrey, United Kingdom	Chairman, Sun Life Assurance Company of Canada (U.K.) Limited
Paul W. Derksen Ontario, Canada	Executive Vice-President and Chief Financial Officer
Kevin P. Dougherty Ontario, Canada	President, Sun Life Financial Canada
Robert W. Mansbridge Ontario, Canada	Executive Vice-President and Chief Information Officer
Robert C. Salipante Massachusetts, USA	President, Sun Life Financial United States
Michael P. Stramaglia Ontario, Canada	Executive Vice-President and Chief Asset & Liability Officer

Each executive officer of SLF Inc. has held his current position or other senior positions with Sun Life Financial during the past five years with the following exceptions: Prior to September 2002, Mr. Davies was Trustee and Advisor for Alba Life, Police Mutual Friendly Society and Life Assurance Holding Corporation Limited, and prior to March 2002, he was Chief Executive for Royal National Pension Fund for Nurses. Prior to April 2005, Mr. Mansbridge was Vice-President, Information Technology with ATI Technologies. Prior to January 2004, he was Senior Vice-President and Chief Information Officer with Celestica Incorporated and prior to January 2002, Vice-President, Information Technology, Americas with Celestica Incorporated. Prior to February 2003, Mr. Salipante was a private consultant, and prior to April 2002, he was President and General Manager of ING U.S. Financial Services. Prior to December 2002, Mr. Stramaglia was Executive Vice-President, Reinsurance and Chief Investment Officer of Clarica.

Shareholdings of Directors and Executive Officers

As at December 31, 2005, SLF Inc.'s Directors and executive officers, as a group, owned, directly or indirectly, or had voting control or direction over 282,017 Common Shares of SLF Inc., or less than 1% of the total Common Shares outstanding.

CODE OF ETHICS

SLF Inc.'s approach to business conduct is based on ethical behaviour, adhering to high business standards, integrity and respect. The Board of Directors sets an ethical "tone from the top" and satisfies itself that senior management sustains a culture of integrity throughout the organization. The Board has adopted the Sun Life Financial Code of Business Conduct that applies to directors, officers and employees, including its Chief Executive Officer, Chief Financial Officer and Vice-President and Controller. It is posted on the Sun Life Financial website: www.sunlife.com. The Risk Review Committee reviews the effectiveness of, and compliance with, the Code of Business Conduct and reports on its review to the Board of Directors on an annual basis. The Governance Committee reviews and makes recommendations to the Board of Directors on amendments to the Code of Business Conduct. No waivers of the Code for directors or executive officers have been granted.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

For the years ended December 31, 2005 and 2004, the fees incurred by Sun Life Financial for audit work performed by Deloitte & Touche LLP were as follows:

	Year Ended December 31	
($ millions)	**2005**	**2004**
Audit Services	13.6	10.2
Audit-Related Services	3.6	3.5
Tax Services	0.6	2.2
Other Services	0.7	0.4

Audit Fees

Audit fees were paid for professional services rendered by the auditors for the audit of Sun Life Financial's annual financial statements and segregated funds as well as services provided in connection with statutory and regulatory filings.

Audit-Related Fees

Audit-related fees were paid for assurance and related services that are reasonably related to the performance of the audit or review of the annual financial statements and are not reported under the audit fees category above. These services consisted primarily of reviews of the Company's internal control reporting preparedness, Association of Investment Management and Research verifications, and employee benefit plan audits.

Tax Fees

Tax fees were paid for tax compliance, tax advice and tax planning professional services. These services included the review of original and amended tax returns, assistance with questions regarding tax audits and refund claims, tax planning and advisory services relating to domestic and international taxation.

Other Fees

Other fees were paid for products and services other than the audit fees, audit-related fees and tax fees described above.

Policy for Approval of Auditor Services

SLF Inc. has established a policy requiring pre-approval of services provided by its external auditors, a copy of which is attached as Appendix C. All fees paid to SLF Inc.'s external auditors since the policy was established have been approved by the Audit and Conduct Review Committee in accordance with the policy in effect at the relevant time. None of the services described in the table above were approved by the Audit and Conduct Review Committee pursuant to the de minimis exception in paragraph (c)(7)(i)(C) of SEC Rule 2-01 of Regulation S-X.

INTERESTS OF EXPERTS

Deloitte & Touche LLP, the external auditors of SLF Inc., provided an audit opinion on SLF Inc.'s 2005 Consolidated Financial Statements.

Robert W. Wilson, SLF Inc.'s Appointed Actuary, provided an opinion on the value of policy liabilities for SLF Inc.'s consolidated balance sheets at December 31, 2005 and 2004 and the change in the consolidated statements of operations for the years then ended. Mr. Wilson owned beneficially, directly or indirectly, less than 1% of all outstanding securities or other property of SLF Inc. or its affiliates when he prepared that opinion, or after that opinion was prepared, and he does not expect to receive any such securities or other property in excess of that amount in the future.

REGULATORY MATTERS

Sun Life Financial is subject to regulation and supervision by governmental authorities in the jurisdictions in which it does business.

Canada

General

SLF Inc. is governed by the Insurance Act. The Insurance Act is administered, and the activities of Sun Life Financial are supervised, by OSFI. SLF Inc. has all the powers and restrictions applicable to life insurance companies governed by the Insurance Act. The Insurance Act permits insurance companies to offer, directly or through subsidiaries or through networking arrangements, a broad range of financial services, including banking services, investment counseling and portfolio management, mutual funds, trust services, real property brokerage and appraisal and merchant banking services.

The Insurance Act requires the filing of annual and other reports on the financial condition of insurance companies, provides for periodic examinations of insurance companies' affairs, imposes restrictions on transactions with related parties, and sets forth requirements governing certain aspects of insurance companies' businesses.

OSFI supervises SLF Inc. on a consolidated basis to ensure that it has an overview of activities of SLF Inc. and its consolidated subsidiaries. This consolidated regulation includes the ability to review both insurance and non-insurance activities, whether inside or outside of Canada, conducted by subsidiaries of SLF Inc. and adequate supervisory power to bring about corrective action.

Investment Powers

Under the Insurance Act, a life insurance company must maintain a prudent portfolio of investments, subject to certain overall limitations on the amount it may invest in certain classes of investments, such as commercial loans, real estate and stocks. Additional restrictions (and, in some cases, the need for regulatory approvals) limit the type of investments which Sun Life Financial can make in excess of 10% of the voting rights or 25% of the equity of any entity.

Capital and Surplus Requirements

In July 2005, OSFI issued guidelines which set out the framework within which the Superintendent will assess whether regulated insurance holding companies and non-operating life companies (collectively, Insurance Holding Companies) are maintaining adequate capital. Under these guidelines, Insurance Holding Companies and certain of their foreign life insurance company subsidiaries (significant foreign life subsidiaries), will not be subject, to the Minimum Continuing Capital Surplus Requirements (MCCSR) that apply to Canadian life insurance companies. The new capital requirements do not establish minimum or targeted capital requirements for Insurance Holding Companies. Rather, Insurance Holding Companies, such as SLF Inc., will be expected to manage their capital in a manner commensurate with their risk profile and control environments. Significant foreign life subsidiaries will not be subject to the MCCSR rules, but are expected to comply with the capital adequacy requirements imposed in the foreign jurisdictions in which they operate. For the purposes of determining available capital, an Insurance Holding Company will deduct the capital of its significant foreign life subsidiaries and then add back any excess capital or deduct any capital deficit of such subsidiaries, based upon the capital adequacy rules of the jurisdictions in which those subsidiaries operate (see *Regulatory Matters – United States*). The Company expects that its principal operating life insurance company in the United States, Sun Life Assurance Company of Canada (U.S.), will be qualified as a significant foreign life subsidiary. The Company has revised its capital policy to accommodate the new holding company capital guidelines.

Sun Life Assurance continues to be subject to the MCCSR rules on a consolidated basis. The MCCSR calculation involves applying quantitative factors to specific assets and liabilities, as well as to certain off-balance sheet items, based on the following risk components: (i) asset default risk, (ii) mortality/morbidity and lapse risk, (iii) interest margin pricing risk, (iv) changes in interest rate environment risk, (v) segregated fund risk, and (vi) off-balance sheet exposure. The total capital required is the sum of the capital required calculated for each of the six risk components referred to above. OSFI uses this total, in conjunction with the amount calculated as available capital, together with other considerations, in assessing the capital adequacy of Canadian life insurance companies. OSFI generally expects Canadian life insurance companies to maintain a minimum MCCSR of 150% or greater, based on the risk profile of the

relevant insurance company. Sun Life Assurance's MCCSR ratio as at December 31, 2005 exceeded the levels that would require any regulatory or corrective action.

The principal elements used to calculate available capital for Insurance Holding Companies and for Canadian life insurance companies include common shares, contributed surplus, retained earnings, reported surplus, unamortized deferred realized and unrealized gains and certain losses on investments not taken into account in the valuation of liabilities, a certain portion of actuarial liabilities related to future policyholder termination dividends, preferred shares, qualifying innovative capital instruments and subordinated debt. Funds raised by Insurance Holding Companies or Canadian life insurance companies through borrowing or issuing securities are treated as different categories of available capital, depending on the characteristics of the instrument issued.

Insurance Holding Companies and Canadian life insurance companies must then reduce the amount of their available capital by the aggregate of their goodwill and controlling interests in non-life financial corporations, non-controlling substantial investments in corporations, a portion of negative policy reserves and cash value deficiencies and reserves on reinsurance ceded to unregistered reinsurers. OSFI may require that a higher amount of capital be available, taking into account such factors as operating experience and diversification of asset or insurance portfolios. OSFI may intervene and assume control of an Insurance Holding Company or a Canadian life insurance company if it deems the amount of available capital insufficient. Capital requirements may be adjusted by OSFI in the future as experience develops, the risk profile of Canadian life insurers changes, or to reflect other risks.

Restrictions on Dividends and Capital Transactions

The Insurance Act prohibits the declaration or payment of dividends on shares of an Insurance Holding Company or a Canadian life insurance company if there are reasonable grounds for believing the company is, or the payment of the dividend would cause the company not to have adequate capital or liquidity and requires that companies notify the Superintendent of the declaration of a dividend at least 10 days prior to the date fixed for its payment and, in certain circumstances, requires the prior approval of the Superintendent.

The Insurance Act also prohibits the purchase for cancellation of shares issued by an Insurance Holding Company or a Canadian life insurance company or the redemption of redeemable shares or other similar capital transactions, if there are reasonable grounds for believing that the company is, or the payment would cause the company not to have adequate capital or liquidity. Further, any purchase for cancellation of any shares issued by an Insurance Holding Company or a Canadian life insurance company or the redemption of redeemable shares or similar capital transactions is prohibited without the prior approval of the Superintendent.

Restrictions on Ownership

The Insurance Act contains restrictions on the purchase or other acquisition, issue, transfer and voting of the shares of an insurance company. Pursuant to these restrictions, no person is permitted to acquire any shares of SLF Inc. if the acquisition would cause the person to have a "significant interest" in any class of shares of SLF Inc., without the prior approval of the Minister of Finance of Canada. In addition SLF Inc. is not permitted to record any transfer or issue of shares of SLF Inc. if the transfer or issue would cause the person to have a significant interest in SLF Inc., unless prior approval is obtained from the Minister of Finance of Canada. No person who has a significant interest in SLF Inc. may exercise any voting rights attached to the shares held by that person, unless that prior approval of the Minister of Finance of Canada is obtained. A person has a significant interest in a class of shares where the aggregate of any shares of that class beneficially owned by that person, any entity controlled by that person and any person acting jointly or in concert with that person exceeds 10% of all of the outstanding shares of that class of shares.

Under the Insurance Act, the Minister of Finance of Canada may approve only the acquisition of a significant interest of up to 30% of any class of non-voting shares and up to 20% of a class of voting shares, provided that the person acquiring those shares does not have direct or indirect influence over SLF Inc. that, if exercised, would result in that person having control in fact of SLF Inc. In addition, the Insurance Act prohibits life insurance companies, including SLF Inc., from recording a transfer or issuing shares of any class to Her Majesty in right of Canada or of a province, an agent of Her Majesty, a foreign government or an agent of a foreign government.

SLF Inc. is required to continue to control, but not wholly own, Sun Life Assurance. Any shares of Sun Life Assurance that are not owned by SLF Inc. are required to meet the widely held criteria (no individual may own more

than 10% of any class of shares without prior Minister approval). The 20% limit on voting share ownership and 30% limit on non-voting share ownership apply to the direct and indirect cumulative ownership of Sun Life Assurance, with the effect that no single investor will be able to use the holding company structure to exceed the ownership restrictions.

Appointed Actuary

In accordance with the Insurance Act, SLF Inc.'s Board of Directors has appointed a Fellow of the Canadian Institute of Actuaries as its "Appointed Actuary". The Appointed Actuary is required to provide an opinion on the value of the Company's consolidated policy liabilities as at the end of each period in accordance with accepted actuarial practices, including selection of appropriate assumptions and methods, and provide an opinion as to whether the amount of policy liabilities makes appropriate provisions for all obligations to policyholders and whether the valuation of liabilities is fairly presented in the consolidated financial statements. The Insurance Act requires that the Appointed Actuary meet with the Board of Directors or the Audit and Conduct Review Committee at least once in each financial year to report, in accordance with accepted actuarial practice, on the Company's financial position and its expected future financial condition. The Appointed Actuary is required to report to the Chief Executive Officer and the Chief Financial Officer of SLF Inc. if the Appointed Actuary identifies any matters which, in the Appointed Actuary's opinion, have material adverse effects on the financial condition of SLF Inc.

Provincial/Territorial Insurance Regulation

Sun Life Financial is subject to provincial regulation and supervision in each province and territory in Canada in which it carries on business. Provincial insurance regulation is concerned primarily with the form of insurance contracts and the sale and marketing of insurance and annuity products, including the licensing and supervision of insurance producers. Individual variable insurance and annuity products and the underlying segregated funds to which they relate are subject to guidelines adopted by the Canadian Council of Insurance Regulators and incorporated by reference into provincial insurance regulations. These guidelines govern a number of matters relating to the sale of these products and the administration of the underlying segregated funds. Sun Life Financial is licensed to transact business in all provinces and territories in Canada.

Privacy of Customer Information

Canadian federal, and some provincial, laws and regulations require financial institutions to protect the security and confidentiality of customer information and to notify customers about their policies and practices relating to their collection and disclosure of customer information and their policies relating to protecting the security and confidentiality of that information. These laws also regulate disclosure of customer information.

Securities Laws

Certain of SLF Inc.'s subsidiaries, including McLean Budden Limited and Clarica Investco Inc., certain of their employees or sales representatives and certain of the products offered by these subsidiaries are registered with provincial and territorial securities commissions and are subject to regulation and supervision under securities laws in each of the provinces and territories of Canada.

United States

General Regulation at the State Level

In the United States, each state, the District of Columbia, and U.S. territories and possessions have insurance laws that apply to companies licensed to carry on an insurance business in the jurisdiction. However, the state of domicile of the insurer is the primary regulator of the company. Most jurisdictions have laws and regulations governing the financial aspects of insurers, including standards of solvency, reserves, reinsurance, capital adequacy and the business conduct of insurers. In addition, the laws of the various states establish state insurance departments with broad administrative powers to approve policy forms and related materials and, for certain lines of insurance, approve rates, grant and revoke licenses to transact business, regulate trade practices, license agents, require statutory financial statements and prescribe the type and amount of investments permitted. The primary purpose of such regulation by the state insurance departments is for the benefit of policyholders, rather than shareholders. Insurance companies are

required to file detailed annual and quarterly financial statements with state insurance regulators in each of the states in which they are licensed, and their business and accounts are subject to examination by such agencies at any time. Regulators have discretionary authority, in connection with the continued licensing of life insurance companies, to limit or prohibit the ability to issue new policies if, in their judgment, the regulators determine that an insurer is not maintaining minimum statutory surplus or capital or if the further transaction of business would be detrimental to policyholders. As part of their routine oversight process, state insurance departments conduct detailed examinations periodically (generally every three to five years) of the books, records, accounts and market conduct of insurance companies domiciled in their states. Market conduct reviews examine, among other things, content of disclosures, illustrations, advertising, sales practices and complaint handling. Examinations are sometimes conducted in cooperation with the departments of other states under guidelines published by the National Association of Insurance Commissioners (NAIC).

SLF Inc. is not regulated as an insurance company in the United States. SLF Inc. is the direct or indirect owner of the capital stock of Sun Life Assurance and other U.S. insurance subsidiaries that are regulated as insurance companies in the United States, and which are therefore subject to the insurance holding company legislation in the states in which they are domiciled (or deemed to be commercially domiciled). Most states have enacted legislation that generally requires each insurer that is domiciled therein and that is a member of a holding company system to register with the insurance regulatory authority of that state and, annually, to furnish those authorities certain reports including information concerning capital structure, ownership, financial condition, certain intercompany transactions and general business operations. SLF Inc. has insurance subsidiaries domiciled in Delaware, Rhode Island and New York. Michigan is Sun Life Assurance's "state of entry" and it is treated as Sun Life Assurance's state of domicile in the United States for purposes of the insurance holding company laws. Under most states holding company laws, transactions within the holding company system to which the domestic insurer is a party must be fair and equitable and such insurer's policyholder surplus following any such transaction must be both reasonable in relation to its outstanding liabilities and adequate for its needs. Most states, including Michigan, require prior regulatory approval of the change of control of the domestic insurer or an entity that controls the domestic insurer and prior notice or regulatory approval of material intercorporate transfers of assets or other material affiliate transactions to which a domestic insurer is a party. The laws of the states in which SLF Inc.'s U.S. insurance subsidiaries are domiciled contain similar provisions with respect to such subsidiaries and their affiliates. Generally, under such laws, a state insurance authority must approve in advance the direct or indirect acquisition of 10% or more of the voting securities of an insurance company domiciled in the state.

Sun Life Assurance is licensed to transact business through its U.S. branch in every state in the United States (except New York, where it is an accredited reinsurer), the District of Columbia, Puerto Rico and the U.S. Virgin Islands. SLF Inc.'s U.S. insurance subsidiaries are, collectively, licensed to transact business in all states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

Restrictions on Dividends

The U.S. insurance holding company system laws and regulations of various states regulate the amount of dividends that an insurance company may pay to its parent without prior regulatory approval. In addition, covenants in surplus notes affect SLF Inc.'s Delaware domestic insurance company's ability to pay dividends by requiring it to maintain certain levels of surplus.

NAIC IRIS Ratios

The NAIC has developed a set of financial relationships or "tests" known as the NAIC Insurance Regulatory Information System (IRIS) to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that may require special attention or action by insurance regulatory authorities. A second set of confidential ratios, called Financial Analysis Solvency Tracking System, is also used for monitoring. Insurance companies generally submit data to the NAIC, which in turn analyzes the data using prescribed financial data ratios, each with defined "usual ranges". Generally, if four or more of an insurance company's ratios fall outside the usual ranges, regulators will begin to investigate or monitor the company. Regulators have the authority to impose remedies ranging from increased monitoring to certain business limitations with various degrees of supervision. For the 12 months ended December 31, 2004, the most recent period for which results are currently available, Sun Life Assurance's U.S. branch and SLF Inc.'s U.S. insurance subsidiaries were within the usual ranges for most of the IRIS ratios. Management believes that the ratios, which were outside the usual range, did not indicate any adverse solvency issues.

Statutory Investment and Other Valuation Reserves

Under NAIC rules, life insurance companies must maintain an asset valuation reserve (AVR), supplemented by an interest maintenance reserve. These reserves are recorded for purposes of statutory accounting practices; they are not recorded under the provisions of Canadian GAAP and therefore have no impact on SLF Inc.'s reported results of operations or financial position. These reserves affect the determination of statutory surplus, and changes in such reserves may impact the ability of a U.S. insurance subsidiary to pay dividends or other distributions to its parent and also may impact the amounts required to be maintained in trust by Sun Life Assurance's U.S. branch (see discussion below under "*Minimum Statutory Surplus and Capital*"). The impact of the AVR, which is a provision for potential asset credit defaults, will depend upon future composition of the investment portfolios of Sun Life Assurance's U.S. branch and SLF Inc.'s U.S. life insurance subsidiaries.

Michigan insurance law and the laws of several other states require life insurance companies to analyze the adequacy of their reserves annually. The appointed actuary for Sun Life Assurance's U.S. branch must submit an opinion that such reserves, when considered in light of the assets held with respect to those reserves, make adequate provision for Sun Life Assurance's associated contractual obligations and related expenses. Similarly, the appointed actuary for each of the U.S. life insurance subsidiaries submits an annual opinion. If such opinion cannot be provided, the affected insurer must set up additional reserves by moving funds from surplus.

The NAIC revised its "Valuation of Life Insurance Policies Model Regulation" to change the minimum statutory reserve requirements for certain new individual life insurance policies. These reserve standards have been enacted by most of the states. As a result, insurers selling certain individual life insurance products such as term life insurance with guaranteed premium periods and universal life products with secondary guarantees may need to adjust reserves and/or shorten guarantee periods. While the model regulation has been enacted by most states in which Sun Life Financial has domestic companies, the enactment of the regulation has not had a material impact on Sun Life Financial. The NAIC has recently adopted revisions to certain actuarial guidance related to this regulation; however, the revisions are not expected to have a material impact on SLF Inc.

Risk-Based Capital Requirements

In order to enhance the regulation of insurers' solvency, the NAIC adopted a model law to implement risk-based capital requirements for life, health and property and casualty insurance companies. All states have adopted the NAIC's model law or a substantially similar law. The risk-based capital (RBC) calculation, which regulators use to assess the sufficiency of an insurer's capital, measures the risk characteristics of a company's assets, liabilities and certain off-balance sheet items. RBC is calculated by applying factors to various asset, premium and liability items. Within a given risk category, these factors are higher for those items with greater underlying risk and lower for items with lower underlying risk. Insurers that have less statutory capital than the RBC calculation requires are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy. Management believes that the RBC ratios for Sun Life Assurance's U.S. branch and SLF Inc.'s U.S. insurance subsidiaries as of December 31, 2005, exceeded the levels that would require any regulatory or corrective action.

Minimum Statutory Surplus and Capital

Sun Life Assurance's U.S. branch and SLF Inc.'s U.S. life insurance subsidiaries are required to have minimum statutory surplus and capital of various amounts, depending on the state in which they are licensed and the types of business they transact.

Sun Life Assurance's U.S. branch is required to maintain a certain amount of assets in trust with a financial institution acceptable to the Michigan Insurance Commissioner in an amount at all times at least equal to the sum of the U.S. branch's reserves and other liabilities, the minimum required capital and surplus and any additional amounts considered necessary by the Michigan Insurance Commissioner to cover Sun Life Assurance's liabilities plus a portion of its surplus in the United States. These assets are generally only available to meet the policyholder obligations of Sun Life Assurance to its U.S. policyholders, claimants and other U.S. branch creditors. Amendments to the trust agreement must be approved by the Michigan Insurance Commissioner. Management believes that as at December 31,

2005, Sun Life Assurance's U.S. branch had assets in trust in excess of Michigan's requirements for branches of alien insurers including the RBC requirements referred to above.

Regulation of Investments

Sun Life Assurance's U.S. branch and SLF Inc.'s U.S. insurance subsidiaries are subject to state laws and regulations that require diversification of their investment portfolios and limit the amount of investments in certain investment categories such as below investment grade fixed income securities, equity real estate and equity investments. Failure to comply with these laws and regulations would cause investments exceeding regulatory limits to be treated as non-admitted assets for purposes of measuring surplus and, in some instances, would require divestiture of such non-qualifying investments.

Assessments Against Insurers

Insurance guaranty association laws exist in all states, the District of Columbia and Puerto Rico. These laws require insurers doing business in a state to participate in the local association. The associations may levy assessments for policyholder losses incurred by impaired or insolvent insurance companies. Generally, assessments up to certain prescribed limits are based upon the proportionate share of premiums written by member insurers in the lines of business in which the impaired or insolvent insurer is engaged. A large part of the assessments paid by Sun Life Financial pursuant to these laws may be used as credits for a portion of Sun Life Financial's U.S. premium taxes.

General Regulation of Insurance at Federal Level

Although the U.S. federal government does not directly regulate the insurance business, federal legislation and administrative policies in several areas, including pension regulation, age and sex discrimination, investment company regulation, financial services regulation and federal taxation, do affect the insurance business. For example, the U.S. Congress has from time to time considered legislation related to the deferral of taxation on the accretion of value within certain annuities and life insurance products, limitations on antitrust immunity, the alteration of the federal income tax structure and the availability of 401(k) or individual retirement accounts. In addition, legislation has been introduced from time to time in recent years which, if ever enacted, could result in the U.S. federal government assuming a more direct role in the regulation of the insurance industry.

During 2005, legislation entitled *The Retirement Security for Life Act of 2005* was introduced in the U.S. House of Representatives. Other legislation entitled *The Lifetime Pension Annuity for You Act of 2005* and *The Flexible Retirement Security for Life Act of 2005* was also introduced in the U.S. House of Representatives in 2005. Each of these bills would provide a tax incentive that would encourage retirees to choose retirement vehicles such as annuities, which provide for lifetime income.

The *American Jobs Creation Act of 2004* was signed into law in October 2004. While this legislation had major implications for many other companies, including others in the insurance industry, it has not had a material impact on SLF Inc. or any of its U.S. insurance subsidiaries.

Title III of the *USA PATRIOT Act of 2001* (PATRIOT Act) amended the Money Laundering Control Act of 1986 and the Bank Secrecy Act of 1970 to expand anti-money laundering and financial transparency laws to apply to financial services companies, including some categories of insurance companies. The PATRIOT Act, among other things, seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism, money laundering or other illegal activities. To the extent required by applicable laws and regulations, the subsidiaries of SLF Inc. that are deemed "financial institutions" under the PATRIOT Act have adopted anti-money laundering programs that include policies, procedures and controls to detect and prevent money laundering, designate a compliance officer to oversee the program, provide for on-going employee training, and ensure periodic independent testing of the program. On November 3, 2005, the U.S. Treasury Department issued final regulations applicable to the insurance industry. Effective May 2, 2006, these regulations require insurance companies issuing "covered products" to implement anti-money laundering programs and file suspicious activity reports with the U.S. Treasury Department. SLF Inc.'s U.S. insurance subsidiaries issue covered products and are taking steps to comply with the new rules. It is anticipated that the U.S. Treasury Department will issue regulations requiring insurance companies to establish and enforce customer identification programs in early 2006.

Privacy of Customer Information

U.S. federal and state laws require financial institutions to protect the security and confidentiality of customer information and to notify customers about their policies and practices relating to their collection, use and disclosure and protection of customer information and their policies relating to protecting the security and confidentiality of that information. U.S. federal and state laws also regulate disclosure of customer information. The U.S. Congress and state legislatures are considering additional laws and regulations to further protect customer information.

Securities Laws

Certain subsidiaries of SLF Inc. and certain policies and contracts offered by these subsidiaries are subject to various levels of regulation under U.S. federal securities laws administered by the SEC and under certain state securities laws.

The investment advisory activities of SLF Inc.'s U.S. subsidiaries are subject to federal and state laws and regulations in jurisdictions in which they conduct business. These laws and regulations are primarily intended to benefit investment advisory clients and investment company shareholders. MFS and certain of SLF Inc.'s other U.S. subsidiaries are investment advisors registered under the *Investment Advisers Act of 1940*, as amended (Investment Advisers Act), and, as such, are regulated by and subject to examination by the SEC. The Investment Advisers Act imposes numerous obligations on registered investment advisors, including fiduciary duties, record keeping and reporting requirements, operational requirements, and disclosure obligations. The SEC is authorized to institute proceedings and impose sanctions for violations of the Investment Advisers Act, ranging from censure to limitations on the investment advisor's activities to termination of an investment advisor's registration. Certain investment companies managed by such subsidiaries, including the MFS funds, are registered with the SEC under the *Investment Company Act of 1940*, as amended, and are subject to the *Securities Exchange Act of 1934*, as amended (Exchange Act), and the shares of certain of these entities are registered under the *Securities Act of 1933*, as amended (Securities Act), and are qualified for sale in certain states in the United States and the District of Columbia and in certain foreign countries.

Certain annuity contracts and insurance policies issued by SLF Inc.'s U.S. subsidiaries are registered under the Securities Act. Sun Life Assurance Company of Canada (U.S.) and Sun Life Insurance and Annuity Company of New York file periodic reports with the SEC under the Exchange Act. Certain of SLF Inc.'s U.S. subsidiaries are registered as broker-dealers under the Exchange Act and are subject, for example, to the SEC's net capital rules, and are members of, and subject to regulation by, the National Association of Securities Dealers, Inc. (NASD). Certain other U.S. subsidiaries of SLF Inc. are registered as transfer agents under the Exchange Act.

Certain U.S. subsidiaries of SLF Inc. issue equity-indexed annuities which are not required to be registered under the Securities Act. However, the SEC has been considering whether equity-indexed annuities should continue to be excluded from registration requirements. In August 2005, the NASD recommended that, due to this uncertainty, broker-dealers should consider supervising their representatives' sales of such products. Sun Life Financial is closely monitoring these developments.

United Kingdom

Insurance Regulation

SLF Inc.'s U.K. life insurance subsidiary, Sun Life Assurance Company of Canada (U.K.) Limited (Sun Life (U.K.)) carries on certain regulated activities as principal and by way of business in the United Kingdom in relation to long-term contracts of insurance and, therefore, is required to be authorized and regulated under the *Financial Services and Markets Act 2000* (FSM Act) by the Financial Services Authority (FSA). All insurance companies authorized under the FSM Act are required to conduct their business in accordance with the senior management arrangements, systems and controls, prudential and conduct of business rules and guidance set out in the *FSA Handbook of Rules and Guidance* (FSA Handbook), including the *Principles for Businesses* contained in the *High Level Standards* of the FSA Handbook. These include a requirement for firms, including insurance companies authorized under the FSM Act, to conduct their business with due regard to the interests of their customers and to treat them fairly. Insurance companies that are authorized under the FSM Act are also required under the *Interim Prudential Sourcebook for Insurers* (which is part of the FSA Handbook) to file their accounts and balance sheets and other information in the prescribed form with the FSA on an annual basis (with certain information now required to be submitted semi-annually). The *Integrated*

Prudential Sourcebook (also known as PRU), and also forming part of the FSA Handbook, took effect from November 2004 and largely replaced the *Interim Prudential Sourcebook*, although certain provisions from this set of rules remain applicable on a transitional basis. The regulatory requirements determined at the European Union level are also enacted in the United Kingdom. As a member of the European Union, the United Kingdom is subject to European regulation and a number of relevant European Commission Directives that have been published. While being authorized and regulated by the FSA, Sun Life (U.K.) is also required to comply with the conduct of business standards of the Irish Financial Services Regulatory Authority (IFSRA) in respect of the Company's book of Irish policies, which are also in run-off.

Long-Term Assets and Liabilities

In accordance with the FSA rules set out in the Handbook, Sun Life (U.K.) is required to maintain a separate account and records in respect of its long-term insurance business and to apply the assets and liabilities attributable to its long-term insurance business to a long-term insurance fund, separate from the assets and liabilities attributable to its non-life insurance business, if any, or to shareholders. Within its long-term insurance fund, Sun Life (U.K.) maintains separate sub-funds in respect of assets and liabilities attributable to its participating insurance business and to its non-participating insurance business, respectively. The FSA rules set out in the PRU impose restrictions on Sun Life (U.K.) from applying assets attributable to its long-term insurance business for purposes other than its long-term business.

Capital Resources Requirements

The FSA requires that insurance companies authorized under the FSM Act satisfy the capital resource requirements set out in the PRU. The PRU requires insurers to meet the higher of two capital adequacy standards. The first is the long-term insurance capital requirement, which is prescriptive and based on European Commission minimum solvency requirements. The second is the individual capital adequacy framework, which requires each insurer to self-assess what an appropriate amount of capital would be for their business to hold, taking into account the various risks that the insurer faces. The FSA reviews this self-assessment and gives the insurance company individual capital guidance (i.e. additional requirements), where appropriate.

Failure to maintain adequate capital resources is one of the grounds on which the FSA may exercise its wide powers of intervention provided for in the FSM Act. Currently Sun Life (U.K.) meets its capital resources requirements in the United Kingdom.

Restrictions on Dividends and Capital Transactions

Insurance companies in the United Kingdom are subject to the provisions of the *Companies Act 1985* governing the payment of dividends, which prevent any distribution by a company except out of profits available for this purpose. In addition, Sun Life (U.K.) is prohibited from transferring any assets maintained in the account for participating policies to its shareholders and can only pay dividends out of non-participating surplus once this has been transferred from the long-term fund to the shareholders' fund after the annual valuation.

Financial Ombudsman Service

The FSM Act provides for the establishment of an Ombudsman service to provide consumers with a free, independent service to enable disputes with financial firms to be resolved. The rules defining how the Financial Ombudsman Service (FOS) operates are written by the FSA and the two organizations operate closely together. The FOS is funded partly by a statutory levy on authorized firms and partly by a case fee in respect of cases referred to it.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) established under the FSM Act provides for the protection of certain individual policyholders in the United Kingdom who may be affected by the inability of insurance companies who carry on insurance business in the United Kingdom to meet their liabilities. The FSCS is funded by statutory levies on authorized insurance companies.

Intervention

The FSA has extensive powers to intervene in the affairs of an authorized insurance company. These include the power to fine the insurance company and to vary or cancel its permission to carry on regulated activities in the United Kingdom, to require information or documents and to investigate the business of the insurance company and to require the company to take appropriate actions in order to satisfy required threshold conditions for authorization.

Reform Proposals

The regulation of the insurance industry in the United Kingdom has undergone significant changes. In particular, the FSA has implemented a number of regulatory work streams to achieve a new risk-based cross-sectoral prudential regulatory framework which includes enhanced individual capital adequacy standards for long-term insurance companies (see above) and, specifically, a realistic approach to assessing the capital adequacy of an insurance company's participating business. In addition to these reforms, the FSA has reviewed the governance for participating business and ensuring the fair treatment of policyholders. In line with these reforms, Sun Life (U.K.) published a "Principles and Practices of Financial Management" for its participating funds from May 1, 2004 and a "policyholder friendly" version of that was available from January 1, 2006. A new reform theme that the FSA is considering relates to the governance and management of segregated funds. This aspect of insurance has not received the same degree of regulatory focus in the past as has characterized the treatment of mutual funds. The Association of British Insurers is working with the industry to identify and define the standards of best practice required in managing segregated funds. These standards are likely to become mandatory in 2006.

The FSA has recently announced that it will emphasize a principles-based regulatory framework, rather than the current rules-based regulations. The FSA proposes to integrate existing principles and rules into its supervisory framework. Where the FSA decides to use rules, they will generally be high level and outcome focused rules. This principles-based regulatory framework may result in some additional uncertainty for regulated firms and the FSA has indicated that it may need to issue guidance on how the FSA expects regulated firms to comply with its principles.

Other Jurisdictions

In each of the countries in which subsidiaries or joint ventures of Sun Life Financial operate, local regulatory authorities supervise and monitor their business and financial condition. In a number of countries, certain insurance subsidiaries or joint ventures are required to meet specific minimum working and regulatory capital requirements.

RISK FACTORS

The risks inherent in Sun Life Financial's operations and its risk management framework are described in SLF Inc.'s 2005 MD&A under the heading *"Risk Management"*. In addition, the following risk factors have been identified by management as those which may affect one or more of Sun Life Financial's reportable business segments in the nearer term. These risk factors should be considered in conjunction with the other information in this AIF and the documents incorporated by reference in this AIF.

Legal, Regulatory and Market Conduct Matters

Most of Sun Life Financial's businesses are subject to extensive levels of regulation. Changes in laws, regulations, or government policies, or in the manner in which those laws, regulations or policies are enforced, could materially and adversely affect Sun Life Financial's business and operations. Failure to comply with laws, or to conduct Sun Life Financial's business consistent with changing regulatory or public expectations, could adversely impact Sun Life Financial's reputation. Sun Life Financial's business is based on public trust and confidence and any damage to that trust or confidence could cause customers not to buy, or to redeem, Sun Life Financial's products.

In recent years, financial services regulators in many of the countries in which Sun Life Financial operates have raised issues and commenced regulatory proceedings with respect to some current and past business practices within the financial services industry, and have given greater emphasis to the investigation of those practices, including investigations into the payment of commissions and other fees to intermediaries, market timing and late trading in

investment funds, sales of mortgage endowment and pension products in the United Kingdom, allegations of improper life insurance pricing and sales practices by life and annuity insurers, including “churning”, inappropriate sales and other misleading practices by insurance agents and business practices between brokers and insurance companies. In addition, insurance and securities regulatory authorities in certain jurisdictions regularly make inquiries, hold investigations and administer market conduct examinations with respect to insurers’ compliance with applicable insurance and securities laws and regulations, and certain regulatory authorities, industry groups and rating agencies have developed several initiatives regarding market conduct.

In addition, Sun Life Financial operates businesses in emerging markets where regulatory oversight of sales practices is less developed. The risk of product mis-selling or other market conduct issues arising in these markets is consequently higher.

Legal Proceedings

SLF Inc., MFS and certain of its subsidiaries, MFS Corporation Retirement Committee, various MFS funds, certain current and/or former Trustees of those MFS funds, and certain officers of MFS have been named as defendants in multiple lawsuits filed in U.S. federal and state courts. These lawsuits variously have been commenced as class actions or individual actions on behalf of investors who purchased, held or redeemed shares of the MFS funds during specified periods, as ERISA actions by participants in certain retirement plan accounts on behalf of those accounts, or as derivative actions on behalf of MFS funds. The plaintiffs in the various lawsuits seek monetary damages, punitive damages, recovery of fees, an accounting, restitution, declaratory relief, equitable and/or injunctive relief, including removal of the named Trustees, adviser and distributor, rescission of contracts and 12b-1 Plans, disgorgement of fees and profits, and attorneys’ fees and costs. The various lawsuits generally allege that some or all of the defendants (i) permitted or acquiesced in market timing and/or late trading in some of the MFS funds and, inadequately disclosed MFS’s internal policies concerning market timing and such matters, (ii) received excessive compensation as fiduciaries to the MFS funds, or (iii) permitted or acquiesced in the improper use of fund assets by MFS to support the distribution of MFS fund shares and inadequately disclosed MFS’s use of fund assets in this manner. The actions assert that some or all of the defendants violated U.S. federal securities laws, including the *Securities Act* of 1933 and the *Securities Exchange Act* of 1934, the *Investment Company Act* of 1940 and the *Investment Advisers Act* of 1940, the *Employee Retirement Income Security Act* of 1974, as well as fiduciary duties and other violations of common law. Sun Life Financial cannot predict the outcome of these actions with certainty and is, accordingly, unable to determine the total potential impact that they may have on Sun Life Financial’s results of operations, financial position and cash flows. Additional lawsuits based upon similar allegations may be filed in the future. Additional information concerning these actions is provided in Note 20 to SLF Inc.’s 2005 Consolidated Financial Statements.

Product Guarantees

Certain of Sun Life Financial’s variable annuity products sold in the United States and Canada contain guarantees upon death, maturity, withdrawal or annuitization, where the guarantee may vary with, or may be triggered by, the market performance of the underlying funds. Although Sun Life Financial has entered into various reinsurance arrangements with respect to these products (whereby Sun Life Financial has ceded certain risk to other insurance companies), has economic hedging programs in place, and has diversified its exposure to market changes in either direction, if a significant market shift is experienced within Sun Life Financial’s book of business, these guarantees could have an adverse effect on Sun Life Financial’s financial position and results of operations.

Sun Life Financial has also assumed some risk, through reinsurance transactions, with respect to certain variable annuity policies issued in the United States by other insurance companies that contain guarantees upon death or annuitization, where the guarantee may vary with, or be triggered by, the market performance of the underlying funds. While Sun Life Financial has established a hedging program for these reinsured policies and established reserves related to these guarantees, such guarantees could have an adverse effect on Sun Life Financial, if a significant market shift is experienced in these reinsured policies.

Interest Rate Risk

Movements in interest rates create several interest rate risks for Sun Life Financial’s protection business and the fixed annuity portion of its wealth management business.

Many of Sun Life Financial's annuity products contain explicit or implicit guarantees and, if long-term interest rates fall below these guaranteed rates, Sun Life Financial may be required to increase reserves against losses, thereby adversely affecting its results of operations. Interest rate changes can also cause compression of net spread between interest earned on investments and interest credited, thereby adversely affecting Sun Life Financial's results of operations. Rapid declines in interest rates may result in, among other things, increased asset calls, mortgage prepayments or policy withdrawals and reinvestment at significantly lower yields, which could adversely affect earnings. Rapid increases in interest rates may result in, among other things, increased surrenders. Interest rate changes can also produce an unanticipated increase in transfers to separate account (variable) options or surrenders, which may force Sun Life Financial to sell investment assets at a loss in order to fund such transfers or surrenders and accelerate recognition of expenses related to the acquisition of fixed annuity products.

Similar risks exist in certain protection products. Interest-sensitive universal life products typically contain an explicit interest rate guarantee. In addition, some universal life products contain secondary guarantees under which cost of insurance charges are guaranteed at certain levels or coverage is maintained in force so long as a specified minimum premium is paid, even if the account value is depleted. The value of such guarantees increases as interest rates decline.

Effect of Changes in Equity Market Conditions

Sun Life Financial derives a portion of its revenue from fee income generated by its wealth management business, which is assessed as a percentage of assets under management and therefore varies directly with the value of such assets. Accordingly, fluctuations in the market value of such assets may result in fluctuations in Sun Life Financial's revenue.

In addition, Sun Life Financial defers commission expenses associated with the sale of fee-generating products to match the revenue expected to be generated by these products over a period of time. If equity markets remain depressed over a longer term, the expected fee revenue may not be realized and consequently these deferred costs may not be fully recovered.

Sun Life Financial is exposed to certain equity-market related risks associated with its equity-indexed annuity products that provide for the crediting of interest at rates related to the performance of various equity indices. A substantial decline in the applicable index could prompt holders of equity-indexed annuities to seek to surrender their policies prior to maturity. While equity-indexed annuity policies typically provide for early surrender charges and restrictions, an increase in surrenders in such annuities could have an adverse effect on Sun Life Financial. In addition to the risk of surrenders, Sun Life Financial also has a risk that the spread between the investment income earned on its investments and the interest credited declines below profitable levels.

Credit Risk

Sun Life Financial is subject to credit risk relating to the uncertainty associated with the continued ability of debtors to make timely payments pursuant to the contractual terms underlying debt instruments. Although Sun Life Financial holds predominantly investment-grade bonds and first mortgages, and believes that it maintains prudent issuer diversification, a major economic downturn could result in issuer defaults, potentially leading to increased provisions for losses.

Letters of Credit

Sun Life Financial purchases letters of credit in support of certain affiliated reinsurance transactions related to its U.S. insurance business. The letters of credit allow credit for reserves ceded under NAIC rules. Changes in the NAIC rules or in the ability to purchase or renew letters of credit may have an adverse impact on the NAIC regulatory capital requirements of the U.S. insurance business.

Asia

The future success of the Company's businesses in Asia depends in large part on Sun Life Financial's ability to compete in disparate markets. Among other things, this requires appropriate resources, skills and organization to execute the business strategy. The risks include the availability, depth and retention of resources required for operations, succession planning and project implementation. In addition, the joint venture operations in India and China have risks associated with joint venture relationships.

Business Continuity and Crisis Management

Sun Life Financial could experience an abrupt interruption of some or all of its operations caused by unforeseeable and/or catastrophic events, such as an influenza pandemic or other natural disaster that could result in material losses. A significant global pandemic outbreak could also result in material losses from increased mortality and morbidity rates. Losses could impact property, financial assets, trading positions and also key personnel. If Sun Life Financial's business continuity/crisis management plans could not be put into action or were ineffective in the circumstances, losses could increase further.

Sun Life Financial's businesses are dependent on computer and Internet-enabled technology. Although Sun Life Financial has implemented and periodically tests its business continuity/crisis management plans, a sustained failure of one or more of Sun Life Financial's business systems could materially and adversely impact Sun Life Financial's business and operations. In addition, because some of Sun Life Financial's systems interface with and are dependent on third party systems, Sun Life Financial could experience service interruptions if third party systems fail or experience interruptions.

A serious security breach of Sun Life Financial's systems could damage Sun Life Financial's reputation or result in liability. Sun Life Financial retains private and personal information about its customers in its computer and other record retention systems. Although Sun Life Financial has implemented extensive security measures, it may be vulnerable to physical break-ins, computer viruses, programming and/or human errors or similar disruptive problems.

Reinsurance Markets

The recent tightening of the reinsurance markets may create challenges in maintaining current mortality and morbidity assumptions and the level of profitability of certain products of Sun Life Financial. Increasing reinsurance rates with a particular emphasis on older age bands may adversely impact on new product pricing and/or the profitability of Sun Life Financial's U.S. individual insurance business, which targets this segment of the market.

Dependence on Third Party Relationships

Sun Life Financial distributes its products through a variety of distribution channels, including broker-dealers, banks, wholesalers, its own internal sales force and other third party marketing organizations. Sun Life Financial has also outsourced certain administrative functions in Canada and the United Kingdom to third parties. An interruption in Sun Life Financial's continuing relationship with certain of these third parties or the impairment of their reputation or creditworthiness could materially and adversely affect Sun Life Financial's ability to market or service its products. There can be no assurance that Sun Life Financial would be able to find alternate sources for these distribution and outsourcing arrangements in a timely manner. Additional information concerning the Company's outsourcing arrangements is provided in SLF Inc.'s 2005 MD&A under the heading "*Financial Position and Liquidity – Commitments, Guarantees, Contingencies and Reinsurance Matters.*"

Currency Exchange Rate Fluctuations

As an international provider of financial services, Sun Life Financial operates in a number of countries, with revenues and expenses denominated in several local currencies. In each territory in which it operates, it is Sun Life Financial's policy to invest in sufficient assets to generally match its aggregate liabilities and minimum surplus requirements in that territory. This approach provides an operational hedge against disruptions in local operations caused by currency fluctuations. However, changes in exchange rates can affect Sun Life Financial's net income and surplus when results in local currencies are translated into Canadian dollars. Strengthening of the Canadian dollar

against the currencies of the countries in which it operates could adversely affect Sun Life Financial's reported net income.

Competition

The businesses in which Sun Life Financial engages are highly competitive. Sun Life Financial's products compete not only with those offered by other insurance companies, but with those offered by mutual fund companies, banks, financial planners and other providers. Frequently, competition is based on pricing and the ability to provide value added services to distributors and customers. Sun Life Financial has many large and well-capitalized competitors with access to significant resources. Among other things, the competition in these industries throughout the world has resulted in a trend towards the global consolidation of the financial services industry including, in particular, the insurance, banking and investment management sectors. To the extent that consolidation continues, Sun Life Financial will increasingly face more competition from large, well-capitalized financial services companies in each jurisdiction in which it operates. There can be no assurance that this increasing level of competition will not adversely affect Sun Life Financial's businesses in certain countries. Sun Life Financial reports its results based on Canadian GAAP. Some of the Company's competitors report on different accounting bases, such as U.S. GAAP. Because of differences in the emergence of earnings between different accounting bases, the Company may be at a disadvantage compared to some of its competitors in certain of its businesses.

The financial strength ratings of Sun Life Financial's insurance company subsidiaries are also a key competitive factor in marketing products and in attracting and retaining agents. Should the financial strength rating of one or more of those insurance subsidiaries decline, Sun Life Financial's competitive position could be negatively impacted.

In the United States, national banks, with their pre-existing customer bases for financial services products, may, in the future, provide increased competition to insurers, including Sun Life Financial, as a result of, among other things, the *Gramm-Leach-Bliley Act* of 1999, which removed restrictions on bank affiliations and mergers with insurers. With the passage of this legislation, among other things, bank holding companies may acquire insurers. In Canada, the federal government is reviewing its policies concerning bank and insurance affiliations and the distribution of insurance products through bank branches and may elect to remove the current restrictions on such affiliations or distribution. The ability of banks to affiliate with insurance companies or, in Canada, to distribute insurance products through their branches, may materially adversely affect all of Sun Life Financial's products by increasing the number and financial strength of potential competitors.

LEGAL AND REGULATORY PROCEEDINGS

A description of the legal and regulatory proceedings to which SLF Inc. or its subsidiaries are a party or to which their property is subject (including proceedings that are known to be contemplated) is provided in Note 20 to SLF Inc.'s 2005 Consolidated Financial Statements.

ADDITIONAL INFORMATION

Additional information including Directors' and officers' remuneration and indebtedness, principal holders of SLF Inc.'s securities, securities authorized for issuance under equity compensation plans and interests of informed persons in material transactions, if applicable, is contained in SLF Inc.'s information circular for its most recent annual meeting of security holders that involved the election of Directors.

Additional financial information is provided in SLF Inc.'s MD&A and Consolidated Financial Statements for its most recently completed financial year.

When SLF Inc. is in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities, SLF Inc. will provide to any person one copy of each of the following documents (Disclosure Documents) upon request: (i) this AIF and any document or the pertinent pages of any document incorporated by reference herein, (ii) the comparative consolidated financial statements of SLF Inc. for the most recently completed financial year with the accompanying auditor's report, (iii) any interim consolidated financial statements of SLF Inc. subsequent to the financial statements for its most recently completed financial year, (iv) SLF Inc.'s most recent proxy circular and (v) any other documents incorporated by reference into a

preliminary short form prospectus or a short form prospectus. When SLF Inc. has not filed a preliminary short form prospectus or is not in the course of a distribution, it shall provide copies of any of the foregoing Disclosure Documents subject to its right to require persons who are not security holders to pay a reasonable charge. Requests for such copies may be sent to the Corporate Secretary of SLF Inc. at 150 King Street West, 6th Floor, Toronto, Ontario, Canada M5H 1J9. The Disclosure Documents and other additional information related to SLF Inc. are accessible at www.sunlife.com.

APPENDIX A

LOCATION OF PRINCIPAL OFFICES

Principal Office	Address
Corporate/Head Office	150 King Street West Toronto, Ontario Canada M5H 1J9 Tel: (416) 979-9966 Website: www.sunlife.com
SLF Canada	227 King Street South P.O. Box 1601, STN Waterloo Waterloo, Ontario Canada N2J 4C5 Tel: (519) 888-3900 Website: www.sunlife.ca
SLF United States	One Sun Life Executive Park Wellesley Hills, Massachusetts USA 02481 Tel: (781) 237-6030 Website: www.sunlife-usa.com
MFS	500 Boylston Street Boston, Massachusetts USA 02116-3740 Tel: (800) 225-2606 Website: www.mfs.com
SLF Asia	2001 Two Pacific Place 88 Queensway Hong Kong Tel: (852) 2918-3888 Website: www.sunlife.com

APPENDIX B

SUN LIFE FINANCIAL INC.
AND
SUN LIFE ASSURANCE COMPANY OF CANADA

CHARTER OF THE AUDIT AND CONDUCT REVIEW COMMITTEE

Purpose

The Audit and Conduct Review Committee is a standing committee of the Board of Directors whose primary functions are to assist the Board of Directors with its oversight role with respect to:

1. The integrity of financial statements and information provided to shareholders and others.
2. The Corporation's compliance with financial regulatory requirements.
3. The adequacy and effectiveness of the internal control environment implemented and maintained by management.
4. The qualifications, independence and performance of the External Auditor who is accountable to the Audit and Conduct Review Committee, the Board of Directors and the shareholders.

Membership

The Audit and Conduct Review Committee is comprised of not less than three Directors, including a Committee Chair, appointed by the Board of Directors on an annual basis following each annual meeting. No member of the Committee shall be an officer or employee of the Corporation, or of any affiliate of the Corporation.

Each member of the Committee shall satisfy the applicable independence, financial literacy and experience requirements of the laws governing the Corporation, the stock exchanges on which the Corporation's securities are listed and applicable securities regulatory authorities.

Any member of the Committee may be removed or replaced at any time by the Board of Directors and the Board of Directors shall fill vacancies on the Committee.

Structure and Operations

A meeting of the Committee may be called at any time by the Non-Executive Chairman of the Board, by the Committee Chair or by two members of the Committee. The Committee meets as frequently as necessary, but not less than four times a year. A quorum at any meeting of the Committee shall be three members and meetings must be constituted so that resident Canadian requirements of the *Insurance Companies Act (Canada)* are met.

The External Auditor reports to the Committee, receives Notice of, and may attend all Committee meetings. The Committee holds a private session at each regularly scheduled meeting, with the External Auditor without management present and with the Chief Auditor without management or the External Auditor present. The Committee holds a private session with the Chief Actuary periodically. The Committee holds a private session at each regularly scheduled meeting of the Committee members only. The Committee, in consultation with the Non-Executive Chairman of the Board, may engage any special advisors it deems necessary to provide, at the expense of the Corporation.

On an annual basis, the Committee will review this Charter and the Forward Agenda for the Committee and, where necessary, recommend changes to the Board of Directors for approval. This Charter will be posted on the Corporation's website and the Committee will prepare a report for inclusion in the annual meeting proxy material. The Committee shall undertake and review with the Board of Directors an annual performance evaluation of the Committee.

Committee Chair Position Description

The Committee Chair reviews and approves the agenda for each meeting of the Committee. Agendas are set taking into account the Committee's Forward Agenda, which is approved annually by the Board of Directors and items noted at prior meetings for Committee consideration. The Committee Chair may consult or meet with the Non-Executive Chairman of the Board, members of management and the External Auditors as part of the agenda and meeting preparation process. The External Auditor and the Chief Auditor may ask the Committee Chair to add items to the agenda.

The Committee Chair or his or her designate presides over Committee meetings, ensuring that there is adequate time at Committee meetings for discussion of relevant issues and for the Committee members to meet privately.

The Committee Chair or his or her designate provides a report to the Board on the Committee's activities following each meeting and presents recommendations to the Board of Directors on matters requiring Board approval including those that are being released to the public.

The Committee Chair is consulted in advance in connection with the appointment, reassignment, replacement and dismissal of the Chief Auditor.

Duties and Responsibilities of the Audit and Conduct Review Committee

1. Reviews with the management and the External Auditors the interim unaudited consolidated financial statements and Management's Discussion and Analysis, including a discussion with the External Auditors of those matters required to be discussed under generally accepted auditing standards applicable to the Corporation.
2. Reviews the Corporation's earnings press releases.
3. Reviews with management and the External Auditors following completion of the annual audit:
   (a) the annual audited consolidated financial statements;
   (b) the External Auditor's audit of the annual consolidated financial statements and their report;
   (c) Management's Discussion and Analysis;
   (d) any significant changes that were required in the external audit plan;
   (e) any significant issues raised with management during the course of the audit, including any restrictions on the scope of activities or access to information; and
   (f) those matters related to the conduct of the audit that are required to be discussed under generally accepted auditing standards applicable to the Corporation.
4. Receives a report from management of their quarterly and annual review of financial statements, Management's Discussion and Analysis and earnings press releases and discusses with the Chief Executive Officer and the Chief Financial Officer, the certifications relating to financial disclosure and controls that those officers are required by law to file with securities regulatory authorities.
5. Assures itself that the External Auditor is satisfied that the accounting estimates and judgements made by management, and management's selection of accounting principles, reflect an appropriate application of generally accepted accounting principles.
6. Discusses with the Chief Actuary the parts of the annual audited consolidated financial statements prepared by that officer.
7. Reviews with management and the External Auditor the Corporation's principal accounting practices and policies.
8. Reviews the independence of the Chief Auditor and the External Auditor, including the requirements relating to such independence of the laws governing the Corporation and the applicable rules of stock exchanges on which the Corporation's securities are listed. At least annually, the Committee receives from and reviews with the External Auditor their written statement delineating relationships with the Corporation and, if necessary, recommends that the Board take appropriate action to satisfy itself of the External Auditors' independence and accountability to the Committee and the Board.
9. Reviews and approves the Policy Restricting the Use of External Auditors which outlines the services for which the External Auditor can be engaged and the policy regarding the employment of former employees of the External Auditor.
10. Appraises the performance of the External Auditor, and recommends to the Board the appointment or, if so determined by the Committee, the replacement of the External Auditor, subject to the approval of the shareholders.
11. Determines, reviews and approves the services to be performed by the External Auditor and the fees to be paid to the External Auditors for audit, audit-related and other services permitted by law and in accordance with the policy issued by the Board restricting the use of the External Auditor.
12. Reviews with the External Auditor and management the overall scope of the annual audit plan, quality control procedures and the resources that the External Auditor will devote to the audit.
13. Reviews with the External Auditor any regulatory investigations that pertain to the External Auditor.

14. Requires management to implement and maintain appropriate internal control procedures, and reviews, evaluates and approves the procedures.
15. Reviews as required the report by the External Auditor on its findings on the effectiveness of Sun Life Financial's internal control procedures.
16. Reviews with management and the Chief Auditor:
    (a) the overall scope of the annual internal audit plan, including its coordination with the External Auditors' audit plan, and the adequacy of the resources available to the Chief Auditor; and
    (b) the effectiveness of the internal control procedures, including a report thereon received from the Chief Auditor that includes disclosure of any significant changes that were required in the internal audit plan and any significant issues raised with management during the course of the internal audit, including any restrictions on the scope of activities or access to information.
17. Reviews investments and transactions that could adversely affect the well-being of the Corporation as the External Auditors or management may bring to the attention of the Committee, and meets with the External Auditor to discuss any such investments and transactions.
18. Reviews, and discusses with the External Auditor and the Chief Actuary such reports and regulatory returns of the Corporation as may be specified by law.
19. Reviews matters within its mandate that are addressed in the regular examination and similar reports received from regulatory agencies.
20. Discusses the qualifications for and determines whether a member of the Committee is a financial expert and in conjunction with the Governance Committee ensures the ongoing financial literacy of Committee members.
21. Approves procedures established to handle complaints, and anonymous employee submissions, with respect to matters and concerns regarding accounting, internal control and auditing.
22. Requires management to establish procedures for complying with the related party rules contained in the Insurance Companies Act (Canada) and reviews their effectiveness.
23. Reviews the practices of the Corporation to ensure that any related party transaction that may have a material effect on the stability or solvency of the Corporation is identified.
24. Reports to the Superintendent of Financial Institutions on the procedures for complying with the related party rules.
25. Performs such other duties and exercises such powers as may, from time to time, be assigned or vested in the Committee by the Board, and such other functions as may be required of an audit committee by law, regulations or applicable stock exchange rules.

APPENDIX C

POLICY RESTRICTING THE USE OF EXTERNAL AUDITORS

1. This policy governs all proposals by the Corporation or any of its subsidiaries to engage, as a service provider, the external auditor or any of its affiliates, related businesses or associated persons as defined in the Sarbanes-Oxley Act of 2002 ("S-O Act") (collectively referred to as the "External Auditor").

2. The External Auditor will normally be engaged to provide audit and audit-related services, including advisory services related to the External Auditor's audit and audit-related work such as advice pertaining to internal audit, tax, actuarial valuation, risk management, and regulatory and compliance matters, subject to the prohibitions contained in the S-O Act and in any other applicable laws, regulations or rules. The S-O Act prohibitions are set out in Appendix 1.

3. Any engagement of the External Auditor for services that would be legally prohibited by the S-O Act and that was in place at the date this policy was initially established may continue in place until such prohibition becomes operative or it is otherwise prohibited by applicable law, regulation or rule. The Controller will maintain a list of such engagements. The Corporation will not enter into any other such engagements prior to the S-O Act prohibitions becoming operative.

4. Each engagement of the External Auditor to provide services will require the approval in advance of the Audit Committee of Sun Life Financial Inc. and the audit committee of any affected subsidiary that is itself directly subject to the S-O Act. The Audit Committee may establish procedures regarding the approval process, which will be co-coordinated by the Controller.

5. The Corporation and its subsidiaries will not employ or appoint as chief executive officer, chief financial officer, controller, chief accounting officer, appointed actuary, or equivalent position within the Corporation or subsidiary, any person who was employed by the External Auditor and who provided any services to the Corporation or any subsidiary at any time during the previous two years.

6. The Controller is responsible for the application and interpretation of this policy, and should be consulted in any case where there is uncertainty regarding whether a proposed service is, or is not, an audit or audit-related service. The Controller will revise Appendix 1 as required, from time to time, to reflect changes in applicable laws, regulations or rules.

7. This policy, as amended and restated, is effective from October 30, 2002.

Appendix 1

Sarbanes-Oxley Act of 2002 – Prohibition on services

The External Auditor will be prohibited from providing the following services after the applicable provisions of the S-O Act become operative:

a) bookkeeping or other services related to the accounting records or financial statements;

b) financial information systems design and implementation;

c) appraisal or valuation services, fairness opinions, or contribution-in-kind reports;

d) actuarial services;

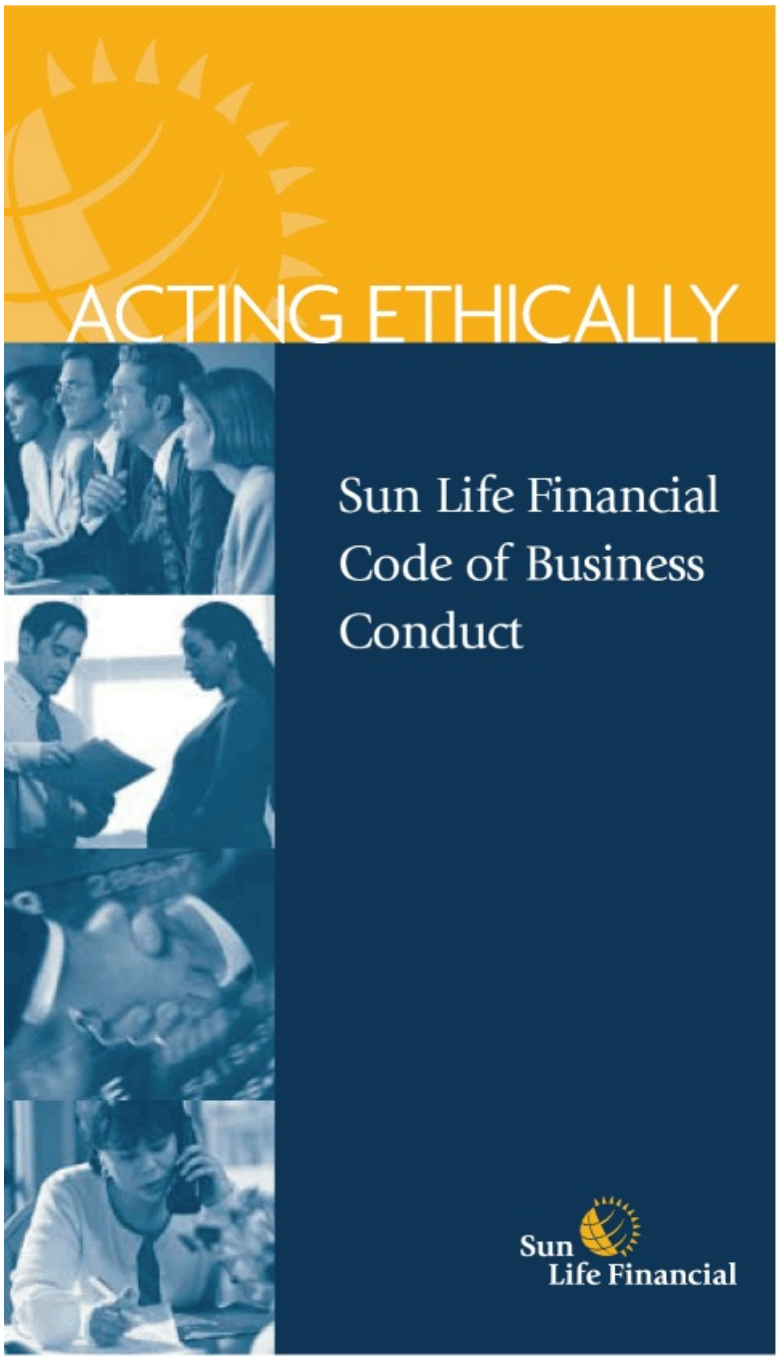
e) internal audit outsourcing services;

f) management functions or human resources;

g) broker or dealer, investment adviser, or investment banking services;

h) legal services and expert services unrelated to the audit; and any other service that the Public Company Accounting Oversight Board, to be established under the S-O Act, determines to be impermissible.

EXHIBIT 4


ACTING ETHICALLY
Sun Life Financial
Code of Business
Conduct
Sun
Life Financial

Sun Life Financial

OUR MISSION

To provide lifetime financial security

OUR VISION

To be an international leader
in wealth management and protection

OUR VALUES

Integrity

Excellence

Customer Focus

Building Value

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SUN LIFE FINANCIAL CODE OF BUSINESS CONDUCT

At Sun Life Financial, we are committed to fair dealing, honesty and integrity in the conduct of our business. We take our responsibilities to our employees, customers, shareholders and other stakeholders very seriously.

The Sun Life Financial Code of Business Conduct aims to achieve the following objectives:

- to describe Sun Life Financial's values and standards of business conduct;
- to promote principles of respect and fairness in the workplace and in dealings with the public and our stakeholders;
- to guide employees on how to resolve potentially difficult situations;
- to demonstrate to our stakeholders and the public that Sun Life Financial is committed to ethical conduct in its operations; and
- to set out Sun Life Financial's procedures for reporting of conflicts of interest and other issues relating to the Code

DOES THE CODE APPLY TO ME?

The Code applies to all employees (including contract employees) and directors of Sun Life Financial Inc., and its subsidiaries, other than those Sun Life Financial subsidiaries that have adopted a code of business conduct that is consistent with the spirit of the Code.

It is your responsibility as a Sun Life Financial employee or director to become familiar with the Code, to ask for guidance when necessary, and to report violations of the Code. Ultimately, of course, you must

discharge your responsibilities at Sun Life Financial in accordance with the Code and any supplementary code of business conduct that may apply to you.

HOW DO I APPLY THE CODE IN MY BUSINESS DEALINGS?

Because it is critical that we maintain the trust of our stakeholders, compliance with the Code is mandatory. It is important that you understand the Code and how to apply it to situations you may encounter in your work.

It will be relatively easy to determine how to apply the Code to many situations. However, some business situations are more complex. The Code does not describe, or provide guidance on, every circumstance you might encounter in your work. Instead, it sets minimum standards that Sun Life Financial expects you to meet or exceed in your business dealings. As always, you will be expected to understand and comply with all applicable legal and regulatory requirements and to use your best judgement and common sense, keeping in mind that you are required to comply with the spirit, as well as the written words, of the Code, and applicable laws, rules and regulations.

If you encounter a situation for which the Code does not provide specific guidance, asking yourself the following questions may help you determine how to apply the Code:

- Is this fair and ethical?
- Is this legal?
- Am I confident that Sun Life Financial would not be embarrassed if this situation became public knowledge?
- Would I approve of this situation if I were a fellow employee, a customer or a shareholder?

You should be able to answer *Yes* to each of these questions.

WHERE CAN I OBTAIN MORE INFORMATION ABOUT THE CODE AND HOW TO APPLY IT?

If you are unsure how to apply the Code in any situation, please discuss the matter with your manager or one of the persons noted on the Contact Lists. The Contact Lists provide names of persons in compliance, human resources, legal and public relations & communications.

ANNUAL COMPLIANCE ACKNOWLEDGEMENT

Each year, you will be asked to reaffirm your commitment to comply with the Code, and to provide assurance that you have complied with it over the last year. Failure by any individual to complete the Acknowledgement form does not affect the applicability of the Code to such individual.

CONTRAVENTION OF THE CODE

Sun Life Financial engages in business activities that are rooted in public trust. Our continued success depends on maintaining our ethical reputation. For this reason, violations of the Code will be taken extremely seriously and could result in disciplinary action, which may include termination of employment. In addition, if any breach of the Code violates the law, civil or criminal proceedings may also result.

What to do if you have contravened the Code

If you believe you may have contravened the Code, you are required to advise your manager, a compliance officer in your business group, or a human resources director.

What to do if you know or suspect that someone else has contravened the Code

Sun Life Financial has established a procedure to help you report:

- any breach or suspected breach of the Code, any supplemental code of business conduct or any of Sun Life Financial's policies;
- concerns regarding any questionable accounting or auditing matter;
- situations in which you feel you are being pressured to violate the law or your ethical responsibilities; or
- any other breaches of business ethics or legal or regulatory requirements.

If you believe that any of these circumstances has arisen, you should report it immediately. Your identity in any follow-up discussions or enquiries will be kept in confidence to the extent appropriate or permitted by law.

Unless you wish to make any report anonymously, you should contact a human resources director, your manager, the senior compliance officer in your business group, or the chief compliance officer.

If you would like to report any of these circumstances anonymously, or if any of the persons to whom you have reported these circumstances has not, in your view, responded appropriately, Sun Life Financial has established an Employee Ethics Hotline to assist you. The Employee Ethics Hotline is accessible either by telephone or via the Internet. The Employee Ethics Hotline is provided by an outside service provider, and is available to all employees, seven days a weeks, 24 hours a day. Interpreters are available so that Sun Life Financial employees can communicate in the languages in which Sun Life Financial conducts business. If you are unable to use the link above, the information about the Employee Ethics Hotline can be accessed on Sun Life Financial's intranet under "Contact Us" on the Corporate homepage.

A mischievous or malicious allegation of a breach of the Code will, itself, constitute a breach of the Code. Any reprisal, retaliation or disciplinary action against employees for reporting an alleged breach of the Code in good faith is prohibited.

OTHER OBLIGATIONS

As a result of your specific position within Sun Life Financial or your professional background, you may be required to comply with obligations in addition to those set out in the Code, including the following:

- Supplementary codes of business conduct relating to specific activities, companies or business units within Sun Life Financial;
- Rules of conduct governing members of your professional group or association; and
- Sun Life Financial policies governing specific situations you may encounter in your work.

Some sections of the Code list certain relevant policies that may apply to you. If you have any questions about whether a supplementary code of business conduct or policy applies to you, please contact your manager.

If complying with both the Code and any other obligation described above creates any conflict for you, please report that conflict to your manager, a compliance officer in your business group, or a human resources director.

SUN LIFE FINANCIAL'S CORE VALUES

At Sun Life Financial, we are committed to core values that guide our actions and reflect who we are and what we believe in. Our core values are:

INTEGRITY

We aspire to the highest standards of business ethics and good governance.

EXCELLENCE

We pursue operational excellence through the people we employ, constant innovation, superior service and value-based risk management.

CUSTOMER FOCUS

We always work with the customers' interests in mind, and partner with them directly or through their employers to provide sound financial solutions over their lifetimes.

BUILDING VALUE

Everything we do, from the products and services we offer to the way in which we deliver them, adds value for our customers and builds value for our stakeholders.

ACTING ETHICALLY:
SUN LIFE FINANCIAL
CODE OF BUSINESS CONDUCT

This section sets out the minimum standards of conduct Sun Life Financial expects of each employee and director.

COMPLYING WITH THE LAW

At a minimum, behaving ethically requires you to comply with all laws, rules and regulations applicable to your activities on behalf of Sun Life Financial. It also requires you to work to the spirit of the law. You are responsible for understanding the laws, rules and regulations that affect or are relevant to your particular job or position.

At Sun Life Financial, we obey and respect the laws of the countries in which we operate. We also strive to contribute to the development of ethical industry practices in these countries.

è **FOR GUIDANCE** *on how to apply any particular law, rule or regulation relevant to your job, please contact a knowledgeable person in your department or business unit. If you are unsure whether or how a particular law, rule or regulation affects your job, please contact the person in the Law Department primarily responsible for advising your business unit or function. Information about how laws and regulations should be applied can also be found in certain Sun Life Financial policies.*

FAIRNESS IN THE WORKPLACE

We are committed to fairness in the workplace and recognize that a diverse workforce allows us to serve our stakeholders most effectively. We will not tolerate unlawful discrimination, harassment or violence in the workplace.

Specifically, you may not unlawfully discriminate against co-workers, customers or anyone else you encounter in the course of your work on the basis of their race, colour, religion, sex, sexual orientation, national origin, citizenship, creed, age, marital or family status or disability. You must not engage in threatening, intimidating or violent acts against co-workers, customers or anyone else you encounter in your work. Sexual or other harassment, or offensive behaviour such as verbal abuse, unnecessary physical contact or unwelcome comments, are also prohibited. These violations of the Code, or any similar violation of applicable laws, rules or regulations, may result in disciplinary action, termination of employment or, if appropriate, civil or criminal proceedings.

è **FOR ADDITIONAL GUIDANCE** *, please contact a human resources director or the Corporate Human Resources Department.*

AVOIDING CONFLICTS OF INTEREST

Sun Life Financial customers and shareholders trust us to act in their best interests. This means distinguishing between your personal interests and Sun Life Financial's interests, and avoiding any conflict between the two. Any action you take on behalf of Sun Life Financial must not be influenced by the possibility of gain for yourself or for anyone personally associated with you. It is also important to avoid any *appearance* of a conflict.

Many situations could give rise to a potential conflict of interest, or to the appearance of a conflict. This section of the Code sets out some of the more common conflicts, but it is not exhaustive. If you feel that your personal interests and those of Sun Life Financial may be, or may be perceived to be, in conflict, speak to your manager or a compliance officer in your business group.

Trading in securities

Sun Life Financial respects your right to make personal investment decisions. However, you must ensure that these decisions are not based on information you have learned as a result of your employment or relationship with Sun Life Financial. You may not trade in Sun Life Financial securities, or in any securities of another company, if this decision is based upon material information obtained by you which is not generally available to the public. You also may not pass this information on to others. The value of the securities being traded has no bearing on whether or not the trade is prohibited.

John is an actuary who has been providing assistance for several weeks on a major acquisition that is being considered by Sun Life Financial. Because this is a material transaction, John knows that he cannot buy or sell shares of Sun Life Financial Inc. until the transaction is public. However, over lunch, his friend Mary (who does not know about the possible transaction) tells him that she intends to sell her shares of the target company.

Although John knows it would be wrong to tell Mary not to sell her shares, he considers saying, “I can’t tell you why, but it may be worthwhile holding onto your stock”. Fortunately, John reconsiders and says nothing. His information is material — it may affect the target company’s share value. It is also confidential. If John uses the information to trade in the target company’s shares, that is considered “insider trading”, which is against the law. It is also against the law if he tells someone else how to invest based on this information — this is called “tipping”.

You may be subject to additional requirements depending upon your specific employment at Sun Life Financial, or your participation in certain Sun Life Financial retirement plans or share purchase plans. These may include pre-clearing your personal investments and trading Sun Life Financial securities only during specified periods.

- è **FOR ADDITIONAL GUIDANCE,** *please contact the person in the Law Department primarily responsible for advising your business unit or function. Please also see Sun Life Financial's policy relating to confidentiality and trading .*

Receiving benefits from suppliers and customers

You should ensure that you are independent, and are seen to be independent, from any business organization that has a contractual relationship to provide goods or services to Sun Life Financial. For this reason, you should not invest, or acquire a financial interest, directly or indirectly, in any organization if that might influence, or create the impression of influencing, your decisions on behalf of Sun Life Financial.

Unless specifically provided under the terms of your employment or engagement, you may not receive a commission or other compensation related to the sale of any product or service of or to Sun Life Financial.

- è **FOR ADDITIONAL GUIDANCE,** *please contact your manager, a compliance officer in your business group, or a human resources director.*

Accepting gifts or favours

It is possible that you may be offered gifts or favours in the course of your work. In limited circumstances, you may accept them. In each case, you should consider the value of the gift or favour and the circumstances in which it is offered.

Generally, you should not accept gifts or other favours that could in any way influence, or appear to influence, your business decisions. You should not accept frequent gifts from one source, even if they are only of nominal value. Of course, you may not engage in conduct that could be interpreted as directly or indirectly seeking, receiving or providing a bribe or kickback.

Jennifer recently joined Sun Life Financial from an information technology firm. Her former company is now bidding for a prestigious contract with Sun Life Financial. Jennifer may be in a position to determine who will win the bid.

During the bidding process, her former employer offers to send her a laptop computer in conjunction with a promotional campaign being launched by that company. Jennifer knows that if she accepts the offer, and then decides in favour of her former employer, there could be a perception that the gift may have influenced her decision. This would reflect badly, not only on her but also on Sun Life Financial. So she tactfully says, “No thanks.”

è **FOR ADDITIONAL GUIDANCE,** *please contact your manager, a compliance officer in your business group or a human resources director.*

Engaging in outside activities or employment

We encourage you to participate in your communities through outside activities. There is also nothing wrong with having another job if this is not prohibited in your employment arrangements with Sun Life Financial and does not create, or appear to create, a conflict of interest. In each case, however, the activity

or other job should not interfere with your responsibilities with Sun Life Financial or your commitment and attention to those responsibilities.

Enrico has been a Sun Life Financial employee for several years. He is also an active member of his neighbourhood community: he does volunteer work, and sits on the board of directors of his ratepayers' association. Because of his solid reputation and organizing abilities, several board members approach him to become the board's chair.

Enrico is very interested in this position, and in the potential it offers him to make a greater contribution to his neighbourhood. However, he realizes that the position would involve an extensive daytime commitment that could interfere with his job at Sun Life Financial.

He discusses this situation with the ratepayers' association board, and they develop a delegation system that would limit his involvement to a maximum of a few hours outside of his regular working hours. He then presents this proposal to his Sun Life Financial manager. The proposal is approved, on the condition that Enrico is able to fulfill his workplace commitments.

You should not be identified with Sun Life Financial in the course of outside activities, unless this has been specifically authorized in advance by Sun Life Financial. Please direct this type of matter to the senior compliance officer in your business group, who will arrange to seek the appropriate approval.

è **FOR ADDITIONAL GUIDANCE,** *please contact your manager, a compliance officer in your business group, or a human resources director.*

Serving on the board of a company

Being on the board of directors of another company or organization could create a conflict of interest. For this reason, before you accept a directorship you are required to consult the senior compliance officer in your business group.

DEALING WITH INFORMATION AND ASSETS

Keeping information confidential

All information about Sun Life Financial and its businesses is, and must be treated as, confidential until that information has been publicly disclosed by press release or is otherwise generally available to the public. This is the case even if the information is not material.

You may not disclose confidential information, except as required by law or as approved in advance by the appropriate manager, to anyone outside Sun Life Financial, including family and friends. This applies even after you have left Sun Life Financial's employment. You may also not disclose confidential information to Sun Life Financial colleagues unless they need to know the information to carry out their employment.

You are responsible for protecting confidential information in your custody against theft, loss, unauthorized access, destruction or misuse.

è **FOR ADDITIONAL GUIDANCE,** *please contact your manager or the person in the Law Department primarily responsible for advising your business unit or function. Please also see Sun Life Financial's policies relating to corporate information security standards and disclosure.*

Using technology appropriately

The Internet, our intranets and e-mail are increasingly important business resources and provide unprecedented access to information. However, it is possible that this technology may be abused.

Sun Life Financial's electronic communications systems are Sun Life Financial's property and should be used primarily for Sun Life Financial's business purposes. Incidental appropriate personal use is permitted provided it does not interfere with your business activity or Sun Life Financial's business applications. To monitor personal use, certain employees are authorized to check individual activity periodically. You should not expect that any of your e-mail or Internet communications are private.

è **FOR ADDITIONAL GUIDANCE,** *please contact your manager or the Information Security Department. Please also see Sun Life Financial policies relating to information security and Internet/e-communication access and use .*

Using other assets appropriately

You may only use Sun Life Financial's assets for legitimate business purposes, and are required to use good judgement in spending Sun Life Financial's funds. You must also take reasonable steps to protect assets owned by or entrusted to Sun Life Financial against loss, theft, damage and misuse.

You are required to follow internal policies and procedures for handling and protecting Sun Life Financial's assets. This includes being careful not to breach any copyright laws or regulations when making copies of documents or software, not to reveal company secrets and not to permit others to use Sun Life Financial's assets, such as its trademarks, without appropriate consent.

è **FOR ADDITIONAL GUIDANCE,** *please contact your manager or the person in the Law Department primarily responsible for advising your business unit or function. Please also see Sun Life Financial policies relating to corporate information security standards .*

Maintaining books and records

Sun Life Financial is required to maintain accurate and reliable records to meet its legal and financial obligations and to manage its affairs. Sun Life Financial's books and records should reflect accurately all business transactions. Undisclosed or unrecorded revenues, expenses, assets or liabilities are prohibited.

In particular, if you are responsible for accounting or record-keeping, you must be diligent in enforcing proper practices. You may not alter, conceal or falsify any document or record. Each Sun Life Financial business unit and operating subsidiary should adopt an approved record retention policy consistent with Sun Life Financial policies and applicable legal and regulatory requirements.

è **FOR ADDITIONAL GUIDANCE** *, please contact a compliance officer in your business group or the person in the Law Department primarily responsible for advising your business unit or function. Please also see Sun Life Financial policies relating to fraud detection and prevention and retention of records.*

Maintaining privacy

Respect for privacy is necessary to build strong business relationships. We accumulate a considerable amount of information about customers and employees. You are required to keep confidential any of this information that you might access in the course of your work.

You should collect, use or disclose personal information only with the knowledge and permission of the person to whom the information relates unless otherwise permitted by local laws. In certain jurisdictions where we conduct our business, our customers have the right to ask if we hold any personal information about them and, if so, to review it. They may also have the right to know how we collected the information, how we use it, and to whom we have disclosed it.

Personal information may only be used for the purposes for which it was originally collected, unless otherwise permitted by local laws or we are authorized to use it for another purpose. In addition, access to personal information within Sun Life Financial generally is restricted to those employees who have a legitimate business reason to access it. Sun Life Financial may communicate personal information to its agents and service providers as permitted by local law.

- **FOR ADDITIONAL GUIDANCE,** *please contact a compliance officer in your business group, the person in the Law Department primarily responsible for advising your business unit or function, or the Privacy Officer, if one has been appointed in your jurisdiction. Please also see Sun Life Financial policies relating to communication and disclosure, electronic communication, and privacy.*

DEALING WITH OTHER PEOPLE AND ORGANIZATIONS

Acting fairly and professionally

Our reputation is built upon the value created by each employee in his or her daily interaction with our stakeholders and the public. You can build the value of Sun Life Financial by meeting the highest standards of professional conduct. We do not tolerate unfair business practices such as industrial espionage, questionable sales methods or commercial bribery.

- **FOR ADDITIONAL GUIDANCE,** *please contact your manager or the compliance officer in your business group. Please also see Sun Life Financial policies relating to market conduct.*

Engaging in political or charitable activity

Sun Life Financial's funds, goods or services must not be used as contributions to, or for the benefit of, political parties or their candidates, except as specifically authorized in advance. Please direct this

type of request to the Public Relations and Communications Department, which will arrange to seek the appropriate approval. Sun Life Financial's facilities may not be used by candidates or campaigns.

Sun Life Financial has an organizational structure in place to deal with charitable and philanthropic spending. Please direct this type of request to the persons charged with overseeing charitable donations in your jurisdiction, if any, or to the Public Relations and Communications Department.

Communicating with others

General

Sun Life Financial aims to achieve complete, accurate, fair, understandable and timely communications with all of its stakeholders and the public. A prompt, courteous and accurate response should be made to all proper requests for information. Any complaints should be dealt with in accordance with internal procedures established by various operating areas of Sun Life Financial and by any applicable laws.

When communicating on matters that involve Sun Life Financial business, you should not speak for Sun Life Financial unless you have been expressly authorized to do so.

è *Please also see Sun Life Financial policies relating to media and communication and disclosure.*

Continuous disclosure

As a listed company, Sun Life Financial Inc. is required to make public material information, including financial statements, when that disclosure is warranted or required, and to ensure that it does not engage in inappropriate selective disclosure. Sun Life Financial has policies in place to help ensure that material information is distributed in a consistent way, and

that it is available to all, fairly, openly and on a timely basis. This will help prevent Sun Life Financial information from being misused.

Sun Life Financial has established internal processes to ensure that information required to be disclosed by it under applicable laws, rules and regulations is accurately recorded and reported on a timely basis. If you are involved in providing or communicating this type of information, you are required to ensure that these goals are achieved with respect to the information for which you are responsible.

If someone asks you for information about Sun Life Financial that is not generally available to the public, you must direct that inquiry to your local communications department or the Law Department.

è **FOR ADDITIONAL GUIDANCE,** *please contact the person in the Law Department primarily responsible for advising your business unit or function, or the Public Relations and Communications Department. Please also see Sun Life Financial policies relating to disclosure, confidentiality and trading , and Internet/ e-communication access and use.*

Media communications

In addition to everyday communications with outside persons and organizations, Sun Life Financial will, on occasion, be asked to express its views to the media.

As a general rule, senior management, the Public Relations and Communications Department and the local communications departments will respond to questions about Sun Life Financial's positions on public policy or industry issues. You should immediately contact the Public Relations and Communications Department or your local communications department if the media approaches you.

Texts of articles for publication, public speeches and addresses about Sun Life Financial should be reviewed in advance with the Public Relations and Communications Department or your local communications department.

- **FOR ADDITIONAL GUIDANCE,** *please contact the Public Relations and Communications Department. Please also see Sun Life Financial policies relating to media and communication and disclosure*.

Industry groups

Sun Life Financial supports membership in organizations that aim to maintain a sound business environment, such as trade associations. Exchanging information about industry issues with representatives of other financial institutions may help you in the course of your work and improve the overall industry. However, if you are appointed to represent Sun Life Financial in a trade association or other organization, your contributions must respect the confidentiality of company secrets. These discussions should not be used as a means for competing companies to reach any understanding that would tend to restrict competition or to impair the ability of participants to exercise independent business judgement regarding matters affecting competition. In particular, except when permitted by law and specifically authorized by senior management, you should not hold discussions or enter into arrangements with competitors concerning prices for products and services, the nature and extent of products and services provided, or other competitive policies or practices.

- **FOR ADDITIONAL GUIDANCE,** *please contact the person in the Law Department primarily responsible for advising your business unit or function, or the Public Relations and Communications Department.*

OUR COMMITMENTS TO YOU

The Sun Life Financial Code of Business Conduct requires important commitments *from* you as an individual.

In its turn, Sun Life Financial has made important commitments *to* you. Some of these commitments, and the ways in which you can help us fulfill them, are set out below.

SUPPORT FOR COMMUNITIES IN WHICH WE WORK AND LIVE

Sun Life Financial is committed to supporting various local programs and initiatives. This underscores our belief that there is a role for corporations to play in their communities.

HEALTH AND SAFETY

We are committed to taking reasonable precautions to ensure a healthy and safe work environment for all employees.

If you become aware of circumstances relating to Sun Life Financial's operations or activities that pose a real or potential health or safety risk, please report the matter to your manager or a human resources director.

PROTECTION OF THE ENVIRONMENT

We are committed to conserving resources in our business operations. You should use your best efforts to make efficient use of resources and to reduce, re-use and recycle supplies and materials wherever practical.

QUESTIONS/CONTACTS/POLICIES

Employees who have questions about the Code and how to apply the Code in any situation may contact any of the persons named in the Contact Lists or send an e-mail to SLF Code of Business Conduct.

For detailed information on particular policies which apply to all Sun Life Financial employees, you can access the following links or go to the Source for links to additional policies:

- Confidentiality and Trading Policy
- Disclosure Policy
- Fraud Reporting and Investigation Policy
- Global Anti-Money Laundering Policy
- Global Privacy Commitment
- Global Suppression of Terrorism Policy
- Information Security Policy
- Internet/E-communication Access and Use Policy
- Legislative Compliance Management Policy
- Management of Risk to Reputation Policy
- Market Conduct Policy

There may also be local policies, standards and policies which correspond to the above enterprise-wide policies. Please check your local intranet or ask your manager.


Sun
Life Financial

EXHIBIT 5

AUDITORS' CONSENT

We consent to the use of our report dated February 13, 2006 appearing in this Annual Report on Form 40-F of Sun Life Financial Inc. for the year ended December 31, 2005.

/s/ "Deloitte & Touche LLP"

Chartered Accountants
Toronto, Ontario
February 13, 2006

EXHIBIT 6

COMMENTS BY AUDITORS ON CANADA-UNITED STATES OF AMERICA REPORTING DIFFERENCE

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the financial statements of Sun Life Financial Inc., such as the changes described in Note 2 to the financial statements. Our report to the shareholders dated February 13, 2006 is expressed in accordance with Canadian reporting standards, which do not require a reference to such a change in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.

/s/ "Deloitte & Touche LLP"

Chartered Accountants
Toronto, Ontario
February 13, 2006

EXHIBIT 7

CONSENT OF APPOINTED ACTUARY

I consent to the use and incorporation by reference of the following report in this Annual Form 40-F of Sun Life Financial Inc. (the "Company"):

My report dated February 13, 2006 on the valuation of the policy liabilities of the Company for its consolidated balance sheet at December 31, 2005 and 2004 and their change in its consolidated statement of operations for the years then ended.

Dated February 13, 2006

/s/ "Robert Wilson"
Robert W. Wilson
Vice-President and Appointed Actuary
Fellow, Canadian Institute of Actuaries
Toronto, Canada

EXHIBIT 8

CERTIFICATION

pursuant to
18 U.S.C. Section 1350
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 40-F of Sun Life Financial Inc. (the "Company") for the year ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies pursuant to 18 U.S.C.§ 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his respective knowledge:

(1) the Report fully complies, in all material respects, with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 13, 2006

/s/ "Donald A. Stewart"
Donald A. Stewart
Chief Executive Officer

Date: February 13, 2006

/s/ "Paul W. Derksen"
Paul W. Derksen
Executive Vice-President and
Chief Financial Officer

EXHIBIT 9

CERTIFICATION

I, Donald A. Stewart, Chief Executive Officer of Sun Life Financial Inc, certify that:

1. I have reviewed this annual report on Form 40-F of Sun Life Financial Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) [Omitted in accordance with the guidance of SEC Release No. 33-8238]
   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 13, 2006

/s/ "Donald A. Stewart"
Donald A. Stewart
Chief Executive Officer

CERTIFICATION

I, Paul W. Derksen, Executive Vice-President and Chief Financial Officer of Sun Life Financial Inc., certify that:

1. I have reviewed this annual report on Form 40-F of Sun Life Financial Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) [Omitted in accordance with the guidance of SEC Release No. 33-8238]
   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 13, 2006

/s/ "Paul W. Derksen"
Paul W. Derksen
Executive Vice-President and
Chief Financial Officer