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, 2007** 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	**564,141,706**
Class A Preferred Shares Series 1	**16,000,000**
Class A Preferred Shares Series 2	**13,000,000**
Class A Preferred Shares Series 3	**10,000,000**
Class A Preferred Shares Series 4	**12,000,000**
Class A Preferred Shares Series 5	**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

The following information is incorporated by reference in this Annual report on Form 40-F:

Disclosure Controls and Procedures

The information under the heading "Controls and Procedures" in the Company's Management's Discussion and Analysis for the year ended December 31, 2007, which is attached hereto as Exhibit 1, (the "**2007 Annual MD&A**").

Management's Annual Report on Internal Control Over Financial Reporting

The information under the heading "Controls and Procedures" in the Company's 2007 Annual MD&A and the information in the "Management's Report on Internal Control over Financial Reporting" with respect to the Company's annual consolidated financial statements for the year ended December 31, 2007 (the "**2007 Annual Financial Statements**"). The Company's 2007 Annual Financial Statements, including the "Management's Report on Internal Control over Financial Reporting", is attached hereto as Exhibit 2.

Attestation Report of the Registered Public Accounting Firm

A copy of the "Report of Independent Registered Chartered Accountants" with respect to the Company's 2007 Annual Financial Statements is included in the Company's 2007 Annual Financial Statements.

Changes in Internal Control Over Financial Reporting

The information under the heading "Controls and Procedures" in the Company's 2007 Annual MD&A.

Identification of Audit Committee

The information under the heading "Directors and Executive Officers – Audit and Conduct Review Committee" in the Company's annual information form, dated February 13, 2008, which is attached hereto as Exhibit 3 (the "**2007 AIF**").

Audit Committee Financial Expert

The information under the heading "Directors and Executive Officers – Audit and Conduct Review Committee" in the Company's 2007 AIF .

Code of Ethics

The information under the heading "Directors and Executive Officers – Code of Ethics" in the Company's 2007 AIF. A copy of the Sun Life Financial Code of Business Conduct is attached hereto as Exhibit 4.

Principal Accountant Fees and Services

The information under the headings "Directors and Executive Officers – Principal Accountant Fees and Services" and "Directors and Executive Officers – Policy for Use of External Auditors" in the Company's 2007 AIF.

None of the services provided by the Company's external auditor described under "Directors and Executive Officers – Principal Accountant Fees and Services" in the Company's 2007 AIF were approved pursuant to the waiver of pre-approval provisions in paragraph (c)(7)(i)(C) of SEC Rule 2-01 of Regulation S-X.

Off-Balance Sheet Arrangements

The information under the heading "Financial Position and Liquidity – Off-balance Sheet Arrangements" in the Company's 2007 MD&A.

Tabular Disclosure of Contractual Obligations

The information under the heading "Financial Position and Liquidity – Contractual Obligations" in the Company's 2007 MD&A.

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.

Sun Life Financial Inc.

By: /S/ "Thomas A. Bogart"
Thomas A. Bogart
Executive Vice-President and
General Counsel

Dated: February 14, 2008

EXHIBITS:

1. Annual Management's Discussion and Analysis for the year ended December 31, 2007
2. Consolidated Financial Statement for the Year Ended December 31, 2007
3. Annual Information Form dated February 13, 2008
4. Sun Life Financial Code of Business Conduct
5. Consent of Independent Registered Chartered Accountants
6. Consent of Appointed Actuary
7. Certifications 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
8. Certifications required by Rule 13a-14(a) or Rule 15d-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 1

Management's Discussion and Analysis

Sun Life Financial Inc.

For the Year Ended December 31, 2007

February 13, 2008

Life's brighter under the sun

Sun Life Financial

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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, 2007, and amounts are expressed in Canadian dollars. Where information at and for the year ended December 31, 2007 is not available, information available for the latest period before December 31, 2007 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, 2007, 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 based on financial measures prepared in accordance with GAAP, including earnings, earnings per share (EPS), fully diluted EPS and return on equity (ROE).

Management also measures the Company's performance based on certain non-GAAP measures, including operating earnings, and other financial measures based on operating earnings, including fully diluted operating EPS and operating ROE, that 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, which excludes the impact of currency fluctuations within the reporting period. Management measures the performance of its business segments using ROE that is based on 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. Management also monitors MFS's pre-tax operating profit margin ratio, the denominator of which excludes certain investment income and includes certain commission expenses, as a means of measuring the underlying profitability of MFS. Other non-GAAP financial measures used by the Company include 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. Additional information concerning these non-GAAP financial measures and reconciliations to GAAP measures are included in this annual MD&A under the heading Non-GAAP Financial Measures on pages 16 and the Supplementary Financial Information packages that are available in the Investor Relations — Financial Publications section of Sun Life Financial's website, www.sunlife.com.

Forward-looking Statements

Certain statements contained or incorporated by reference in this MD&A, including those relating to the Company'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 the information concerning possible or assumed future results of operations of Sun Life Financial including those set out in this MD&A under Enterprise Mission, Vision, Values and Strategy, Financial Performance and Objectives, Business Overview, Performance Overview, Investments, SLF Canada, SLF U.S., MFS, SLF Asia, Corporate, and Financial Position and Liquidity. These statements represent the Company's expectations, estimates and projections regarding future events and are not historical facts. 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 risks and uncertainties that are difficult to predict. Future results and stockholder value 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 11 and Risk Management on page 45 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 and www.sec.gov.

Factors that could cause actual results to differ materially from expectations include, but are not limited to, the performance of equity markets; interest rate fluctuations; investment losses and defaults; the cost, effectiveness and availability of risk mitigating hedging programs; the creditworthiness of guarantors and counterparties to derivatives; risks related to market liquidity; changes in legislation and regulations including tax laws; regulatory investigations and proceedings and private legal proceedings and class actions relating to practices in the mutual fund, insurance, annuity and financial product distribution industries; risks relating to product design and pricing; insurance risks including mortality, morbidity, longevity and policyholder behaviour including the occurrence of natural or man-made disasters, pandemic diseases and acts of terrorism; risks relating to operations in Asia including risks relating to joint ventures; currency exchange rate fluctuations; the impact of competition; the risks relating to financial modelling errors; business continuity risks; failure of information systems and Internet enabled technology; breaches of computer security and privacy; the availability, cost and effectiveness of reinsurance; the inability to maintain strong distribution channels and risks relating to market conduct by intermediaries and agents; dependence on third party relationships including outsourcing arrangements; downgrades in financial strength or credit ratings; the ability to successfully complete and integrate acquisitions; the ability to attract and retain employees; and the performance of the Company's investments and investment portfolios managed for clients such as segregated and mutual funds. The Company does not undertake any obligation to update or revise 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.

Enterprise Mission, Vision, Values and Strategy

Mission

To help customers achieve lifetime financial security

Vision

To be an international leader in protection and wealth management

Values

These values guide us in achieving our strategy:

Values	Integrity We are committed to the highest standards of business ethics and good governance.	Engagement We value our diverse, talented workforce and encourage, support and reward them in contributing to the full extent of their potential.
Customer Focus We provide sound financial solutions for our customers and always work with their interests in mind.	Excellence We pursue operational excellence through our dedicated people, our quality products and services, and our value-based risk management.	Value We deliver value to the customers and shareholders we serve and to the communities in which we operate.

Strategy

We will leverage our strengths around the world to help our customers achieve lifetime financial security and create value for our shareholders.

We will work to achieve our strategy through focused execution of the following five enterprise priorities:

Priorities	Generate value-building growth Sustain profitable top-line growth and deliver on key medium-term financial targets.	Intensify customer focus Meet the needs of our customers by delivering top quality products and services.
Enhance productivity and efficiency Continuously improve productivity and efficiency to increase competitiveness.	Strengthen risk management Enhance risk management processes and practices to maximize shareholder value.	Foster innovation Embed creativity and innovation throughout the organization to improve business results and gain competitive advantage.

Financial Performance and Objectives

Measure(1)	Medium-Term Objectives	2007 Accomplishments
Operating EPS growth Growth in EPS reflects the Company's focus on generating sustainable earnings for shareholders.	10%	• 11% exceeded average annual target • Up 13% on a constant currency basis
Operating ROE growth Growth in ROE is a significant driver of shareholder value and is a major focus for management across all businesses.	15%	• 14.3% on track to meet medium term objective • January 1, 2007 changes to Canadian accounting rules reduced ROE by 48 basis points • Currency movements benefited 2007 ROE by 38 basis points
Capital Deployment Effective deployment of capital serves to enhance shareholder value and is a significant focus for the Company's management	• Invest in organic growth • Maintain 30%-40% dividend payout ratio • Make selective acquisitions • Repurchase common shares	• Invested in global distribution and product innovation across the enterprise • 2007 dividend payout ratio 33% • Completed acquisition of Genworth Employee Benefits Group business • Repurchased $502 million of common shares

Medium-term objectives were established for a three- to five-year period. The operating EPS growth objective is 10% per annum on average and the medium-term operating ROE goal is to achieve 15% on a sustainable basis.

Sun Life Financial's medium-term goals are based on the following assumptions and conditions:

- A rise in the annual average level of key equity market indices, primarily the S&P 500, by approximately 7%-8%
- Stability in North American interest rates across the yield curve
- A credit environment within historical norms
- Stability in exchange rates between the Canadian dollar and foreign currencies, primarily the U.S. dollar and the British pound sterling

(1) Operating EPS, operating ROE and the dividend payout ratio are non-GAAP financial measures. The dividend payout ratio represents the ratio of common shareholders' dividends to operating earnings. For additional information, see the section under the heading Non-GAAP Financial Measures on page 16.

Business Overview

Sun Life Financial is a leading international financial services organization, offering a diverse range of life and health insurance, savings, investment management, retirement, and pension products and services to both individual and corporate customers.

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 (SLF U.K.), Sun Life Financial Reinsurance (SLF Reinsurance), and Corporate Support operations, which include run-off reinsurance and revenue and expenses of a corporate nature not attributable to other segments.

Financial information on the Company's business segments is presented in this MD&A in both Canadian dollars and the segment's local currency where appropriate.

The fluctuation in the value of the Canadian dollar against foreign currencies in 2007 had a significant impact on the Company's financial condition and results of operations.

The Company's business model is one of balance as it strives to establish scale and scope in each of the diversified markets in which it chooses to compete. It weighs the higher growth prospects in emerging markets against the relative stability of more mature operations. In a similar way, the Company's stable protection business balances the relatively more volatile wealth management business. It also ensures that customers have access to complementary insurance, retirement and savings products that meet their specific needs at every stage of their lives.

The following table shows the Company's products by business segment.

Products	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate
Individual life insurance	n	n		n	n
Individual annuity and savings	n	n		n	n
Group life and health	n	n		n	
Group pension and retirement	n	n		n	
Mutual funds	n		n	n	
Asset management	n	n	n	n	
Individual health insurance	n			n	
Reinsurance (life retrocession)					n

The Company's strong focus on multi-channel distribution offers customers choices as to how and when they purchase products and access services.

Distribution Channels	SLF Canada	SLF U.S.	MFS	SLF Asia
Direct sales agents	n			n
Independent and managing general agents	n	n		n
Financial intermediaries (e.g., brokers)	n	n	n	n
Banks		n	n	n
Pension and benefit consultants	n	n	n	n
Direct sales (including Internet)	n		n	n

Drivers of Profitability

Several factors could affect the profitability of the Company's operations, including changes in:

- Equity market performance
- Interest rates
- Credit experience
- Mortality and morbidity experience
- Surrender and lapse experience
- Spreads between the interest credited to policyholders and investment returns
- Currency exchange rates, regulatory environment and other external factors

The Company's risk factors are described in SLF Inc.'s 2007 AIF under the heading Risk Factors and the Company's enterprise-wide risk management framework is described on page 45 of this MD&A under the heading Risk Management.

Performance Overview

Business Segment	2007 Priorities	2007 Achievements
SLF Canada	• Grow the wholesale distribution channel and continue to strengthen distribution capabilities in the career sales force • Increase market share in the small to medium-sized group business market segments • Continue to grow the rollover and voluntary group retirement businesses and enhance the advice-based channels to meet the needs of baby boomers as their demand for advice increases • Maintain disciplined focus on expense management	• The Company integrated its brand strategy in Canada to leverage more effectively the Sun Life Financial brand. As part of the integration strategy, the Company retired the Clarica name and re-branded its career sales force as the Sun Life Financial Advisor Sales Force • Individual Insurance and Investments sales from the Wholesale Distribution channel increased by 44% in 2007 from 2006 • The launch of SunWise Elite Plus Guaranteed Minimum Withdrawal Benefit contributed to meeting the needs of those Canadians who are focused on the income phase of their retirement planning. This new product contributed to an increase of 32% in individual segregated fund sales over 2006 • Sales in the small and medium-sized Group business segments continued to grow with a 17% sales growth over 2006 • Group Retirement Services (GRS) grew its sales by 61% compared to 2006 as a result of the increased placement of large plans. In addition, plan members leaving their employers' defined contribution plans for retirement or other reasons during 2007 entrusted $725 million of their plan assets to Sun Life Financial, a growth of 33% over 2006 • Productivity and efficiency improved in both wealth and insurance operations in 2007, with increases ranging from 2.5% to 4.5%
	2008 Priorities	
	• Continue to increase Individual Insurance and Investment sales through the Sun Life Financial Advisor Sales Force and the Wholesale distribution channel by enhancing distribution capabilities with a focus on lifetime relationships and holistic advice • Continue to build and expand the retirement rollover business by providing advice and incorporating group life and health products • Continue to increase market share in the small to medium-sized group business market segments • Continue to maintain disciplined focus on expense management	

Business Segment	2007 Priorities	2007 Achievements
SLF U.S.	• Improve Individual Life profitability • Successfully complete the acquisition and integrate the employee benefits group business acquired from Genworth • Continue growth in variable annuities • Expand the geographic reach and range of product offerings • Continue service centre improvement initiatives	• Implemented an unsecured financing arrangement to address U.S. statutory reserve requirements for certain universal life products. This financing arrangement reduced new business strain on universal life sales, in addition to the recovery of previously reported new business strain • Completed its acquisition of Genworth Financial, Inc.'s U.S. Employee Benefits Group (Genworth EBG) on May 31, 2007. Integration is proceeding on target. In 2007, the field forces were combined and the sales expense synergies and integration cost targets were exceeded. These achievements supported reaching the 2007 earnings goal for the combined business • Continued its product enhancement initiatives in variable annuities with the launch of Income on Demand℠ in March of 2007 • Gross domestic variable annuity sales increased 65% over 2006 and net redemptions improved to US$0.1 billion in 2007 as compared to net redemptions of US$1.0 billion in 2006 • Introduced Sun Global Freedom Offshore Universal Life and built a dedicated distribution team focused on offshore variable products • The service centre continued its improvement initiatives, receiving a DALBAR Customer Service award and Operations Managers Round Table (OMR) Service award
	2008 Priorities	
	• Grow sales by maintaining and increasing product competitiveness across all lines of business through innovation and quality service • Continue the integration of the Genworth EBG acquisition and leverage the expanded distribution capabilities • Deepen distribution relationships through improved service and enhanced marketing • Leverage product and innovation skills to expand in global markets	

	2007 Priorities	2007 Achievements
MFS	• Improve domestic equity investment performance and sustain long-term performance • Increase domestic mutual fund sales and net flows • Increase profit margins	• U.S. retail equity investment performance improved during 2007 with 73% of funds ranking in the top half of their respective three-year Lipper categories as of December 31, 2007 compared with 67% as at December 31, 2006 • Funds in the large cap value and core equity institutional categories significantly outperformed their benchmark based on one and three-year performance • Gross U.S. domestic mutual fund sales increased by 9% over 2006 and U.S. domestic mutual fund net outflows improved by approximately US$0.7 billion compared to 2006 • Pre-tax operating profit margins improved by 660 basis points from 2006
	2008 Priorities	
	• Sustain long-term investment performance • Improve U.S. domestic mutual fund net sales • Continue expansion of institutional distribution footprint	

	2007 Priorities	2007 Achievements
SLF Asia	• Continue to leverage the expanded distribution capacity and synergies achieved through the CMG Asia acquisition • Expand the geographic reach and range of product offerings for multi-channel distribution in the Philippines • Explore cross-selling opportunities by leveraging the distribution channels of the joint venture in India • Continue the geographic expansion in China • Secure new distribution alliances, including bancassurance in key markets	• Hong Kong individual insurance sales were up 38% over 2006, driven by strong demand for investment-linked products and improved agency productivity • Hong Kong operations shifted its focus to strengthening the product range by launching new unit-linked, health insurance and traditional protection products • The Philippines mutual fund net sales more than doubled in 2007 from 2006, driven by an increased awareness and demand for investment products and solid investment performance • In India, Birla Sun Life Insurance Company Limited (Birla Sun Life) sales were up 111% as the joint venture continued to expand its distribution with its direct sales force to 85,000 advisors in 339 branches • In China, Sun Life Everbright Life Insurance Company Limited (Sun Life Everbright) opened a branch in Shanghai. The joint venture also increased its footprint in the Jiangsu province with the opening of four sales offices in that province, and now operates in 16 cities in China • Alternate distribution sales were up 47% over 2006 as new telemarketing distribution alliances were forged in China and Indonesia. Birla Sun Life renewed its exclusive bancassurance agreement with a large multinational bank and Sun Life Everbright established new bancassurance partnerships
	2008 Priorities	
	• Achieve operational efficiencies through regional centres of excellence • Expand product offerings, including innovative health insurance solutions • Leverage global expertise to explore wealth management opportunities in new markets • Strengthen distribution management and expand alternate distribution by leveraging regional expertise • Increase opportunities to cross-sell to existing customers • Continue accelerated expansion in India	

Outlook

The global economy entered 2008 with significant uncertainty and volatility in financial markets that may result in lower or negative growth prospects in some sectors during the remainder of 2008. Weaker economic conditions within the markets in which we operate may adversely affect results in some of our businesses. For example, the incidence of claims under group disability policies tends to increase in times of economic weakness. Similarly, some wealth products, such as retail mutual funds or insurance policies tied to equity market returns, may be less attractive to customers if equity markets perform poorly in 2008. However, these economic conditions also provide opportunities as individuals and institutions increasingly look to financially strong organizations, such as Sun Life Financial, for protection, savings and investment products.

Corporate Developments

The following developments occurred in 2007.

U.S. Employee Benefits Group Business Acquisition

Sun Life Financial completed its acquisition of the Genworth EBG business on May 31, 2007 for $725 million. Sun Life Financial's U.S. group business combined with Genworth's Employee Benefits Group and became Sun Life Financial Employee Benefits Group offering customers group life, disability, dental and stop loss insurance, and voluntary worksite products.

This acquisition added scale and scope to Sun Life Financial's U.S. Employee Benefits Group business and solidified its top 10 leadership position in the important U.S. employee benefits industry. In addition, the increased access to markets, broadened product and service offerings, and strengthened distribution platform positioned Sun Life Financial for long-term growth**.** Additional details are included in Note 3 to SLF Inc.'s 2007 Consolidated Financial Statements.

Other Acquisitions and Disposals

On June 22, 2007, the Company purchased approximately two million of additional trust units of CI Financial Income Fund for $66 million in order to maintain its existing combined interest in CI Financial Income Fund and Canadian International LP (collectively, CI Financial). SLF Inc.'s interest in CI Financial had decreased slightly as a result of CI Financial's purchase of Rockwater Capital Corporation in the second quarter of 2007.

On August 31, 2007, the Company entered into an agreement to sell the U.S. subsidiaries that comprised the Independent Financial Marketing Group (IFMG) business to LPL Holdings, Inc. The sale, which closed on November 7, 2007, did not have a material impact on the Company's 2007 financial condition or results of operations.

On December 13, 2007, the Company entered into an agreement to sell Sun Life Retirement Services (U.S.), Inc., a 401(k) plan administration business in the United States, to Hartford Financial Services LLC. The transaction is expected to close in the first quarter of 2008 and is not expected to have a material impact on the Company's financial condition or results of operations.

Share Repurchase Program

In 2007, SLF Inc. purchased and cancelled 9.8 million common shares at a cost of $502 million. under its share repurchase program. On January 10, 2008, SLF Inc. announced its 2008 repurchase program for the purchase of up to 3.5% of its outstanding common shares, starting January 12, 2008.

Increased Quarterly Shareholder Dividends

In 2007, SLF Inc. increased its quarterly common share dividend by 13%. The quarterly dividend payout per common share was increased from $0.30 to $0.32 in the first quarter of 2007 and from $0.32 to $0.34 in the third quarter of 2007.

On February 13, 2008, the Board of Directors approved a 6% increase in the quarterly dividend to $0.36 per share.

Financing Arrangements

The Company routinely reviews its financing arrangements to enhance its capital efficiency and optimize its capital structure. In 2007, SLF Inc. issued $250 million of Class A non-cumulative Preferred Shares Series 5, at $25 per share, paying non-cumulative quarterly dividends at a per annum rate of 4.50% and an additional $250 million of Series B Senior Unsecured 4.95% Fixed/Floating Debentures due in 2036, resulting in an aggregate $950 million principal amount outstanding of Series B Debentures. The Company also issued $400 million of Series 2007-1 Subordinated Unsecured 5.40% Fixed/Floating Debentures due in 2042 and redeemed its 8.53% Partnership Capital Securities in the principal amount of US$600 million in May 2007.

In September 2007, Sun Life Assurance repurchased the outstanding $3 million principal amount of the 7.09% funding debenture and $30 million principal amount of the $990 million outstanding 6.87% Series A debentures.

The Company established an insurance subsidiary in the United States to fund statutory reserves required by Actuarial Guideline 38 as adopted by the National

Association of Insurance Commissioners (AXXX reserves) attributable to certain universal life policies sold by Sun Life Assurance in the United States. The new subsidiary established a long-term financing arrangement with a financial institution (the Lender) and on November 8, 2007, issued a US$1 billion variable principal floating rate certificate to a special purpose entity affiliated with the Lender. Additional principal amounts may be issued from time to time until the agreement expires in 2037. Repayment of the certificate is guaranteed by an indirect parent of the new United States insurance subsidiary.

Additional details of these financing arrangements can be found on page 49 in this MD&A in the Capital section under the heading Financial Position and Liquidity and in Notes 10, 11, 12 and 14 to SLF Inc.'s 2007 Consolidated Financial Statements.

On January 30, 2008, SLF Inc. issued $400 million of Series 2008-1 Subordinated Unsecured 5.59% Fixed/Floating debentures (Series 2008-1) due in 2023.

Other Corporate Developments

The Company integrated its brand strategy in Canada to more effectively leverage the Sun Life Financial brand. The strategy allows the Company to realize greater economies of scale in marketing expenditures, and reduce brand duplication and complexity in the Canadian marketplace. As part of the integrated strategy, the Company also retired the Clarica name, which resulted in an after-tax charge of $43 million related to the intangible asset write-down.

In November 2007, the Company announced several changes to the management structure, including the appointment of a new President of Sun Life Global Investments Inc., formerly Sun Life Financial Corp., to integrate overall responsibility for the Company's North American asset management businesses and accelerate growth in the expanding wealth market.

The Company also announced a new International Variable Annuity Centre, which will leverage the current successful U.S. variable annuity operation to support the increasing international demand for variable annuity solutions to meet retirement needs.

Critical Accounting Estimates

SLF Inc.'s significant accounting and actuarial policies are described in detail in Notes 1, 2, 5, and 9 to its 2007 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 the 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 assumptions about equity market performance, interest rates, asset default, mortality and morbidity rates, policy terminations, expenses and inflation, 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 table on the following page 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.

The equity market and interest rate sensitivities contained in the table differ from those outlined on page 46 of this MD&A. The sensitivities shown on page 46 are for a one-year period including limited management actions, given a market shock at the beginning of the period. The sensitivities in the table below represent the immediate impact of a market shock and are in respect of policyholder liabilities.

Critical Accounting Estimate	Determination Methodology and Assumptions	Financial Significance (measured as at December 31, 2007)
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 and universal life products, a large portion of the effect of equity market changes is passed through to policyholders as changes in the amounts of dividends declared or in the rate of interest credited • Products such as segregated fund and annuity option guarantees are affected by equity movements even though mitigating hedge programs are in place • An immediate 10% increase across all equity markets would result in an estimated increase in net income of $40 million • An immediate 10% decrease across all equity markets would result in an estimated decrease in net income of $61 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 • The major part of this sensitivity is offset with a similar sensitivity in the value of the Company's assets held to support liabilities	• 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% parallel increase in interest rates across the entire yield curve would result in an estimated increase of $164 million in net income • An immediate 1% parallel decrease in interest rates would result in an estimated decrease in net income of $286 million
Asset default provisions are included in actuarial liabilities for possible future asset defaults and loss of asset value on current assets and future purchases	• The amount included in actuarial liabilities is based on possible reductions in the expected future investment yield depending on the creditworthiness of the asset class and includes any reductions in the value of equity and real estate assets supporting actuarial liabilities	• Asset default provisions included in actuarial liabilities amounted to $2.9 billion on a pre-tax basis as at December 31, 2007
Mortality — the rate of death 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 • Where lower mortality rates result in an increase in actuarial liabilities, the mortality rates are adjusted to reflect estimated future improvements in life span • Where lower mortality rates result in a decrease in actuarial liabilities, the mortality rates 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 $73 million • For products for which lower mortality would be financially adverse to the Company, a 1% decrease in the mortality assumption would decrease net income by $50 million

Critical Accounting Estimate	Determination Methodology and Assumptions	Financial Significance (measured as at December 31, 2007)
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 $21 million
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 $105 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 $74 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)
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 future interest rates used in the scenario testing under the standards established by the Canadian Institute of Actuaries	• A 10% increase in unit expenses Company-wide would result in a decrease in net income of $ 229 million

Fair Value of Investments

As described in Notes 1 and 5 to SLF Inc.'s 2007 Consolidated Financial Statements, the majority of financial assets are recorded at fair value in accordance with the changes in the Canadian investment accounting rules effective January 1, 2007.

The fair value of publicly traded bonds is determined using quoted market bid prices. For non-publicly traded bonds, fair value is determined using a discounted cash flow approach that includes provisions for credit risk and the expected maturities of the securities. The valuation techniques used are primarily based on observable market prices or rates. In limited circumstances, valuation assumptions not based on observable market data may be used. The Company does not believe that using alternative assumptions in the valuation techniques for these bonds would result in significantly different fair values.

The fair value of stocks is determined using quoted market bid prices. Stocks that do not have a quoted market price on an active market are designated as available-for-sale and reported at cost and are not material to the total value of invested assets included in SLF Inc.'s 2007 Consolidated Financial Statements.

The fair value of mortgages and corporate loans is determined by discounting the expected future cash flows

using current market interest rates with similar credit risks and terms to maturity.

Real estate held for investment is initially recorded at cost and the carrying value is adjusted towards fair value at 3% of the difference between fair value and carrying value per quarter. The fair value of real estate is determined on a property-by-property basis 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. 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 estimate of fair market values.

The nature of policy loans and cash signifies that the fair values of these assets are assumed to be equal to their carrying values. The fair values of cash equivalents and short-term securities are based on market yields, while the fair values of other invested assets are determined by reference to market prices for similar investments or quoted market prices where applicable.

The fair value of derivative financial instruments is determined based on the type of derivative. 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, futures and common stock index swaps are based on the quoted market prices, the value of underlying securities, or indices or option pricing models. In limited circumstances, valuation assumptions not based on observable market data may be used. The Company does not believe that using alternative assumptions in the valuation techniques for these derivatives would result in significantly different fair values.

Allowance for Investment Losses

Mortgages and corporate loans are carried at amortized cost, net of allowances for losses. The calculation of allowances for losses is based on estimates of net realizable value of these assets and are established when an asset is classified as impaired.

The use of different methodologies and assumptions may have a material effect on the estimates of net realizable value**.** Management considers various factors when identifying the potential impairment of mortgages and corporate loans. In addition to the Company's ability and intent to hold these 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.

As at December 31, 2007, allowances for losses on mortgages and corporate loans were $31 million, representing a decrease of $9 million from the prior year's allowances of $40 million. This continues to reflect the Company's high quality of these assets.

Provisions for losses on investments, which increase the allowances, are charged against net investment income. Write-offs, net of any recoveries, reduce the allowances.

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, 2007, 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 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. It is not amortized, but 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, 2007. The goodwill consisted primarily of $3.7 billion arising from the 2002 Clarica acquisition, $1.2 billion arising from the acquisition of Keyport Life Insurance Company in the United States in 2001, $436 million arising from the acquisition of CMG Asia Limited (CMG Asia) in Hong Kong in 2005 and $327 million arising from the Genworth EBG business in 2007. In addition to the goodwill of $6.0 billion shown on the consolidated balance sheets, $404 million of goodwill related to the Company's equity holdings in CI Financial and Birla Sun Life is included in 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, 2007, the Company's finite-life intangible assets had a carrying value of $601 million that reflected the value of the field force and asset administration contracts acquired as part of the Clarica Life Insurance Company and Genworth EBG business.

During 2007, the Clarica brand name was retired and the Company took a write-down of the intangible asset amount before tax of $52 million.

The Company's indefinite-life intangible assets had a carrying value of $940 million as at December 31, 2007. These indefinite-life intangible assets reflected fund management contracts and state licenses.

Income Taxes

Sun Life Financial's provision for income taxes is calculated based on the expected tax rules of a particular fiscal 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 2007

In 2007, SLF Inc. adopted the following accounting standards and policies. Additional information is provided in Note 2 to SLF Inc.'s 2007 Consolidated Financial Statements.

Financial Instruments, Hedges and Comprehensive Income Overview

On January 1, 2007, the Company adopted Canadian Institute of Chartered Accountants (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. CICA Handbook Section 4211, Life Insurance Enterprises — Specific Items, replaced CICA Handbook Section 4210 in 2007.

These new CICA Handbook sections impacted the accounting for financial assets, including bonds, stocks, mortgages, derivatives and certain other invested assets.

Recognition, derecognition and measurement policies followed in prior years' financial statements are not reversed and, therefore, prior period financial statements were not restated.

On January 1, 2007, deferred realized gains and losses of $3.9 billion on sales of financial assets previously accounted for as life insurance portfolio investments, including gains and losses arising from sales of bonds, stocks, mortgages and derivatives, were recorded to retained earnings. Since deferred net realized gains are generally taken into account in establishing the actuarial liabilities, most of the deferred net realized gains recorded to retained earnings on transition were offset by changes in actuarial liabilities also recorded to retained earnings on January 1, 2007. Realized gains and losses on the sales of these assets were reported in investment income in 2007.

Corporate loans with a carrying value of $4.9 billion that were previously included with bonds on the consolidated balance sheet were classified as loans and were reported with mortgages because they did not meet the definition of a debt security. These loans, as well as mortgage loans, continue to be accounted for at amortized cost using the effective interest rate method in 2007.

The Company chose a transition date of January 1, 2003 for embedded derivatives and, therefore, was only required to account separately for those embedded derivatives in hybrid instruments issued, acquired or substantially modified after that date. The Company did not identify any embedded derivatives that required separation on January 1, 2007.

Assets Supporting Actuarial Liabilities

On January 1, 2007, the Company designated bonds, stocks and other invested assets supporting actuarial liabilities with a carrying value of $58.6 billion and fair value of $62.0 billion as held-for-trading. Derivatives supporting actuarial liabilities that were not classified as hedges for accounting purposes and with a fair value of $843 million were recorded on the balance sheet. These instruments were recorded at fair value on January 1, 2007, with the difference between the fair value and carrying value of these instruments, net of the related tax expense, recorded to opening retained earnings. These instruments were recorded at fair value at each balance sheet date in 2007, with changes in fair value recorded in net income. The actuarial liabilities are supported, in part, by assets that are designated as held-for-trading and derivatives that are not designated as hedges for accounting purposes. Because the value of the actuarial liabilities is determined by reference to the assets and derivatives supporting those liabilities, changes in the actuarial liabilities offset a significant portion of the changes in fair value of those assets and derivatives recorded to income in 2007 and the amount recorded to retained earnings on transition.

Assets Not Supporting Actuarial Liabilities

On January 1, 2007, the Company designated bonds and stocks not supporting actuarial liabilities with a carrying value of $10.5 billion and a fair value of $10.9 billion as available-for-sale. These assets were recorded on the balance sheet at fair value on January 1, 2007, with the difference between the fair value and carrying value of these assets, net of the related tax expense,

recorded to opening other comprehensive income (OCI) as of January 1, 2007. These assets were recorded at fair value at each balance sheet date in 2007, with changes in fair value recorded in OCI. Because changes in fair value of these assets were recorded in OCI, these assets only impact net income when they are sold or other than temporarily impaired, and the gain or loss and the related tax expense, recorded in accumulated OCI, is reclassified to net income.

Retained Earnings Adjustments

As a result of the adoption of previously mentioned standards, the Company recorded a net increase of $192 million to retained earnings on January 1, 2007. Of this amount, $186 million was allocated to shareholders and $6 million was allocated to participating policyholders. The Company also included a statement of Comprehensive Income and included the components of accumulated OCI in its 2007 Consolidated Financial Statements. On January 1, 2007, the Company recorded an increase in opening OCI of $359 million and reclassified the December 31, 2006 currency translation account balance of $(1.3) billion to opening OCI, for a total opening OCI balance of $(978) million on January 1, 2007.

Further details on the specific accounting requirements of the new and revised handbook sections are included in Note 2 to SLF Inc.'s 2007 Consolidated Financial Statements. The accounting policies followed for specific financial instruments are described in Note 1 of SLF Inc.'s 2007 Consolidated Financial Statements.

Determining the Variability to be Considered in Applying the Variable Interest Entity (VIE) Standards

On January 1, 2007, the Company adopted Emerging Issues Committee (EIC) 163, Determining the Variability to be Considered in Applying Accounting Guideline 15, Variable Interest Entities (AcG-15). EIC 163 provides additional clarification on the nature of the variability to be considered in applying AcG-15 based on an assessment of the design of the entity. These amendments did not have an impact on the consolidated financial statements.

Convertible and Other Debt Instruments With Embedded Derivatives

In the second quarter of 2007, the Company adopted, on a retrospective basis, EIC 164, Convertible and Other Debt Instruments with Embedded Derivatives. EIC 164 clarifies the accounting treatment for certain types of convertible debt instruments. It provides guidance on the classification of the debt instrument as a liability or equity, whether the instrument contains an embedded derivative, and the accounting for future tax impacts and earnings per share computations. The adoption of this EIC did not have an impact on the consolidated financial statements.

Accounting Policy Choice for Transaction Costs:

During the third quarter of 2007, the Company adopted, on a retrospective basis, EIC 166, Accounting Policy Choice for Transaction Costs. EIC 166 addresses the accounting policy choice of recognizing transaction costs in income or adding transaction costs to the carrying amount of financial assets and financial liabilities that are not classified as held-for-trading. It requires that the same accounting policy be applied to all similar financial instruments classified as other than held-for-trading, but allows a different accounting policy choice for financial instruments that are not similar. The Company's transaction cost recognition policy is consistent with this guidance.

Future Adoption

Capital Disclosures and Financial Instruments — Disclosure and Presentation

On January 1, 2008, the Company adopted three new CICA Handbook Sections — Section 1535, Capital Disclosures, Section 3862, Financial Instruments — Disclosures, and Section 3863, Financial Instruments — Presentation. Section 1535, Capital Disclosures requires disclosure of an entity's objectives, policies and processes for managing capital; information about what the entity regards as capital; whether the entity has complied with any capital requirements; and the consequences of not complying with these capital requirements. Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments — Disclosure and Presentation. Section 3863 carries forward unchanged the presentation requirements of Section 3861, while Section 3862 requires enhanced financial instrument disclosures that focus on the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company will apply the new disclosures in its 2008 Consolidated Financial Statements.

Non-GAAP Financial Measures

Management evaluates the Company's performance based on financial measures prepared in accordance with GAAP, including earnings, fully diluted EPS and ROE. Management also measures the Company's performance based on certain non-GAAP measures, including operating earnings, and other financial measures based on operating earnings, including fully diluted operating EPS and operating ROE, that 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, which excludes the impact of currency fluctuations within the reporting period. Management measures the performance of its business segments using ROE that is based on 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. Management also monitors MFS's pre-tax operating profit margin ratio, the denominator of which excludes certain investment income and includes certain commission expenses, as a means of measuring the underlying profitability of MFS. Other non-GAAP financial measures used by the Company include 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.

In 2007, the Company recorded after-tax charges to earnings of $10 million for re-branding expenses in Canada and $4 million for integration costs related to the acquisition of the Genworth EBG business.

In the first quarter of 2007, the Company took a $43 million after-tax charge to income in relation to the intangible asset write-down for the retirement of the Clarica brand and an $18 million after-tax charge for the premium paid to redeem US$600 million of 8.53% Partnership Capital Securities issued by Sun Life of Canada (U.S.) Capital Trust I.

In the first quarter of 2006 and the fourth quarter of 2005, the Company recorded after-tax charges to income of $2 million and $12 million, respectively, for Hong Kong integration costs related to the acquisition of CMG Asia Limited and CommServe Financial Limited.

In the third quarter of 2005, the Company took a $51 million after-tax charge to income in relation to the sale of the investment in Administradora de Fondos de Pensiones Cuprum, S.A. 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.

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

Impact of Special Items on Fully Diluted Operating EPS

($ per share)	**2007**	2006	2005
EPS(1) — Reported (GAAP)	**3.85**	3.58	3.12
Net gains (losses) on special items	**(0.13)**	—	(0.11)
EPS (1) — Operating	**3.98**	3.58	3.23

(1) EPS refers to fully diluted earnings per share in the table.

Reconciliation of Operating Earnings

($ millions)	**2007**					2006				
	Q4	**Q3**	**Q2**	**Q1**	**Total**	Q4	Q3	Q2	Q1	Total
Reported earnings (GAAP)	**555**	**577**	**590**	**497**	**2,219**	545	541	512	491	2,089
After-tax gains (losses) on special items										
Intangible asset write-down for Clarica brand	**—**	**—**	**—**	**(43)**	**(43)**	—	—	—	—	—
Premium paid to redeem Partnership Capital Securities	**—**	**—**	**—**	**(18)**	**(18)**	—	—	—	—	—
Re-branding expenses	**(3)**	**(5)**	**(2)**	**—**	**(10)**	—	—	—	—	—
Genworth EBG business integration costs	**(2)**	**(1)**	**(1)**	**—**	**(4)**	—	—	—	—	—
Hong Kong integration costs	**—**	**—**	**—**	**—**	**—**	—	—	—	(2)	(2)
Total special items	**(5)**	**(6)**	**(3)**	**(61)**	**(75)**	—	—	—	(2)	(2)
Operating earnings	**560**	**583**	**593**	**558**	**2,294**	545	541	512	493	2,091

Financial Highlights

($ millions, unless otherwise noted)	2007	2006	2005
Common shareholders' net income			
Operating(1)	**2,294**	2,091	1,906
Reported	**2,219**	2,089	1,843
Basic reported EPS ($)	**3.90**	3.62	3.14
Fully diluted EPS ($)			
Operating(1)	**3.98**	3.58	3.23
Reported	**3.85**	3.58	3.12
ROE (%)			
Operating(1)	**14.3%**	13.8%	13.1%
Reported	**13.8%**	13.8%	12.6%
Dividends per common share ($)	**1.32**	1.15	0.99
Dividend payout ratio(1) (%)	**33%**	32%	31%
Dividend yield(2) **(%)**	**2.5%**	2.5%	2.3%
Total revenue	**21,188**	24,287	21,918
Premiums, deposits and fund sales			
Premium revenue, including administration services only premium equivalents	**16,124**	17,327	15,329
Segregated fund deposits	**13,320**	8,753	7,205
Mutual fund sales	**22,586**	20,412	20,329
Managed fund sales	**27,613**	26,116	31,135
Total premiums, deposits and fund sales	**79,643**	72,608	73,998
Assets under management (AUM) *(as at December 31)*			
General fund assets	**114,291**	117,831	110,866
Segregated fund net assets	**73,205**	70,789	60,984
Mutual fund assets (3)	**101,858**	110,186	103,753
Managed fund assets	**134,297**	140,551	112,938
Other AUM	**1,613**	2,075	2,348
Total AUM	**425,264**	441,432	390,889
Capital *(as at December 31)*			
Subordinated debt and other capital (4)	**2,946**	3,305	3,305
Participating policyholders' equity	**95**	92	85
Total shareholders' equity	**17,122**	17,092	15,461
Total capital	**20,163**	20,489	18,851

(1) Operating earnings, fully diluted operating EPS, operating ROE and dividend payout ratio are non-GAAP measures and exclude certain items described on page 16 under the heading Non-GAAP financial measures. The dividend payout ratio represents the ratio of common shareholders' dividends to operating earnings.

(2) The dividend yield represents the common dividend per share as a percentage of the average of the high and low share price.

(3) Prior periods have been restated to include AUM of Birla Sun Life Asset Management Company Limited (BSLAMC). The Company has a 50% interest in BSLAMC.

(4) Other capital refers to Partnership Capital Securities and Sun Life ExchangEable Capital Securities (SLEECS). These securities qualify as capital for Canadian regulatory purposes. Starting January 1, 2005 Partnership Capital Securities and SLEECS were deconsolidated and reclassified as debentures in SLF Inc.'s Consolidated Financial Statements. The Partnership Capital Securities were redeemed in May 2007. Additional information is available on page 49 under the heading Capital.

Consolidated Results of Operations

Common Shareholders' Net Income

Common shareholders' net income of $2,219 million in 2007 increased by $130 million from $2,089 million in 2006 and operating earnings, which excluded certain items outlined on page 17, rose to a record $2,294 million, an increase of $203 million, or 10%, over 2006. The Company's businesses focused on organic growth through expanded distribution networks and product offerings.

Earnings and EPS

($ millions, unless otherwise noted)	**2007**	2006	2005
Total net income	**2,290**	2,144	1,876
Less:			
Participating policyholders' net income	**2**	7	9
Dividends paid to preferred shareholders	**69**	48	24
Common shareholders' net income	**2,219**	2,089	1,843
Plus: Special items(1)	**75**	2	63
Operating earnings	**2,294**	2,091	1,906
Basic EPS ($) from:			
Common shareholders' net income	**3.90**	3.62	3.14
Operating earnings(1)	**4.03**	3.62	3.24
Diluted EPS ($) from:			
Common shareholders' net income	**3.85**	3.58	3.12
Operating earnings(1)	**3.98**	3.58	3.23
Common shareholders' net income by segment			
SLF Canada	**1,050**	995	963
SLF U.S.	**581**	448	495
MFS	**281**	234	179
SLF Asia	**123**	101	42
Corporate	**184**	311	164
Total	**2,219**	2,089	1,843

(1) The impact of special items on EPS is described on page 16 under the heading Non-GAAP Financial Measures.

Fully diluted EPS increased to $3.85 in 2007 from $3.58 in 2006. The strengthening of the Canadian dollar against foreign currencies during the year reduced 2007 earnings by $47 million or $0.08 per common share when compared to 2006 foreign exchange rates.

Fully diluted operating EPS, which excluded charges of $75 million as summarized on page 17, were $3.98, up 11% from $3.58 in 2006. Without the currency effect of a stronger Canadian dollar relative to other currencies, the fully diluted operating EPS would have been $4.06, or 13% higher than 2006.

SLF Canada's common shareholders' net income of $1,050 million in 2007 increased by $55 million over 2006. The increase was due to higher Individual Insurance & Investments earnings of $37 million resulting from the favourable impact of a reinsurance transaction on actuarial reserves of $42 million, partially offset by re-branding expenses of $10 million. Group Benefits earnings improved by $8 million primarily reflecting favourable morbidity experience.

Group Wealth earnings increased by $10 million primarily from the favourable impact of a reinsurance transaction on actuarial reserves of $17 million.

SLF U.S. 2007 earnings of $581 million were up $133 million, or 30%, from 2006. SLF U.S. earnings in 2007 were $613 million excluding the $32 million unfavourable currency impact due to the stronger Canadian dollar. Individual Life earnings increased by $111 million over 2006 due to the decrease in new business strain on universal life sales, and the favourable impact of the new financing arrangement for AXXX reserves, which totalled $162 million in the fourth quarter of 2007, including the recovery of prior period new business strain. These gains were partially offset by reserve strengthening as a result of actuarial assumption changes in the fourth quarter of 2007. Employee Benefits Group earnings increased by $20 million during 2007 due to the growth in the business, including the impact of the Genworth EBG acquisition in May 2007.

MFS contributed $281 million to Sun Life Financial's common shareholders' net income in 2007, an increase of $47 million from 2006. Excluding the negative currency effect of $16 million from the strengthening of the Canadian dollar, earnings grew to $297 million in 2007. The increase in average net assets from equity market movement and the consequential positive impact of higher fee income as well as improved operating margins in 2007 compared to 2006 drove the increase in earnings.

SLF Asia reported common shareholders' earnings of $123 million in 2007, $22 million higher than 2006 primarily due to Hong Kong's improved earnings of $20 million from the effect of strong equity markets and business growth, expense and interest rate reserve releases in the Philippines, which improved earnings by $10 million, and lower losses of $11 million in Indonesia where a reserve strengthening unfavourably impacted its 2006 results. These favourable variances were partially moderated by the impact of additional investment for expansion initiatives in India and China.

Corporate had common shareholders' net income of $184 million for the year ended December 31, 2007, $127 million lower than in 2006. The reduction was driven by the after-tax charges to earnings of $43 million related to the intangible asset write-down for the retirement of the Clarica brand, an $18 million premium paid to redeem US$600 million of 8.53% Partnership Capital Securities and lower earnings of $60 million in run off reinsurance from reserve strengthening related to interest rate and equity market assumptions.

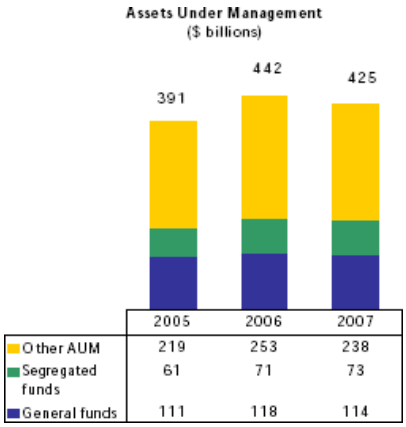
Return on Equity

ROE based on common shareholders' net income was 13.8% in 2007, the same as in 2006, while the operating ROE of 14.3% in 2007, which does not include the charges of $75 million outlined on page 17, increased

by 50 basis points from 13.8% in 2006. Higher earnings and the impact of SLF Inc.'s share buyback program along with the change in the value of the foreign currency translation account contributed to the rise in operating ROE. Changes to Canadian investment accounting rules that came into effect on January 1, 2007 resulted in a $186 million rise in opening retained earnings and a $359 million increase in opening accumulated OCI that reduced ROE and operating ROE by 47 basis points and 48 basis points, respectively. Excluding the impact of the change in the Canadian dollar against foreign currencies, ROE based on reported and operating earnings were 13.5% and 13.9%, respectively, in 2007.

Assets Under Management

The Company's AUM consist of general funds, segregated funds and other AUM, including mutual and managed funds which include institutional and other third-party assets managed by the Company. Assets managed by CI Financial, in which Sun Life Financial has a 36.6% equity interest, are excluded from the AUM reported by the Company. CI Financial's total fee-earning assets were $104 billion as at December 31, 2007, an increase of $22 billion from 2006.



	2005	2006	2007
Other AUM	219	253	238
Segregated funds	61	71	73
General funds	111	118	114

Total AUM were $425 billion as at December 31, 2007, a decrease of $17 billion compared to $442 billion as at December 31, 2006. The decrease of $48.0 billion from currency fluctuations was partly moderated by solid equity market performance that generated $21.6 billion in additional value in 2007, net sales of mutual, managed and segregated funds of $3.3 billion, an increase of $4.2 billion in general fund assets on January 1, 2007 related to the changes to Canadian investment accounting rules, and continued business growth.

The Company's general fund assets decreased to $114.3 billion, down $3.5 billion, or 3%, from the December 31, 2006 level. The strengthened Canadian dollar against other foreign currencies caused an unfavourable currency effect of $9.4 billion. This was partly compensated for by an increase of $4.2 billion in general fund assets on January 1, 2007 related to the changes to Canadian investment accounting rules and continued business growth, primarily in SLF Canada and SLF U.S., including the Genworth EBG acquisition at the end of May 2007.

Segregated fund assets increased to $73.2 billion as at December 31, 2007 compared to $70.8 billion as at December 31, 2006. Net inflows of $5.5 billion and an increase in asset values of $2.5 billion due to higher markets were partially reduced by an unfavourable currency impact of $5.6 billion.

Other AUM decreased to $237.8 billion, $15.0 billion less than as at December 31, 2006 mainly from the unfavourable effect of $33.0 billion related to currency fluctuations. Market growth of $19.0 billion and MFS's acquisition, at the end of June 2007, of six closed-end funds with total assets of $1.1 billion partly reduced the currency impact.

Revenue

Under Canadian GAAP, revenues include premiums received on life and health insurance policies as well as fixed annuity products. Net investment income earned on general fund assets and fee income received for services provided are also included. Revenue does not include segregated fund deposits, mutual fund deposits or managed fund deposits.

Changes to Canadian investment accounting rules that became effective on January 1, 2007, resulted in increased net investment income volatility in 2007 arising from quarterly fluctuation in the value of held-for-trading assets. Changes in the value of these held-for-trading assets were largely offset by corresponding changes in the value of actuarial liabilities.

The Company's total revenue for the year ended December 31, 2007 decreased to $21.2 billion, down $3.1 billion from 2006. Total premiums fell by $1.5 billion in 2007 with both annuities and life insurance premiums lower than in 2006, while health insurance premiums increased over 2006. Net investment income reduced 2007 revenue by $1.8 billion from 2006, reflecting volatile capital markets and the changes to the Canadian investment accounting rules effective at the beginning of 2007. Fee income was up $198 million from 2006 on higher average net fee-earning assets. Total revenue growth was suppressed by $563 million because of the Canadian dollar appreciation against foreign currencies in 2007.

Total Revenue

($ millions)	2007	2006	2005
Premiums			
Annuities	**3,530**	5,380	4,556
Life insurance	**6,010**	6,168	5,683
Health insurance	**3,584**	3,061	2,701
Total premiums	**13,124**	14,609	12,940
Net investment income	**4,852**	6,664	6,079
Fee Income	**3,212**	3,014	2,899
Total	**21,188**	24,287	21,918

Annuity premiums of $3.5 billion, a $1.9 billion reduction from 2006 reflected the US$1.8 billion medium-term notes issued in 2006 that were not repeated in 2007 and a decrease of $111 million arising from a stronger Canadian dollar. When compared to 2006 annuity premiums of $3.4 billion without the US$1.8 billion issuances of medium-term notes 2007 annuity premiums rose by $153 million, or 4.5%. In SLF U.S., variable annuities premiums increased by $97 million, or 15%, over 2006 on sales momentum.

Life insurance premiums of $6.0 billion declined by $158 million in 2007 compared to 2006. SLF Canada had higher life insurance premiums of $72 million over 2006 due to business growth and SLF U.S. life insurance premiums were lower by $196 million in 2007 mainly due to the impact of the stronger Canadian dollar relative to the U.S. dollar. Total life insurance premiums in 2007 were weakened by $162 million from the impact of the stronger Canadian dollar.

Health insurance premiums rose $523 million, or 17%, to $3.6 billion in 2007, mainly attributable to the acquisition of Genworth EBG in SLF U.S. and business growth in SLF Canada Group Benefits. The increase was lessened by an unfavourable impact of $63 million arising from the strengthening of the Canadian dollar against foreign currencies.

Net investment income was $4.9 billion in 2007, down from $6.7 billion in 2006, mainly from a decrease in value of held-for-trading assets. There was a corresponding decrease in actuarial liabilities. The unfavourable impact of $92 million from currency fluctuations during 2007 also reduced net investment income.

Fee income of $3.2 billion earned during 2007 improved by $198 million from 2006. The higher fee income from growth in fee-based assets in SLF Canada, SLF U.S. and MFS was moderated by the unfavourable impact of $136 million from an appreciated Canadian dollar relative to most other currencies.

Policy Benefits

The Company has diverse current and future benefit payment obligations that affect overall earnings, such as payments to policyholders, beneficiaries and depositors, net transfers to segregated funds and the increase to actuarial liabilities. Payments to policyholders, beneficiaries and depositors in 2007 were $14.2 billion, up $1.3 billion from 2006. The impact of a strong Canadian dollar against foreign currencies reduced the 2007 payments by $376 million compared to 2006. Higher levels of health benefits payments of $363 million, including both SLF U.S. Employee Benefits Group and SLF Canada Group Benefits and higher maturities and surrenders of $543 million primarily associated with the maturing of European medium-term notes mainly caused the increased payments to policyholders in 2007 compared to 2006. Net transfers to segregated funds grew by 14% on sustained demand for market-based products, although this was dampened somewhat by rising interest rates in the first half of the year. Changes in actuarial liabilities reflected a decrease of $2.5 billion in 2007 compared to an increase of $2.5 billion in 2006. The fluctuation of $5.0 billion related mostly to the impact of changes in Canadian investment accounting rules previously mentioned and the 2006 issuances of US$1.8 billion in medium-term notes that were not repeated in 2007. The SLF U.S. Genworth EBG acquisition during the second quarter of 2007 and the $125 million impact of a stronger Canadian dollar somewhat moderated the reduction in the liability change.

Policy Benefits

($ millions)	2007	2006	2005
Payments to policyholders, beneficiaries and depositors	**14,244**	12,895	12,802
Net transfers to segregated funds	**952**	835	704
Increase in actuarial liabilities	**(2,515)**	2,525	872
Total	**12,681**	16,255	14,378

Expenses and Other

Commission expenses decreased by $105 million, or 5%, in 2007 from the 2006 amount of $1.9 billion. SLF U.S.'s commission expenses were lower by $78 million over 2006, as lower commissions of $150 million in Individual Life were partly offset by an additional $48 million in annuity commissions, mainly relating to higher variable annuity sales and an extra $55 million in the Employee Benefits Group due to business growth, partly related to the Genworth EBG acquisition. SLF Reinsurance also had a reduction in commission expenses of $36 million in 2007 relative to 2006. The strengthening of the Canadian dollar against foreign currencies reduced commission expenses by $73 million.

Operating expenses of $3.2 billion in 2007 were $180 million higher than 2006, including a $98 million reduction from the impact of currency fluctuations. Higher 2007 operating expenses in SLF Asia of $28 million reflected higher sales-related expenses from the strong growth in sales and the charges related to the investment in India and SLF Asia's Regional Office. Expenses in SLF U.S. rose by $121 million from 2006

with 72% of this increase due to the Employee Benefits Group, mainly as a result of growth from the Genworth EBG acquisition.

Expenses and Other

($ millions)	**2007**	2006	2005
Commissions	**1,811**	1,916	1,726
Operating expenses	**3,183**	3,003	2,899
Intangibles amortization	**77**	25	22
Premium taxes	**240**	205	190
Interest expenses	**349**	323	273
Income taxes	**522**	389	531
Non-controlling interests in net income of subsidiaries	**35**	27	23
Participating policyholders' net income (loss)	**2**	7	9
Dividends to preferred shareholders	**69**	48	24
Total	**6,288**	5,943	5,697

Intangibles amortization of $77 million in 2007 was up $52 million compared to 2006. During 2007, the Clarica brand name was retired and the Company took a write-down of the intangible asset amount before tax of $52 million.

Interest expenses increased by $26 million over 2006 to $349 million in 2007, reflecting the additional debentures issued in 2007 and a full year's worth of interest charged for the debentures issued during 2006.

Income taxes of $522 million in 2007 grew by $133 million from 2006 levels due to proportionately higher earnings from higher tax jurisdictions in 2007 than in 2006 and increased taxes from higher overall 2007 earnings compared to 2006.

Quarterly Information

Key quarterly financial information for the two most recent fiscal years is summarized in the following table.

Quarterly Information

($ millions, unless otherwise noted)	**2007**				2006			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Common shareholders' net income								
Operating (1)	**560**	**583**	**593**	**558**	545	541	512	493
Reported	**555**	**577**	**590**	**497**	545	541	512	491
Fully diluted EPS (in dollars)								
Operating (1)	**0.98**	**1.01**	**1.03**	**0.96**	0.94	0.93	0.88	0.84
Reported	**0.97**	**1.00**	**1.02**	**0.86**	0.94	0.93	0.88	0.84
Basic reported EPS (in dollars)	**0.98**	**1.02**	**1.03**	**0.87**	0.95	0.94	0.88	0.84
Return on Shareholders' Equity (ROE) (annualized)								
Operating (1)	**14.3%**	**14.8%**	**14.6%**	**13.5%**	14.0%	14.4%	13.6%	13.2%
Reported	**14.2%**	**14.7%**	**14.5%**	**12.0%**	14.0%	14.4%	13.6%	13.1%
Business Groups common shareholders' net income								
SLF Canada	**263**	**257**	**280**	**250**	257	240	264	234
SLF U.S.	**157**	**170**	**156**	**98**	97	136	90	125
MFS	**73**	**68**	**68**	**72**	71	58	53	52
SLF Asia	**38**	**30**	**17**	**38**	33	13	31	24
Corporate	**24**	**52**	**69**	**39**	87	94	74	56
Total	**555**	**577**	**590**	**497**	545	541	512	491
Total revenue	**5,405**	**5,699**	**4,500**	**5,584**	6,137	6,604	6,231	5,315
Total AUM ($ billions)	**425**	**427**	**440**	**451**	442	405	391	407

(1) Operating earnings, fully diluted operating EPS and operating ROE are non-GAAP measures and exclude the items described under the heading Non-GAAP Financial Measures on page 16.

Fourth Quarter 2007 Performance

Common shareholders' net income of $555 million for the quarter ended December 31, 2007, was up $10 million from $545 million in the fourth quarter of 2006. The strengthening of the Canadian dollar relative to foreign currencies since the fourth quarter of 2006 reduced quarterly earnings by $41 million. On a constant currency basis, earnings in the fourth quarter of 2007 were up $51 million, or 9%, over 2006.

The increase in common shareholders' net income was primarily due to increased earnings in SLF U.S.'s Individual Life business on reduced new business strain and the recovery of previously recorded new business strain due to the implementation of a financing structure to support statutory reserves for certain universal life policies in the U.S. These gains were partially offset by lower earnings in Corporate Support from the negative impact related to updates in interest rate and equity market assumptions.

ROE and operating ROE for the fourth quarter of 2007 were 14.2% and 14.3%, respectively, compared with 14.0% for both ROE and operating ROE in the fourth quarter of 2006. The 30 basis point increase in operating ROE was primarily the result of improved earnings in a number of the Company's businesses, the repurchase of common shares and the change in value of the foreign currency translation account.

SLF Canada's earnings increased by $6 million, or 2%, compared to the fourth quarter of 2006. SLF Canada benefited from favourable morbidity in Group Benefits, partially offset by lower investment gains in Individual Insurance & Investments and Group Wealth.

Earnings for SLF U.S. increased $60 million, or 62%, compared to the fourth quarter of 2006. In U.S. dollars, earnings were US$165 million, US$79 million or 92% higher than in the fourth quarter of 2006. Earnings increased in the fourth quarter of 2007 primarily as a result of decreased new business strain on U.S. universal life sales and the favourable impact of the implementation of the new financing arrangement for AXXX reserves, partially offset by net reserve strengthening due to actuarial assumption changes.

Earnings for MFS increased $2 million, or 3 %, compared to the fourth quarter of 2006. In U.S. dollars, fourth quarter earnings were US$74 million, US$12 million, or 19% higher than in the fourth quarter of 2006 primarily due to growth in assets under management and improved margins. Average net assets of US$203 billion in the fourth quarter of 2007 increased 12% compared to the fourth quarter of 2006.

SLF Asia's fourth quarter 2007 earnings of $38 million increased by $5 million, or 15%, from the fourth quarter of 2006 primarily due to improved earnings in the Philippines from reserve releases as a result of expense management and interest rate movement. These earnings increases were partially offset by lower earnings in Hong Kong, where 2006 results were favourably impacted by improved asset and liability management, and in India and China as a result of increased investment in future expansion.

Fourth quarter 2007 earnings for Corporate decreased by $63 million compared to the fourth quarter of 2006 due to the impact of negative financial market movements and reserve strengthening in run-off reinsurance related to changes in interest rates and equity markets. In SLF Reinsurance, earnings were lower from less favourable claims experience compared to the fourth quarter of 2006 and lower premium revenue.

Total revenues of $5.4 billion earned in the fourth quarter ended December 31, 2007, decreased by $732 million from the same period in 2006 due to lower annuity premiums of $363 million and lower net investment income of $340 million. Excluding the impact of currency from the appreciated Canadian dollar relative to other foreign currencies, revenues were $5.8 billion in the fourth quarter of 2007 as compared to the $6.1 billion in the fourth quarter of 2006.

Annuity premiums of $733 million for the fourth quarter of 2007 fell by $363 million from the same period in 2006 with lower annuity premiums of $107 million in SLF Canada as about half of the amount related to a drop in guaranteed fund contributions and a decline in SLF U.S. annuities of $241 million, mainly attributable to lower fixed and fixed index annuity premiums. Net investment income of $1.5 billion in the fourth quarter of 2007 declined by $340 million due to the impact of the changes in Canadian investment accounting rules that became effective on January 1, 2007, and a $69 million currency reduction from the impact of a strengthened Canadian dollar from the comparable period in 2006. Life insurance premiums decreased by $181 million from the fourth quarter of 2006 as the stronger Canadian dollar caused an unfavourable currency impact of $122 million. The decrease in life insurance premiums was significantly offset by the $170 million growth in health insurance premiums over the fourth quarter of 2006. SLF U.S. Employee Benefits Group contributed $133 million of the overall increase in health insurance premiums, reflecting the favourable impact of the Genworth EBG acquisition in the second quarter of 2007.

AUM were $425.3 billion as at December 31, 2007 compared to $426.7 billion as at September 30, 2007, and the decrease of $1.4 billion resulted primarily from:

(i) unfavourable market movements of $1.9 billion, and

(ii) net outflows of mutual, managed and segregated funds of $1.6 billion partly offset by

(iii) an increase of $1.2 billion from the Fluctuation Canadian dollar relative to the prior period currency exchange rates.

Investments

The Company strives to ensure that all general fund investments are properly aligned with business objectives, policyholder obligations are met, and adequate liquidity is maintained at all times. The Board of Director's Risk Review Committee approves 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 majority of the Company's general funds are invested in medium- to long-term fixed income instruments such as bonds and mortgages. The Company's portfolio composition is conservative, with 83% of the general funds in cash and fixed income investments as at December 31, 2007. While real estate and stocks comprised 4% and 5%, respectively, of the general funds portfolio, the majority of these assets, 68% each, respectively, are related to the participating policyholders' account, and the performance of these investments is largely passed on to policyholders over time.

The Company had total general fund invested assets of $103.0 billion as at December 31, 2007, compared to $106.2 billion as at December 31, 2006. The changes in Canadian investment accounting rules effective as at the beginning of January 2007 resulted in a $4.2 billion increase in value of these assets on January 1, 2007. General fund invested assets also benefited from the impact of business growth during the year, including the acquisition of the Genworth EBG business. The increases in the value of general fund invested assets were more than offset by $8.5 billion related to the strengthening of the Canadian dollar against foreign currencies at the end of 2007.

Investments

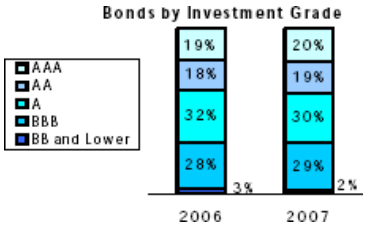
($ millions)	2007			2006		
	Carrying value	**Fair value**	**% of total carrying value**	**Carrying value**	**Fair value**	**% of total carrying value**
Bonds				69,230	72,524	65
Held-for-trading bonds	**50,608**	**50,608**	**49**			
Available-for-sale bonds	**9,148**	**9,148**	**9**			
Mortgages and corporate loans	**20,742**	**21,046**	**20**	15,993	16,322	15
Stocks				4,899	5,544	4
Held-for-trading stocks	**4,438**	**4,438**	**4**			
Available-for-sale stocks	**788**	**788**	**1**			
Real estate	**4,303**	**5,183**	**4**	3,825	4,549	4
Policy loans	**2,959**	**2,959**	**3**	3,105	3,105	3
Cash, cash equivalents and short-term securities	**5,500**	**5,500**	**5**	6,239	6,239	6
Derivative assets	**1,947**	**1,947**	**2**			
Other invested assets including held-for-trading and available-for-sale other invested assets	**2,587**	**4,295**	**3**	2,908	4,605	3
Total invested assets	**103,020**	**105,912**	**100**	106,199	112,888	100

Included in the Company's diversified investment portfolio as at December 31, 2007 were $821 million of bank sponsored asset-backed commercial paper (ABCP) in Canada. In addition, the Company had indirect exposure to ABCP through its money market holdings in the U.S., the majority of which was sponsored by major banks in the U.S.

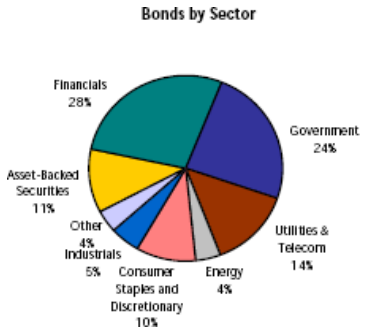
Additional details on the Company's investments are provided in Notes 5 and 6 to SLF Inc.'s 2007 Consolidated Financial Statements.

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 actuarial liabilities by duration. As at December 31, 2007, the Company held $59.8 billion of bonds, which constituted 58% of the Company's overall investment portfolio. Bonds with an investment grade of "A" or higher represented 69%, and bonds rated "BBB" or higher represented 98% of the total bond portfolio as at December 31, 2007.



As at December 31, 2007, the Company held $11.0 billion of non-public bonds, which constituted 18% of the Company's overall bond portfolio. Corporate bonds that are not issued or guaranteed by sovereign, regional and municipal governments represented 76% of the total bond portfolio as at December 31, 2007, compared to [79]% as at December 31, 2006 on an equivalent basis for the changes in Canadian investment accounting rules. The decrease reflects the Company's ongoing investment management practices whereby the mix of investment holdings is realigned periodically to reflect the evolution of its business.



The Company's bond portfolio as at December 31, 2007 included $6.6 billion of asset-backed securities, representing approximately 11% of the Company's bond portfolio, or 6% of the Company's total invested assets, as categorized in the following table.

Asset-Backed Securities

($ millions)	2007		2006	
	Fair Value	Investment Grade %	Fair Value	Investment Grade %
Commercial mortgage- backed securities	2,523	99	2,592	99
Residential mortgage- backed securities: Non- Agency	1,486	100	2,221	100
Residential mortgage- backed securities: Agency	1,112	100	1,541	100
Collateralized debt obligations	422	97	411	93
Other	1,075	99	1,543	99
Total	6,618	99	8,308	99

As at December 31, 2007, the Company had indirect exposure to residential sub-prime and Alternative-A (Alt-A) loans of $337 million and $179 million, respectively, together representing approximately 0.5% of the Company's total invested assets. Alt-A loans generally are residential loans made to borrowers with credit profiles that are stronger than sub-prime but weaker than prime. 97% of these investments either were issued before 2006 or have an "AAA" rating.

The Company had total exposure of $1, 045 million to monoline insurers as at December 31, 2007, of which $84 million, or 8% represented direct exposure to the monoline insurers and $961 million was indirect exposure. The indirect exposure represents the total value of bonds for which the monoline insurers have provided credit insurance. Credit insurance generally provides the underlying bonds with a credit rating of AAA. Absent the credit insurance, the underlying bonds have an average credit quality of between "A" and "BBB" as at December 31, 2007.

Mortgages and Corporate Loans

The Company's mortgage portfolio almost entirely consists 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, 2007, the mix of the Company's mortgage portfolio was 81% non-residential and 19% residential and approximately 36% of mortgage loans will mature by December 31, 2012. The Company seeks to renew a significant portion of its mortgages as they mature, providing that they continue to meet the Company's investment criteria.

As at December 31, 2007, the Company held $5.3 billion in Corporate Loans as compared to the $4.9 billion in 2006. As previously mentioned on page 15 of this MD&A, Corporate Loans were reported with mortgage loans on the consolidated balance sheets in 2007.

Mortgages by Type and Location

($ millions)	Residential	Non-Residential	Total
2007			
Canada	2,723	6,382	9,105
United States	274	6,005	6,279
United Kingdom	—	84	84
Total Mortgages	2,997	12,471	15,468
Corporate Loans			5,274
Total Mortgages and Corporate Loans			20,742
2006			
Canada	2,794	6,347	9,141
United States	306	6,404	6,710
United Kingdom	—	142	142
Total Mortgages	3,100	12,893	15,993

Stocks

The Company's equity portfolio is diversified and over 58% of this portfolio is invested in exchange-traded funds (ETFs). The main ETF holdings are indexed to the S&P/TSX 60 Index Fund, Standard & Poors Depositary Receipts and MSCI EAFE Index Funds. As at December 31, 2007, $2.2 billion, or 43%, of the Company's equity portfolio consisted of Canadian issuers; $1.7 billion, or 33%, of U.S. issuers; $893 million, or 17%, of U.K. issuers; and $388 million, or 7% of issuers from other jurisdictions. Excluding the Company's equity interest in CI Financial and ETF funds, no single issuer exceeded 2% of the portfolio as at December 31, 2007.

Real Estate

Commercial properties are the major component of the Company's real estate portfolio, representing approximately 84% of real estate investments as at December 31, 2007. Real estate investments are diversified by country, with 66% of the portfolio located in Canada, 27% in the United States and 7% in the United Kingdom as at December 31, 2007.

Gains on the sale of real estate remained on the balance sheet, and are deferred and amortized into future investment income at a quarterly rate of 3% of the unamortized balance. The Company had $276 million in deferred net realized gains on real estate as at December 31, 2007.

Derivative Financial Instruments and Risk Mitigation

The fair value of derivative assets held by the Company was $1.9 billion, while the fair value of derivative liabilities was $638 million as at December 31, 2007. Derivatives designated as hedges for accounting purposes and those not designated as hedges, represented 13% and 87%, respectively, on a total notional basis.

Derivatives designated as hedges for accounting purposes are used to reduce income statement volatility associated with recording derivative fair values through income. These derivatives are documented at inception and hedge effectiveness is assessed on a quarterly basis.

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 uses certain cross currency interest rate swaps and equity forwards designated as fair value hedges to manage foreign currency or equity exposures associated with available-for-sale assets. Certain equity forwards are designated as cash flow hedges of the anticipated payments of awards under certain stock-based compensation plans. The Company also uses currency swaps and forwards designated as net investment hedges to reduce foreign exchange fluctuations associated with certain foreign currency investment financing activities.

The primary uses of derivatives in 2007 are summarized in the table below.

Products/Application	Use of Derivative	Derivative Used
U.S. universal life contracts, 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 and manage the equity exposure due to certain regulatory requirements for the U.K. unit- linked pension products	Interest rate options and swaps; short equity forwards
Interest rate exposure in relation to asset/liability management	To manage the sensitivity of the duration gap between assets and liabilities to interest rate changes	Interest rate swaps and options
U.S. variable annuities, Canadian segregated funds and reinsurance on variable annuity guarantees offered by other insurance companies	To manage the exposure to product guarantees sensitive to movement in equity market and interest rate levels	Put options on equity index; futures on equity indices and on interest rates
U.S. fixed index annuities	To manage the exposure to product guarantees related to equity market performance	Futures and options on equity indices and interest rates
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

In addition to the general policies and monitoring, a variety of tools are used in counterparty risk management. Over-the-counter derivative transactions are generally performed under International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements. Most of the ISDAs are accompanied by a Credit Support Annex, which requires the counterparty to post collateral daily.

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

($ millions)	**2007**	2006
As at December 31		
Net fair value	**1,309**	1,122
Total notional amount	**42,642**	44,140
Credit equivalent amount	**2,351**	2,361
Risk-weighted credit equivalent amount	**56**	55

The total notional amount decreased to $42.6 billion as at December 31, 2007, from $44.1 billion at the end of 2006, primarily due to the strengthening of the Canadian dollar and decreased use of derivatives to manage equity risk which was largely offset by the increased use of derivatives to manage currency exposure. With the changes to the Canadian investment accounting rules on January 1, 2007, all derivative financial instruments were reported on the balance sheet at fair value. The net fair value increased to $1.3 billion in 2007 from the 2006 year-end amount of $1.1 billion. This 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, 2007, the credit equivalent amounts for interest rate contracts, foreign exchange contracts, and equity and other contracts were $372 million, $1,318 million and $661 million, respectively. The corresponding risk-weighted credit equivalent amounts were $10 million, $32 million and $14 million, respectively.

Additional details in respect of derivatives are included in Notes 5 and 6 to SLF Inc.'s 2007 Consolidated Financial Statements.

Deferred Net Realized Gains

All deferred net realized gains relating to bonds, mortgages, stocks and derivatives as at December 31, 2006, were credited to opening retained earnings on January 1, 2007 as prescribed by the changes in Canadian investment accounting rules. Under the new rules that became effective January 1, 2007, gains and losses on sales of these assets are no longer deferred and amortized into future investment income.

Additional details are found under Changes in Accounting Policies in 2007 on page 15 of this MD&A and in Note 5 to SLF Inc.'s 2007 Consolidated Financial Statements.

Impaired Assets

The changes in investment accounting rules effective January 1, 2007 affected the magnitude of impaired assets in 2007 as compared to prior years. Financial assets that are classified as held-for-trading, which represented 56% of the 2007 invested assets, do not have allowances for losses since changes in the fair value of these assets are now recorded to income and the assets are recorded at fair value on the balance sheet.

Net impaired assets for mortgages and corporate loans, net of allowances, amounted to $49 million as at December 31, 2007, $[21] million less than the December 31, 2006 level for these assets. This represents the high credit quality of these assets in the Company's investment portfolio.

In addition to allowances reflected in the carrying value of mortgages and corporate loans, the Company had $2.9 billion for possible future asset defaults for all financial assets included in its actuarial liabilities as at December 31, 2007, compared with $2.6 billion in 2006.

Available-for-sale bonds, stocks and other invested assets are generally identified as temporarily impaired if their amortized cost is greater than their fair value, resulting in an unrealized loss. Unrealized losses may be due to interest rate fluctuations and/or depressed fair values in sectors which have experienced unusually strong negative market reactions. The fair value of these impaired financial assets as at December 31, 2007 represented $5.2 billion and the associated unrealized losses amounted to $319 million as at December 31, 2007.

In connection with the Company's investment management practices and review of its investment holdings, it is believed that the contractual terms of these temporarily impaired investments will be met and/or the Company has the ability to hold these investments until recovery in value.

Additional details concerning impaired assets are found in Note 6 to SLF Inc.'s 2007 Consolidated Financial Statements.

Business Segment Overview

Sun Life Financial manages its operations and reports its financial results in five business segments as described on page 5 of this MD&A. The following section describes the operations and financial performance of SLF Canada, SLF U.S., MFS, SLF Asia and Corporate.

SLF Canada

Business Highlights

- Integrated its brand strategy in Canada to leverage more effectively the Sun Life Financial brand and launched its multimedia advertising campaign to support its brand strategy and reinforce the important role Sun Life Financial plays in the lives of Canadians
- Introduced SunWise Elite Plus Guaranteed Minimum Withdrawal Benefit rider in the first quarter of 2007, contributing to an increase in individual segregated fund sales of 32% over 2006
- Continued to expand success in GRS with an overall sales increase of 61% and growth in the rollover market with the retention of $725 million in assets from members leaving plans in 2007, representing an increase of 33% over 2006 and a retention ratio of 40 % as at December 31, 2007

Business Profile

SLF Canada is a market leader with a customer base representing one in five Canadians. SLF Canada's business units, consisting of Individual Insurance & Investments, Group Benefits and Group Wealth, offer a full range of protection and wealth accumulation products and services to individuals and corporate clients. SLF Canada also has investments in the Canadian asset management sector. Individual Insurance & Investments includes the Company's 36. 6% interest in CI Financial and Group Wealth includes a 59% economic interest in McLean Budden Limited.

Industry Profile

Three large Canadian insurers account for approximately two-thirds of the life, health and annuity segments in Canada as measured by premiums. These companies serve the core markets, while regional and niche markets are served by a number of small to medium-sized companies. It is becoming increasingly important that a company have economies of scale, good customer service, strong distribution capabilities, technological innovation and operational excellence to succeed in a consolidated industry.

Business Strength

SLF Canada has a well-positioned franchise in the Canadian marketplace. Its distribution breadth and strong service and technology infrastructure help sustain its reputation as a leading Canadian financial services company.

Strengths

- National market leadership positions in Individual and Group businesses
- A multi-distribution strategy for Individual Insurance & Investments with Sun Life Financial Advisors providing a stable level of insurance and wealth sales and the growing third-party channel focusing on the affluent market
- The strategic partnership with CI Financial leverages its strong asset management products and SLF Canada's unique distribution capabilities
- The group businesses differentiate themselves from the competition with long-standing customer relationships, a regional service delivery model, service innovations and recognized capability in delivering holistic solutions
- Leading provider in the asset retention rollover business, which is a growing market segment
- Strong ability to work across business units to serve customers as demonstrated by the Total Benefits offering that allows for integrated access to group products and services by plan members and sponsors
- Solid risk management focus that continues to strengthen and enable business decision making

Opportunities

- Leverage SLF Canada's strengths across its businesses to capitalize on increasing retirement needs
- Build lifelong relationships with Canadians by offering improved services to transitioning plan members through cross-business unit collaboration
- Expand rollover business by continuing to increase asset retention for retirement assets, and focus on group benefits and expanding participation in voluntary benefits

Strategy

SLF Canada helps customers achieve lifetime financial security throughout their life stages by providing advice and products on insurance and investments through multiple distribution touch points. SLF Canada will meet its customers' changing life, health and wealth needs through integrated products and solutions. It will also continue to strengthen its sponsor and advisor partnerships with value-added insight, service and advice to offer increased value to these partnerships' members and customers.

Additional value will be created by enhancing productivity and efficiency in SLF Canada's delivery of operational excellence to its customers, intermediaries and shareholders.

Financial and Business Results

Summary Statement of Operations

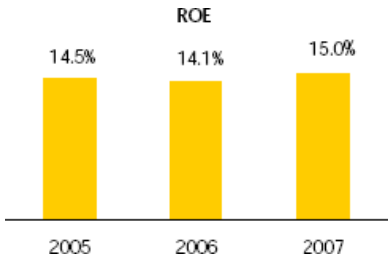
(C$ millions)	**2007**	2006	2005
Premiums	**6,004**	5,721	5,314
Net investment income	**2,586**	2,993	2,780
Fee income	**695**	619	564
Total revenue	**9,285**	9,333	8,658
Client disbursements and change in actuarial liabilities	**6,149**	6,277	5,625
Commissions and other expenses	**1,868**	1,774	1,660
Income taxes	**200**	262	385
Non-controlling interests in net income of subsidiaries and par policyholders' income	**18**	25	25
Common shareholders' net income	**1,050**	995	963

SLF Canada's common shareholders' net income of $1,050 million in 2007 increased by $55 million over 2006. The increase was due to higher Individual Insurance & Investments earnings and Group Wealth earnings resulting from the favourable impact of internal reinsurance transactions on actuarial reserves and favourable morbidity experience in Group Benefits partially offset by the positive reserve impact from cash-flow methodology refinements in 2006 and re-branding expenses of $10 million in 2007.

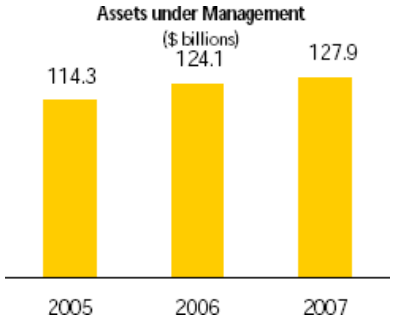
Revenue for 2007 was $9.3 billion, consistent with 2006 as growth in premiums and fee income were offset by a decrease in net investment income.

GRS had an outstanding sales year in 2007 with gross sales over $3.3 billion and Individual Wealth sales up by $593 million to $3.9 billion from the boost in sales of segregated funds.

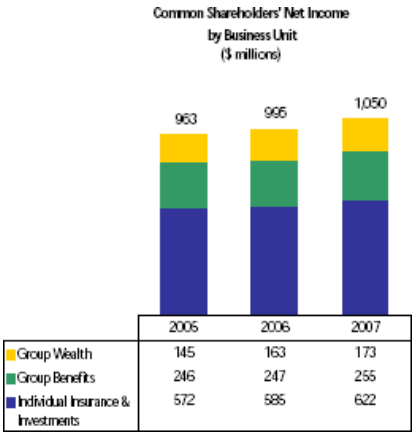
ROE(1) for SLF Canada rose to 15.0% in 2007 compared to 14.1% in 2006, primarily due to increased earnings.



SLF Canada's total AUM were $127.9 billion at the end of 2007, up 3% from the 2006 level. Net sales of segregated funds and positive market performance primarily drove the AUM growth.



Results by Business Unit



(1) ROE for the business segments is a non-GAAP measure. For additional information, see Non-GAAP financial measures on page 16.

Individual Insurance & Investments

SLF Canada's Individual Insurance & Investments strategy is to meet the financial security needs of customers through advice from a trusted advisor on a full suite of integrated life, health and wealth products.

Individual Insurance & Investments' principal insurance products include universal life, term life, permanent life, critical illness, long-term care and personal health insurance. Its principal savings and retirement products include accumulation annuities, payout annuities and segregated funds, including the SunWise Elite Plus funds. These products are marketed through a distinctive, multi-channel distribution model composed of the exclusive Sun Life Financial Advisor Sales Force and wholesale distribution channels. In addition, the Sun Life Financial Advisor Sales Force distributes mutual funds marketed primarily by CI Financial.

Individual Insurance & Investments' earnings increased to $622 million in 2007 from $585 million in 2006 mainly due to the favourable impact of an internal reinsurance transaction on actuarial reserves.

Individual life and health insurance sales rose by 10% over 2006 to $180 million for the year ended December 31, 2007. In particular, insurance sales from the wholesale distribution channel grew by 38% to $47 million in 2007, demonstrating the steady progress in gaining traction in this channel. The Sun Life Financial Advisor Sales Force insurance sales were higher by $4 million over 2006 due to improved productivity per advisor.

Individual Wealth sales increased by $593 million, or 18%, to $3.9 billion in 2007 from the boost in sales of segregated funds. Segregated fund sales improved by $425 million or 32% in 2007 over 2006.

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 approximately 12,000 employers with a market share of approximately 22%, based on new annualized premium and premium equivalents for the year ended December 31, 2006. The business unit provides life, dental, drug, extended health care, and disability and critical illness benefit programs to employers of all sizes. Group Benefits competes on the strength of its scale, product and service offerings, industry-leading technology and the innovative Total Benefits offering. Group Benefits products are marketed and distributed across Canada by experienced sales representatives in collaboration with independent advisors and benefit consultants.

In 2007, the Customer Solutions Centre was established to offer employees transitioning from their employer-sponsored group plans access to other Sun Life Financial products and services, providing Group Benefits an opportunity to build lifetime relationships with its customers.

Group Benefits' 2007 common shareholders' net income of $255 million improved by $8 million over 2006, reflecting more favourable morbidity experience, partially offset by the positive reserve impact from cash-flow methodology refinements in 2006. Group Benefits recognized continued growth through its Total Benefits offering, which integrates access to the services of Group Benefits, GRS and preferred third-party providers, to enhance the customer experience. Total Benefits partners 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 reached $275 million in 2007 as a result of consistently strong sales in all sectors. Client retention remained strong, with cancellation rates at 3% of premium and premium equivalents. This led to business in-force increasing by 7% from December 31, 2006, to $6.1 billion as at December 31, 2007.

Group Wealth

SLF Canada's Group Wealth business unit consists of the GRS operation as well as the Company's 59% economic interest in McLean Budden Limited, a premier institutional provider of investment management services in Canada. GRS is the largest provider of defined contribution plans in Canada, with a 32% market share (1) and serving over one million plan participants at the end of 2007. GRS also offers other group retirement services and products, including investment only segregated funds and fixed rate annuities, group life annuities and pensioner payroll services. GRS's strength in product and investment offerings, including the innovative Total Benefits, customer service and technological capabilities 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 distributes its products and services through a multi-channel distribution network of pension consultants, advisors and a team dedicated to the rollover sector.

Group Wealth net income increased to $173 million in 2007 from $163 million in 2006, primarily due to the favourable impact of an internal reinsurance transaction on actuarial reserves, and increased earnings from fee-based businesses partly offset by less favourable payout annuity mortality experience.

(1) As measured by Benefits Canada magazine's 2007 Defined Contribution Plan Survey released in December 2007.

GRS sales increased 61% in 2007 and exceeded the $3.3 billion mark in 2007 as a result of consistently strong sales across all product categories. GRS increased its Corporate sales by $81 million, or 22%, over 2006. GRS sales also benefited by $180 million over 2006 from the offering of rollover products to members leaving defined contribution plans as rollover sales reached $725 million in 2007. The rollover product portfolio complements its core products and services to members of defined contribution plans.

GRS AUM of $35 billion in 2007 grew by 7% over 2006 with strong sales results, positive cash flow and improved equity markets.

SLF U.S.

Business Highlights

- Acquired the Genworth EBG business on May 31, 2007
- Launched the Annuities business unit's innovative Income ON Demand sm guaranteed income rider on the variable annuity (VA) product in early March of 2007. The offering has been favourably received in the market and generated sales of US$1.3 billion through December 31, 2007, representing 46% of total domestic VA sales for the year
- Implemented a financing arrangement to address the U.S. statutory reserve requirements for certain universal life products; this financing arrangement reduced new business strain, in addition to recovering previously reported new business strain

Business Profile

SLF U.S. delivers innovative protection and wealth accumulation products to individuals and businesses through its three business units. The Annuities business unit offers variable annuities, fixed and fixed index annuities, private placement variable annuities for high net worth clients and investment management services. The Individual Life business unit offers protection products, such as single and joint universal life and variable universal life to affluent individuals, private placement variable universal life for high net worth clients (PPVUL) and corporate-owned and bank-owned life insurance (COLI/BOLI). The Employee Benefits Group, formerly named Group Life & Health, offers group life insurance, short-term and long-term disability insurance, medical stop-loss insurance, dental insurance for employers and voluntary worksite products.

Industry Profile

In an industry that is highly competitive, the top ten companies hold over 50% of the overall market share in all markets in which SLF U.S. competes. The need for operational scale within this environment continues to drive organizations to seek acquisition opportunities.

Demographic and economic trends also provide opportunities for financial services organizations. An increasing number of baby boomers are entering retirement at a time when life expectancy is rising and this presents SLF U.S. with significant opportunities to provide both protection and wealth accumulation products. The trend in corporate retirement programs to place more responsibility for financial retirement decisions with individuals accelerates opportunities for SLF U.S. to offer wealth accumulation products. As employers increasingly shift the cost of benefits to employees because of rising health care costs, group benefits providers, such as SLF U.S. Employee Benefits Group, are positioned to attract a share of employee dollars allocated to these benefits.

Business Strength

SLF U.S. chooses to focus on selected strategic market segments to compete effectively in its marketplace. SLF U.S. concentrates on organic growth and growth from focused acquisitions by providing broad and expanding product and distribution capabilities along with innovative product solutions.

Strengths

- Competitive and innovative products such as Income ON Demand sm designed to provide customer value and achieve profit targets
- Strong training and marketing support that increases wholesaler productivity and enhances sales growth momentum
- Multi-site service strategy that allows for enhanced efficiency and customer service
- Strong risk management helping to ensure financial stability
- Strong financial and insurance ratings

Opportunities

- Leverage the power of SLF U.S.'s distribution network across all product lines
- Serve the needs of the growing retirement market with innovative customer solutions
- Augment operations through additional focused acquisitions, which provide operational scale in SLF U.S.'s core businesses
- Leverage scale resulting from the Genworth EBG acquisition to expand market reach
- Leverage product and innovation skills to expand in global markets

Strategy

SLF U.S. will drive profitable growth through strong distribution relationships, product innovation, and focused acquisitions.

To help its customers achieve lifetime financial security, SLF U.S. will offer a broad set of distinctive, value-added protection and retirement savings products through a diverse and expanding distribution network. These products will leverage SLF U.S.'s investment and risk management expertise and innovation skills to meet customers' changing needs. SLF U.S. will build strong partnerships with its distributors, providing excellent tools and service to increase productivity and increase market share.

SLF U.S. will add additional value through ongoing improvements in efficiency and productivity through its international multi-site service centre and will pursue focused acquisitions to enhance growth through increased scale, complementary products and expanded distribution channels.

Financial and Business Results

Summary Statement of Operations

(C$ millions)	**2007**	2006	2005
Premiums	**5,528**	7,261	6,246
Net investment income	**1,560**	2,512	2,298
Fee income	**742**	692	617
Total revenue	**7,830**	10,465	9,161
Client disbursements and change in actuarial liabilities	**5,057**	8,054	6,993
Commissions and other expenses	**2,047**	1,941	1,560
Income taxes	**142**	21	113
Non-controlling interests in net income of subsidiaries and par policyholders' income	**3**	1	—
Common shareholders' net income	**581**	448	495
Selected financial information (US$ millions)			
Total revenue	**7,276**	9,248	7,539
Common shareholders' net income	**553**	395	409

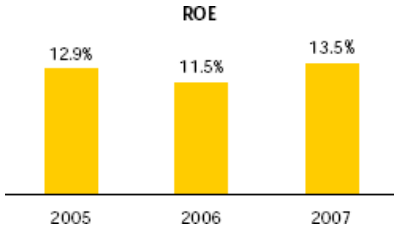
For the year ended December 31, 2007, SLF U.S. reported earnings of $581 million, up $133 million, or 30%, from 2006. The strengthening of the Canadian dollar against the U.S. dollar during 2007 decreased earnings by $32 million, based on 2006 exchange rates.

On a U.S. dollar basis, earnings increased by US$158 million to US$553 million from US$395 million in 2006. The earnings improvement was primarily driven by Individual Life's decreased new business strain on universal life sales and the favourable impact of the implementation of the new financing arrangement for AXXX reserves, partially offset by net reserve strengthening due to actuarial assumption changes. Increased earnings of US$23 million over 2006 in the Employee Benefits Group arose from business growth including the impact of the Genworth EBG acquisition in the second quarter of 2007. Annuity earnings also benefited from the positive impact of equity market movements on annuity asset-based fee income and the net favourable impact of variable annuity hedge and reserve movements partially offset by the unfavourable impact of credit spread movements.

Revenue for 2007 was US$7.3 billion, virtually flat with 2006 when excluding the US$1.8 billion medium-term notes issued in 2006. In 2007, increased premiums on sales growth after excluding the 2006 medium-term notes issue were offset by lower net investment income due to the changes in Canadian investment accounting rules effective as at January 1, 2007.

SLF U.S.'s 2007 sales were US$5.7 billion, up 26% from 2006, excluding the US$1.8 billion medium-term notes issued in 2006, as all lines of business except fixed index annuities increased sales over 2006. New distribution partnerships and new product introductions and enhancements during 2007 also started to benefit the business.

SLF U.S.'s ROE (1) increased to 13.5% in 2007 from 11.5% in 2006 due to higher net income, partially offset by higher capital requirements, including the capital increase due to the Genworth EBG acquisition.

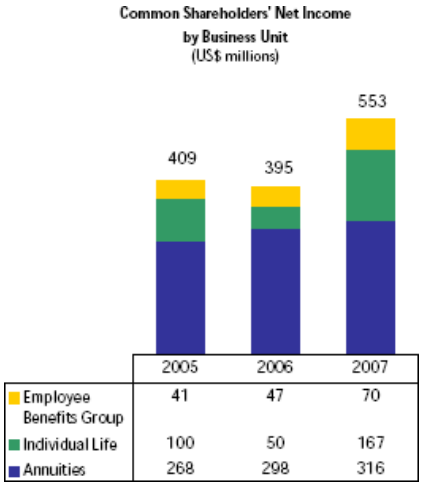


Total AUM were US$69.1 billion as at December 31, 2007, up 9.5% from 2006 on strong Individual Life sales, the acquisition of the Genworth EBG business and the impact of strong equity market performance partially offset by net surrenders in fixed and fixed index annuities.

(1) ROE for the business segments is a non-GAAP measure. For additional information, see Non-GAAP Financial Measures on page 16.



Results by Business Unit



Annuities

The Annuities business unit provides variable, fixed and fixed index annuity products and investment management services. It is an integral part of the SLF U.S. growth platform. Key drivers of the business include broad distribution, risk management, industry-leading customer service capabilities and product innovation.

Annuities earnings of US$316 million for the year ended December 31, 2007, increased by US$18 million compared to the same period in 2006. The positive impact of equity market movements on annuity asset-based fee income and the net favourable impact of the variable annuity hedge and reserve movement were partially moderated by the unfavourable impact of credit spread movement.

Annuity sales for 2007 of US$4.7 billion compared to US$5.5 billion in 2006, which included the US$1.8 billion from the issuance of medium-term notes. Without the impact of the medium-term notes, annuity sales were up 27% over 2006, primarily due to the 65% increase in gross domestic variable annuity sales. The investment in distribution and product development contributed to this growth. A number of new or enhanced products with innovative features were introduced, including the Income ON Demand[SM] lifetime income rider for variable annuities.

Fixed index annuity sales of US$464 million decreased by 37% from 2006 due to rising competition related to fixed index bonus products.

Individual Life

The Individual Life business unit serves high net worth individuals and business owners through competitively priced, high-quality products, including single and joint universal life, COLI/BOLI, and PPVUL. The business unit accesses its target customers through general agents and third-party intermediaries both in the United States and offshore.

Individual Life earnings in 2007 were US$167 million, an increase of US$117 million, or 234 % over 2006. The increase resulted from decreased new business strain on universal life sales and the favourable impact of the implementation of the new financing arrangement for AXXX reserves, including the recovery of prior period new business strain. These positive factors were partially offset by net reserve strengthening due to actuarial assumption changes.

Large case BOLI new premium and deposits were US$2.2 billion, an increase of US$1.6 billion over 2006 from multiple large case sales as the business continued to grow. The full year impact of the new BOLI Pooled Stable Value product, which was launched in late 2006 for the community bank market, added US$198 million to new premiums and deposits in 2007 compared to the US$68 million of new premiums and deposits in 2006.

Core universal life new premiums and deposits of US$351 million, which excluded COLI/BOLI, PPVUL and offshore products fell by 48% from 2006 with the universal life product repricings during 2007.

Employee Benefits Group

The Employee Benefits Group business unit, formerly called Group Life & Health, provides group life, long-term and short-term disability, medical stop-loss insurance and dental insurance to over 8 million group plan members. It currently provides customer-focused products and services to meet the group insurance needs of small to medium-sized companies. The Employee Benefits Group expanded products, markets and distribution, and further leveraged its strong underwriting expertise and extensive distribution capabilities through the Genworth EBG acquisition.

The Genworth EBG business acquisition which closed on May 31, 2007 strengthened and complemented Sun Life Financial's existing product offerings in the U.S. in group life, disability, stop-loss and dental insurance product portfolios. The acquisition solidified Sun Life Financial's top 10 market share ranking and positioned the Company as the second largest U.S. medical stop-loss provider. In addition, Genworth EBG business' extensive distribution network and focus on the small-case employer market helped to accelerate Sun Life Financial's group insurance growth strategy in the U.S.

Employee Benefits Group earnings in 2007 were US$70 million, an increase of 49% over 2006 primarily due to the Genworth EBG business acquisition and improved claims experience. The operating expense-to-insurance premium ratio improved to 12.8% in 2007 as compared to 13.5% a year ago.

Revenue for the year increased by US$587 million, or 55%, from US$1.1 billion in 2006, primarily as a result of the Genworth EBG acquisition.

Business in-force as of December 31, 2007 grew to almost US$2.1 billion, up 67%, from December 31, 2006, with US$0.7 billion attributed to the Genworth EBG business. Quality service helped achieve an overall persistency rate of 77%.

MFS

Business Highlights

- The pre-tax operating profit margin for 2007 increased to 36% from 29% in 2006
- Gross sales increased by 16% over 2006 to US$43 billion in 2007 and AUM grew by 7% during 2007 to US$200 billion
- U.S. retail equity investment performance improved during 2007 with 73% of funds ranking in the top half of their respective three-year Lipper categories as of December 31, 2007 compared with 67% as at December 31, 2006

Business Profile

MFS is a global asset management company, which offers products and services that address the varying needs of investors over time. Individual investors have access to MFS advisory services through a broad selection of financial products including mutual funds, variable annuities, separately managed accounts, college and retirement savings plans, and offshore 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.

Industry Profile

There are a number of factors within the external environment that make the global investment management industry highly competitive and impact an organization's ability to thrive. A few large players dominate the United States retail mutual funds sector and the portion of market share available to small and medium-sized organizations continues to decline.

In 2007, non-mutual fund investment vehicles continued to gain traction and reduce the overall mutual fund market share. Hedge funds attracted money at record rates during 2007. With the proliferation of more focused index and exchange-traded fund (ETF) products, institutional investors are finding it easier to buy these products cheaply. Consequently, the institutional market continues to differentiate on pricing for investment options that have greater absolute returns. Increasingly, success in the institutional marketplace will require more differentiated products.

The industry's move towards intermediary investment platforms continues to increase the importance of investment performance for an organization's long-term success. The increase in platform sales along with the shift in sales mix to products earning lower fees is placing pressure on distribution fees, which are falling as a percentage of assets.

Business Strength

MFS has evolved well beyond domestic retail, successfully positioning itself as a global asset manager over the past few years. Through organic growth, MFS has expanded its global distribution and product reach.

Strengths

- Diversified investment platform that can counteract the volatility of an investment performance strategy
- Breadth of product
- Strong client/wholesaler relationships
- Its global investment platform distinguishes MFS in the global institutional marketplace
- Strong long-term performance in a number of key investment styles

Opportunities

- Continued strength in the demand for international assets
- Increased institutional demand for global equities in the Asia Pacific marketplace
- More products with stronger investment performance records could provide additional opportunities in the institutional marketplace
- The marked increase in U.S. Equity performance provides opportunity for improved net sales in select mutual funds
- A distribution model which will compete more effectively in the defined contribution investment only (DCIO) marketplace

Strategy

MFS's strategy is to grow the business by continually exceeding clients' expectations with superior investment performance. As distribution of retail funds continues to move toward platform-driven sales, long-term investment performance has become even more important. MFS will continue to challenge the structure of its investment process and add research talent to ensure that high investment performance is maintained across a universe of stocks that is becoming more geographically dispersed. In order to improve U.S. mutual fund flows, MFS has invested in a brand awareness campaign and allocated significant resources to take advantage of the considerable DCIO market opportunities.

Expansion of institutional products and sales are also important elements of MFS's strategy. Over the last few years, MFS has seeded a number of institutionally focused investment products that are designed to better meet the market separation of investment performance linked to an index and investment performance based on active management of investment products. MFS has and will continue to add investment talent to support the expanded product set and wholesalers to expand distribution capabilities geographically.

Financial and Business Results

Summary Statement of Operations

(C$ millions)	**2007**	2006	2005
Total revenue	**1,687**	1,662	1,648
Commissions and other expenses	**1,206**	1,271	1,355
Income taxes	**185**	150	110
Non-controlling interests in net income of subsidiaries	**15**	7	4
Common shareholders' net income	**281**	234	179

Selected financial information
(US$ millions, unless otherwise noted)

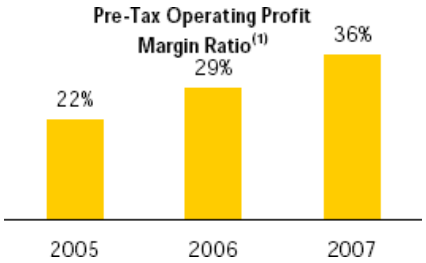
Total revenue	**1,573**	1,464	1,360
Common shareholders' net income	**262**	206	147
Sales (US$ billions)			
Gross	**42.7**	37.0	38.8
Net	**(4.0)**	0.2	7.5
Average net assets (US$ billions)	**198**	172	151

MFS common shareholders' net income of $281 million for 2007 rose $47 million, or 20%, from $234 million in 2006 in spite of the strengthening of the Canadian dollar against the U.S. currency. This currency effect decreased MFS's 2007 reported earnings by $16 million, based on 2006 exchange rates.

On a U.S. dollar basis, earnings grew by US$56 million, or 27%, to US$262 million in 2007 due to increased AUM and improved margins.

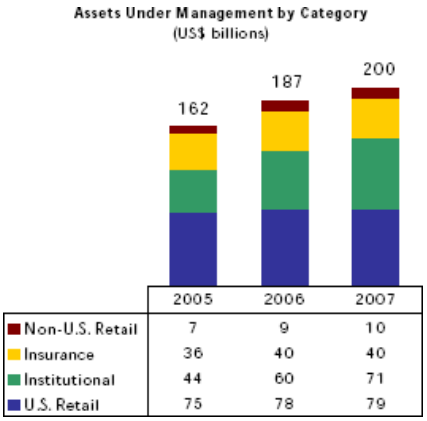
Fee income of US$1.5 billion in 2007 rose by US$112 million from 2006 levels on higher average net assets although the effective asset-based fee rate declined throughout the year. The advisory revenue portion of fee income increased by 15% to US$987 million but other sales and servicing revenues declined, primarily due to the impact of both a lower distribution effective fee rate and lower maintenance fees.

Continued cost containment efforts and enhanced productivity have increased profitability as evidenced by the improving trend of MFS's pre-tax operating margin ratio over the last several years.



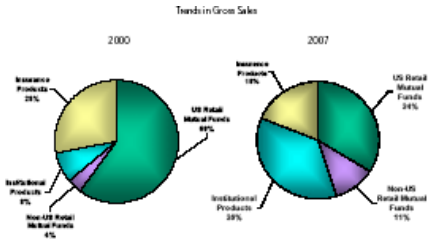
(1) The pre-tax operating profit margin ratio is a non-GAAP measure described under the heading Non-GAAP Financial Measures on page 16.

AUM ended 2007 at a record US$200 billion, an increase of 7% for the year due to positive market performance of US$15.7 billion and the acquisition of six closed-end funds with total assets of US$1.0 billion at the end of June 2007 contributing to the growth. Net redemptions of US$4.0 billion during 2007 partly offset the AUM growth with net outflows of retail mutual funds of US$4.8 billion for 2007 only somewhat offset by positive institutional product net flows of US$0.8 billion. Average net assets increased by 15% to US$198 billion in 2007, up from US$172 billion in 2006.



There has been a shift in gross sales in recent years to a more diversified product line-up. The strong growth in institutional and non-U.S. retail fund sales has helped to

balance MFS's overall portfolio. The following chart is a good illustration of how MFS's gross sales have diversified.



SLF ASIA

Business Highlights

- Individual insurance sales rose by 77% in 2007 over 2006, with triple-digit growth in India and China, while Hong Kong and Indonesia achieved double-digit growth, driven by strong demand for investment-linked products
- Sun Life Everbright Life Insurance Company Limited (Sun Life Everbright) was awarded two significant group benefits plans during the third quarter of 2007; Sun Life Everbright offers group life and health benefits to the 13,000 employees of China Everbright Group and Everbright Bank, and provides claims administration for the 3 million members of the Tianjin Bureau of Labour and Social Security
- Birla Sun Life increased its footprint with the opening of 202 branches during 2007 that grew the operation to 339 offices in 256 cities in India

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. These five markets hold 70% of the total Asian population. The Regional Office in Hong Kong facilitates best practices and sharing of resources, as well as drives the development of markets and new lines of business.

Individual life insurance products and services are offered in all five markets and Hong Kong and China also provide individual health insurance. Group insurance, pensions and retirement products and services are offered in the Philippines, Hong Kong, China and India. Mutual funds are also sold in the Philippines and India. These protection and wealth accumulation products are distributed to middle and upper-income individuals, employer-employee groups and affinity clients through multi-distribution channels, with the career agency remaining the dominant intermediary.

Industry Profile

The life insurance markets in which SLF Asia competes range from developing and increasingly competitive markets such as India and China to the more mature market of Hong Kong. The increasing competition in India and China is characterized by the continued inflow of new entrants that include both local and foreign companies. The low insurance penetration rates, measured by insurance premiums relative to Gross Domestic Product in these developing markets, provide the impetus for companies to enter and expand their operations.

The regulatory environment in the region is evolving. There is increased focus on consumer protection, primarily related to unit-linked products.

Business Strength

SLF Asia represents a long-term growth engine for Sun Life Financial. Its accelerated penetration, particularly into India and China, the largest and fastest growing Asian life insurance markets, focuses on increasing sales and expanding business operations to achieve scale rapidly.

Strengths

- Solid foundations in Hong Kong and the Philippines to support SLF Asia's growth in developing markets
- SLF Asia can leverage the Company's international resources and expertise to develop innovative, value-added products
- The Philippines has strong asset management practices, demonstrating superior investment performance

Opportunities

- The demand for innovative health and wealth management products exists as the public "safety net" is limited
- Intensive competition for agent recruitment combined with increased public acceptance of alternate distribution channels provide opportunities to leverage SLF Asia's telemarketing expertise
- India's middle class, with its increasing wealth, provides opportunities to offer innovative wealth accumulation and protection products

Strategy

SLF Asia's strategy is to achieve scale rapidly in each market where it operates to develop into a significant long-term revenue and earnings growth operation. As such, it is increasing its speed to market for new and innovative products and leveraging the Company's asset management capability that exists in Asia as well as globally. The local initiatives will complement the leveraging of Sun Life Financial worldwide resources to bring industry-leading products, services and best practices to Asia.

Financial and Business Results

Summary Statement of Operations

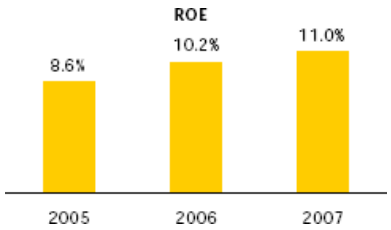
(C$ millions)	**2007**	2006	2005
Premiums	**629**	640	524
Net investment income	**255**	318	223
Fee income	**93**	64	12
Total revenue	**977**	1,022	759
Client disbursements and change in actuarial liabilities	**501**	621	499
Commissions and other expenses	**330**	283	201
Income taxes	**23**	17	17
Common shareholders' net income	**123**	101	42

SLF Asia contributed $123 million to common shareholders' net income for the year ended December 31, 2007, an increase of $22 million over 2006. Improved Hong Kong earnings from the effect of strong equity markets and business growth, expense and interest rate reserve releases in the Philippines, and in Indonesia, reserve strengthening negatively impacting its 2006 results were partially offset by lower earnings in India and China from higher investment in the expansion initiative. The expansion initiative is characterized by accelerated penetration into emerging markets through rapid branch expansion in India and continued expansion into more cities in China.

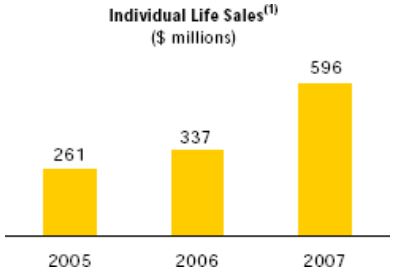
SLF Asia's total revenue declined by 4% to $977 million in 2007 compared to 2006, including the unfavourable impact of $17 million from currency fluctuations due to the stronger Canadian dollar. Lower net investment income in 2007 than 2006 was related to the impact of fair value changes in held-for-trading assets based on the previously mentioned changes in Canadian investment accounting rules. Higher fee income on the growth of investment-linked business more than offset the decrease in premiums. In 2007, SLF Asia's sales were primarily investment-linked products which are recognized in segregated funds deposits rather than premiums under Canadian generally accepted accounting principles.

ROE(1) for SLF Asia increased to 11.0% from 10.2% in 2006, primarily due to increased common shareholders' net income.

(1) ROE for the business segments is a non-GAAP measure. For additional information, see Non-GAAP financial measures on page 16.



SLF Asia's strong sales momentum escalated during 2007, attributable to the expansion program launch. SLF Asia sales for the full year 2007 grew by 77% in Canadian currency over the same period in 2006 driven by strong demand for investment-linked products. In local currency, 2007 sales were up 50% in Hong Kong and 39% in Indonesia over 2006, with improved agent productivity. In India, sales on a local currency basis grew by 106% over 2006 as the direct sales force expansion continued. The increased presence in China also contributed to a sales boost of 108% in local currency over 2006.



(1) Includes 100% of sales for joint ventures.

Results by Business Unit

Hong Kong

The Company's Hong Kong operations offer a complete range of products to address protection and savings needs. Individual life and health insurance, group life and health insurance, mandatory provident funds (the government-legislated pension plan) and pension administration are supplied to individuals and businesses through a multi-channel distribution system that includes a career agency force, bancassurance and brokers.

Individual life insurance sales were up 50% in local currency over 2006 on the strength of continued consumer demand for unit-linked products, which the enhanced product range helped to fulfil. Improved agent productivity also contributed to the sales increase. Third-party pension administration AUM

increased by 22% in local currency over 2006, driven by the continued growth of the mandatory provident funds, and strong equity market performance.

Philippines

Sun Life Financial's Philippines operations distribute a diverse range of protection and savings products largely through their proprietary career agent sales force. The Company offers traditional and unit-linked individual life insurance products, savings products (including those for pre-need pension and education) as well as mutual funds to individuals and institutions, while group life and health insurance products are marketed to employer groups.

On a local currency basis, individual sales increased by 3% in 2007 compared to 2006 and reflected a shift in the consumers' preference to investment-linked products from traditional products. In local currency, net sales in the asset management business doubled in 2007, with AUM growing by 60% in 2007. Sun Life Financial's Philippines operations increased their presence by expanding to 76 sales offices, including 37 customer centres in 2007. This will help to sustain their long-term growth prospects.

India

Birla Sun Life, the Company's insurance joint venture with the Aditya Birla Group in India, provides a full range of individual life insurance, group life insurance and group savings products. The Company markets these products through a multi-channel distribution network, including a career agent sales force, bancassurance arrangements, brokers and worksite marketing, to reach different segments of the market.

Birla Sun Life Asset Management Company Limited, the Company's asset management joint venture in India, offers a full range of mutual fund products to individuals and institutional investors. Independent financial advisors and banks distribute Birla Sun Life mutual funds to the retail sector, while direct distribution serves Corporate accounts.

In local currency, Birla Sun Life's individual life insurance sales in 2007 were up 106% over 2006 with the expansion of branches and consequent career agency growth. Birla Sun Life opened 202 new branches, and the career agents increased to 85,000 advisors from 34,000 at the end of 2006.

Birla Sun Life Asset Management Company Limited grew AUM by $3.9 billion to reach $8.8 billion as at December 31, 2007 with net sales exceeding the $3.0 billion mark.

China

Sun Life Everbright, the Company's joint venture with the Everbright Group in China, operates a multi-distribution model that combines a direct career agency, financial consultants, telemarketing and several bancassurance alliances to sell individual life and health insurance, and savings products. Group life and health insurance are provided to employer groups through a direct sales force, brokers and agents.

Sun Life Everbright sales, in local currency, increased by 108% over 2006 as expansion continued with the opening of one branch and four sales offices during 2007, bringing the operations to 16 cities. The Shanghai branch office opened in the fourth quarter of 2007.

Indonesia

SLF Asia's Indonesian operations provide both traditional and investment-linked individual life insurance to individuals through a career agent sales force and bancassurance partners. Life insurance products are also marketed to affinity groups via telemarketing. The 2007 sales increase of 39% in local currency over 2006 benefited from improved agent productivity.

Corporate

The Corporate segment includes the results of SLF U.K., SLF Reinsurance, which is the Company's active Reinsurance business unit, and Corporate Support operations that include run-off reinsurance and revenue and expenses of a corporate nature not attributable to the Company's other segments.

Financial and Business Results

Summary Statement of Operations (1)

(C$ millions)	**2007**	2006	2005
Premiums	**963**	987	856
Net investment income	**421**	802	791
Fee income	**25**	16	45
Total revenue	**1,409**	1,805	1,692
Client disbursements and change in actuarial liabilities	**974**	1,303	1,261
Commissions and other expenses	**209**	203	334
Income taxes	**(28)**	(61)	(94)
Non-controlling interests in net income of subsidiaries	**1**	1	3
Dividends paid to preferred shareholders	**69**	48	24
Common shareholders' net income	**184**	311	164
Plus: Special items (2)	**61**	—	60
Operating earnings	**245**	311	224

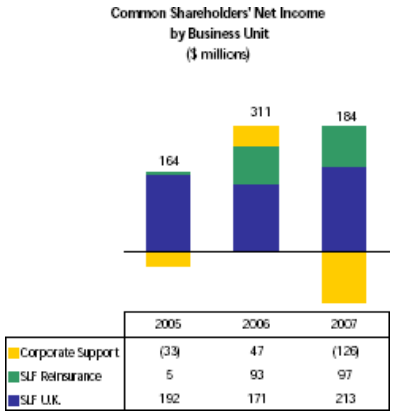
(1) Including consolidation adjustments related to activities between segments.

(2) The impact of special items on earnings is described on page 17 under the heading Non-GAAP Financial Measures.

For the year ended December 31, 2007, Corporate reported common shareholders' net income of $184 million, $127 million lower than in 2006. Corporate Support's reduced earnings of $173 million were primarily as a result of the after-tax charges to earnings of $43 million for the intangible asset write-down on the retirement of the Clarica brand and $18 million for the premium paid to redeem US$600 million of 8.53% Partnership Capital Securities. Reserve strengthening in run-off reinsurance related to interest rate and market movements in 2007 further contributed to the lower earnings. Higher SLF U.K. earnings of $42 million as compared to 2006 partly moderated Corporate Support's decreased earnings.

Excluding the above-mentioned after-tax charges of $61 million, the 2007 operating earnings of Corporate were $245 million, a decrease of $66 million over 2006.

Results by Business Unit



SLF U.K.

The SLF U.K. in-force life and pension policies constitute a run-off block of business. Most administrative functions have been outsourced to external service providers, which are managed by a small corporate governance team.

For the year ended December 31, 2007, SLF U.K. earned $213 million compared with $171 million in 2006. The 2007 results reflected the reimbursement of, and lower provisions for, certain mortgage endowment costs and a favourable resolution of a tax matter with the revenue authorities. The strengthening of the British pound sterling against the Canadian dollar increased 2007 earnings by $6 million compared to 2006 rates.

SLF Reinsurance

SLF Reinsurance provides customized reinsurance and risk management solutions, primarily for the life retrocession market. It holds a leadership position in its markets, with a North American market share of 34% and also operates in the European market.

SLF Reinsurance issues both individual and group life retrocession business. As clients are mainly life reinsurance companies, SLF Reinsurance represents a business-to-business enterprise.

For the year ended December 31, 2007, SLF Reinsurance earned $97 million compared with $93 million in 2006, reflecting improved mortality and premium income that continued at levels above 2006. Business in-force continued to grow during 2007 due to both sales and favourable persistency.

The SLF Reinsurance business unit will continue to focus on improving operational and organizational efficiency to meet the demands of a changing market environment.

Corporate Support

Corporate Support operations include revenue and expenses of a corporate nature not attributable to Sun Life Financial's other segments as well as the Company's run-off reinsurance business.

For the year ended December 31, 2007, Corporate Support had a loss of $126 million compared with common shareholders' net income of $47 million in 2006. The loss in 2007 reflected charges of $43 million related to the intangible asset write-down for the retirement of the Clarica brand and $18 million for the premium paid to redeem US$600 million of 8.53% Partnership Capital Securities. Higher expenses in 2007 than 2006 primarily related to the branding strategy and systems spend as well as run-off reinsurance's reserve strengthening related to interest rate and equity market movements also contributed to the unfavourable variance versus 2006 earnings.

Without the impact of the special charges for the intangible asset write-down and the redemption premium mentioned above, Corporate Support's operating loss was $65 million in 2007 compared to $47 million net income in 2006.

Risk Management

Introduction

The Company's enterprise-wide risk management framework establishes worldwide practices for risk management and includes policies, processes to identify, assess, manage and monitor risks and risk tolerance limits and worldwide practices for risk management. It provides governance and oversight of the risk management activities across the Company's business segments, fostering the discipline and consistency applied to the practice of risk management.

Risk Framework

Objectives

The risk management program is designed to:

(i) avoid risks that could materially adversely affect the value or reputation of the Company

(ii) contribute to sustainable earnings

(iii) identify risks that the Company can manage in order to increase returns

(iv) provide transparency of the Company's risks through internal and external reporting

Risk Philosophy

The Company's business includes accepting risks for appropriate return and taking on those risks that meet its objectives. The Company's risk management program is aligned with its vision and strategy and embeds risk management within the business management practices of the business segments.

Risk Culture

The Company's culture supports an effective risk management program. The elements of the 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

(vi) aligning of objectives and incentives

An enterprise-wide Code of Business Conduct supports the appropriate ethical environment in the Company.

Accountabilities

The Company's enterprise-wide risk management framework 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. Each business segment identifies the current key risks that may impact its business. The Company then identifies the key risks that may materially impact the organization as a whole. Exposures to these risks are measured and assessed on a qualitative and quantitative basis. Appropriate risk responses and action plans are developed and documented to manage the exposure. Risks are monitored on an ongoing basis, including regular reporting on the status of action plans. An annual enterprise-wide view of the most significant risks is developed and reported to senior management and the Risk Review Committee of the Board of Directors. Additional information on these risks is available in SLF Inc.'s 2007 AIF under the heading Risk Factors.

Risk Policies

The Company has enterprise-wide consolidated risk management policies, which provide a consistent approach to risk identification, measurement and assessment, risk response, and monitoring, control and reporting of exposures.

Risk Measurement

Market Risk Tolerance and Earnings-at-Risk

The Company has established market risk tolerance limits that set out the maximum sensitivity of its income to changes in interest rates and the equity markets. These limits are based on the sensitivity of a one-year forward projection of income tested by business segments against a set of internally prescribed market shocks. The Company's risk exposures relative to these preset limits are regularly reported to senior management and the Risk Review Committee.

The Company also deploys 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 interest rates and equity markets based on the existing business mix. The sensitivities shown are for a one-year period where the market shocks occur at the beginning of the period. The sensitivities include the impact on Sun Life Financial's consolidated asset management and insurance businesses. These amounts are estimated assuming limited management actions to mitigate the impact of the changes.

The amounts in the table reflect the implementation of the new Canadian accounting standards for financial instruments on January 1, 2007, described on page 15 of this MD&A under the heading Accounting Policies.

Increase (Decrease) in Earnings ($ millions)	
Interest Rate Sensitivity (1)	
1% Increase	206
1% Decrease	(298)
Equity Market Sensitivity (2)	
10% Increase	121
10% Decrease	(131)

(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	Risk Management Approach — Highlights
Strategic risk — the risk of failure to achieve the Company's vision, mission, or long-term business objectives, either through incorrect strategy choices or improper implementation of those choices	• The Company's Strategic and Business Planning Processes address key strategic risks and are integrated with the Key Risk Process • Regular review by the SLF Inc. Board of Directors of progress on business plans • Annual Business Reviews of Key Risks with the Executive Risk Committee
Market risk — the uncertainty in the valuation of assets and the cost of embedded options and guarantees arising from changes in equity markets, interest rates and/or other market variables	• 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 are monitored through Dynamic Capital Adequacy Testing and other stress-testing techniques • The Company' maintains specific policies related to the management of liquidity (see pages 48 to 49 in this MD&A under the heading Financial Position and Liquidity) and foreign exchange risks • Consideration is given to the use of specific derivatives in the management of specific market-related risks
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 certain interest-sensitive businesses (e.g., individual and group annuities) to examine duration gaps of assets and liabilities at discrete points on the yield curve and to manage these gaps within specified tolerance limits

Risk Category	Risk Management Approach — Highlights

Credit risk — the uncertainty surrounding the likelihood of default or credit downgrade	• Credit risks associated with fixed income investments are managed by major business segment and the Company in aggregate using:
	  • Detailed credit and underwriting policies
	  • Specific diversification requirements
	  • Comprehensive due diligence and ongoing credit analysis
	  • Aggregate counterparty exposure limits
	  • 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 set acceptance criteria and monitor the level of reinsurance ceded to any single reinsurer or group of reinsurers.
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, changes in policyholder behaviour, and taxes	• Enterprise-wide policy for product design and pricing • Annual compliance assessment is performed by all business units against policies 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 and compliance to product design and pricing policy 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 Risk Review Committee of 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
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 • Enterprise-wide compliance policies and framework established with annual self-assessment by all business units • Annual enterprise-wide attestation by all employees regarding compliance with the Code of Business Conduct • Key compliance risks are monitored at the corporate and business segment levels

Risk Category	Risk Management Approach — Highlights
Operational risk — the uncertainty arising from internal events caused by failures of people, process and technology as well as external events	• Strong operational risk management culture with emphasis on the identification, assessment, mitigation, tracking and reporting of operational risks • Enterprise-wide and business-specific operational policies and guidelines established, including an annual attestation of compliance to policies and operating guidelines • 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

Financial Position and Liquidity

The Company's asset/liability management allows it to maintain its strong financial position by ensuring that sufficient liquid assets are available to cover its potential funding requirements. The Company invests in various types of assets with a view to matching them with its liabilities of various durations.

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.

As at December 31, 2007, the Company maintained cash, cash equivalents and short-term securities totalling $5.5 billion, of which 19% were held in relation to certain derivative strategies and bond repurchase agreements. The corresponding percentage was 19% at the end of 2006. In addition to providing for near-term funding commitments, cash, cash equivalents and short-term securities include amounts that support short-term liabilities.

Net cash, cash equivalents and short-term securities decreased by $739 million in 2007. Cash flows generated by operating activities decreased by $3.4 billion in 2007 from 2006 mainly as a result of the issuances of US$1.8 billion in medium-term notes in 2006, which were not repeated in 2007 and the impact from the timing of outstanding investment transactions. Net cash used in investing activities decreased by $323 million over 2006 mainly from lower 2007 net purchases of long-term invested assets partly offset by the Genworth EBG business acquisition in the second quarter of 2007 and higher purchases of short-term securities in 2007. Financing activities increased cash used by $448 million during 2007 compared to 2006. The 2007 proceeds from the US$1.0 billion unsecured financing, issuances of $650 million of fixed/floating debentures and $250 million of preferred shares compared with the $1.0 billion of fixed/floating debentures and $550 million in preferred shares issued in 2006. Partnership Capital Securities and senior debentures for a combined total of $727 million were redeemed in 2007, while there were no redemptions in 2006. Dividends paid to common shareholders in 2007 were $119 million higher than the 2006 amount paid to common shareholders.

Cash Flow

($ millions)	**2007**	2006	2005
Net cash provided by operating activities	**1,042**	4,469	2,777
Net cash provided by (used in) financing activities	**(92)**	356	290
Net cash provided by (used in) investing activities	**(2,324)**	(2,647)	(3,974)
Changes due to fluctuations in exchange rates	**41**	18	(101)
Increase (decrease) in cash and cash equivalents	**(1,333)**	2,196	(1,008)
Cash and cash equivalents, beginning of period	**4,936**	2,740	3,748
Cash and cash equivalents, end of period	**3,603**	4,936	2,740
Short-term securities, end of period	**1,897**	1,303	2,351
Cash, cash equivalents and short-term securities, end of period	**5,500**	6,239	5,091

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
- cash forecasts and actual amounts against established targets

In addition, the Company maintains a committed standby credit facility through a syndicate of banks. The agreements relating to the Company's letters of credit and lines of credit contain typical covenants for investment grade companies 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

The Company's capital base consists mainly of common shareholders' equity and retained earnings. Other sources of capital include the Company's preferred shareholders' equity, and subordinated debt issued by SLF Inc., Sun Life Assurance and Sun Canada Financial Co. For Canadian regulatory purposes, the Company's capital also includes SLEECS issued by Sun Life Capital Trust (SLCT). The Partnership Capital Securities issued by a non-consolidated variable interest entity of SLF Inc. were also part of capital until they were redeemed on May 6, 2007. These entities were deconsolidated in 2005 as a result of certain accounting policy changes. Notes 12 and 14 to SLF Inc.'s 2007 Consolidated Financial Statements include additional details on the Company's capital.

In 2007, capital fell to $20.2 billion, a decrease of $326 million over 2006. Strong organic capital generation, the $545 million adjustments to shareholders' equity related to the implementation of changes to Canadian investment accounting rules on January 1, 2007 and the $55 million of common shares issued on the exercise of stock options benefited capital. The reductions in capital were attributed to the $502 million of common shares repurchased and cancelled, the $1.5 billion change in the value of the foreign currency translation account and the $290 million in other comprehensive income due to unrealized losses on available-for-sale assets. The issuances of $245 million of preferred shares, net of expenses and $400 million of Series 2007-1 subordinated debt were offset by the Partnership Capital Securities redemption in May 2007 and the US$27 million subordinated note that matured on December 15, 2007.

In 2007, the Company took advantage of low long-term interest rates and a favourable market environment to issue an additional series of non-cumulative perpetual preferred shares and subordinated unsecured fixed/floating debt. In February 2007, the Company issued 10 million Class A non-cumulative Preferred Shares Series 5 for an aggregate amount of $250 million

that pay quarterly cash dividends at a per annum rate of 4.50%. In May 2007, the Company issued $400 million of Series 2007-1 Subordinated Unsecured Fixed/Floating Debentures, yielding 5.40% annually, due in 2042.

The table below summarizes changes in the Company's capital position over the past three years:

($ millions)	2007	2006	2005
Balance, beginning of year	20,489	18,851	17,899
Adjustment to opening retained earnings and other comprehensive income for changes to investment accounting rules effective January 1, 2007	545	—	—
Common shareholders' net income	2,219	2,089	1,843
Common share dividends	(752)	(663)	(581)
Issuance (buyback) of common shares (net of expenses)	(447)	(514)	(466)
Stock option compensation	1	18	17
Effect of changes in exchange rates	(1,491)	163	(402)
Other comprehensive income (loss), net of taxes	(290)	—	—
Total change in common shareholders' equity	(215)	1,093	411
Partnership Capital Securities redemption	(698)	—	—
Exchange rate changes — Subordinated notes and Partnership Capital Securities	(26)	—	(27)
Issuance of subordinated debt (net of redemptions and expenses)	366	—	—
Issuance of preferred shares (net of redemptions and expenses)	245	538	562
Accounting policy and other changes	2	7	6
Balance, end of year	20,163	20,489	18,851

In 2007, SLF Inc. purchased and cancelled 9.8 million common shares at a cost of $502 million.

The Company grants 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 February 8, 2008, 8.1 million options to acquire SLF Inc. shares and 564.2 million common shares of SLF Inc. were outstanding.

Number of Common Shares Outstanding

(in millions)	2007	2006	2005
Balance, beginning of year	571.8	582.0	592.0
Stock options exercised	2.1	2.2	3.1
Shares repurchased	(9.8)	(12.4)	(13.1)
Balance, end of year	564.1	571.8	582.0

Number of Stock Options Outstanding

(in millions)	2007	2006	2005
Balance, beginning of year	9.1	10.0	12.4
Options issued	1.3	1.5	1.3
Options exercised or cancelled	(2.2)	(2.4)	(3.7)
Balance, end of year	8.2	9.1	10.0

Shareholders' Dividends

SLF Inc. increased its quarterly common shareholders' dividend to $0.32 per share in the first quarter of 2007 and to $0.34 per share in the third quarter of 2007. Total common shareholder dividends declared in 2007 were $1.32 per share, up 15% from $1.15 in 2006.

The declaration, amount and payment of dividends by SLF Inc. is subject to the approval of its Board of Directors and is dependent on the Company's results of operations, financial condition, cash requirements, regulatory and contractual restrictions and other factors considered by the Board of Directors. SLF Inc.'s dividend target payout ratio objective (common share dividends as a percentage of net income after preferred share dividends) is in the range of 30%-40%. The 2007 ratio of 33% met this objective. The Board of Directors reviews this objective on a periodic basis.

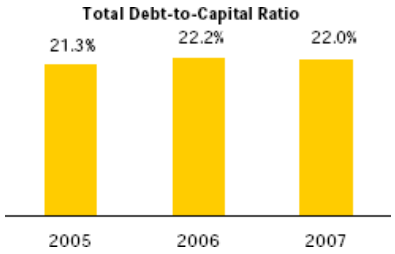
Long-Term Debt

In February 2007, the Company issued an additional $250 million of Series B Senior Unsecured Fixed/Floating Debentures, yielding 4.95% annually, due in 2036.

As at December 31, 2007, the Company's long-term debt consisted of: (i) $1.2 billion of SLEECS with maturity dates between 2031 and 2052, (ii) $1.8 billion of senior unsecured debentures with maturity dates between 2031 and 2036, (iii) $1.6 billion in subordinated debentures with maturity dates between 2015 and 2042, and (iv) US$150 million in subordinated notes with maturity dates of 2015. The maturity dates of the Company's long-term debt are well distributed over the medium-to long-term horizon to maximize the Company's financial flexibility and minimize refinancing requirements within a given year.

In addition to the above long term debt, other liabilities include borrowings in connection with financing arrangement in place to address U.S. statutory reserve requirements for certain universal life contracts as described on page 10 of this MD&A.

The Company strives to achieve an optimal capital structure by balancing the use of debt and equity financing. The debt-to-capital ratio for SLF Inc., which includes the SLEECS and preferred shares issued by SLF Inc. as part of debt for the purposes of this calculation, slightly decreased by 0.2% over the past year to 22.0% as at December 31, 2007.

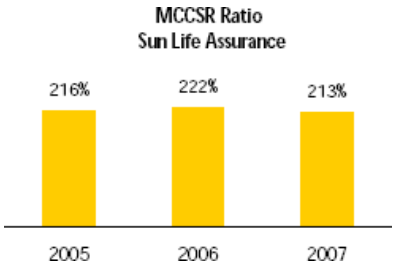


Capital Adequacy

SLF Inc. has a policy designed to ensure that adequate capital is maintained to provide the 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. SLF Inc.'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 both 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.

SLF Inc. is subject to the guidelines regarding capital framework for regulated insurance holding companies and non-operating life insurance companies (collectively, Insurance Holding Companies) issued by OSFI. Under these guidelines, Insurance Holding Companies, such as SLF Inc., and certain of their significant life insurance company subsidiaries are not subject to the Minimum Continuing Capital Surplus Requirements (MCCSR) that apply to Canadian life insurance companies. These guidelines do not establish minimum or targeted capital requirements for Insurance Holding Companies.

As an Insurance Holding Company, SLF Inc. is expected to manage its capital in a manner commensurate with its risk profile and control environment. For purposes of determining required capital under the 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 or the risk profile of Canadian life insurers changes or to reflect other risks. SLF Inc. was well above its internal minimum target capital levels as at December 31, 2007.



Sun Life Assurance is 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, 2007 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 2007 AIF of SLF Inc. under the heading Regulatory Matters.

Significant foreign life subsidiaries that are not subject to the MCCSR rules are required to comply with the capital adequacy requirements imposed in the foreign jurisdictions in which they operate. The Company's principal operating life insurance subsidiary in the United States, Sun Life Assurance Company of Canada (U.S.), qualifies as a significant foreign life subsidiary. 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 a regulatory level of at least 200% of risk-based capital. The risk-based capital of Sun Life Assurance Company of Canada (U.S.) was well above the minimum level as at December 31, 2007.

In addition, other foreign operations and foreign subsidiaries of SLF Inc. must comply with local capital or solvency requirements in the jurisdictions in which they operate. The Company endeavours to maintain capital levels well above the minimum local requirements.

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
- 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

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 the investors. Periodically, 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 table summarizes the Company's asset securitization program. Additional information is available in Note 5 to SLF Inc.'s 2007 Consolidated Financial Statements.

($millions)	**2007**	2006
As at December 31		
Securitized assets under management	**1,939**	2,595
The Company's retained interests	**91**	103
For the year ended December 31		
Cash flow received on retained interests and servicing fees	**14**	18

Securities Lending

The Company lends securities in its investment portfolio to other institutions for short periods 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". The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the fair value fluctuates. 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 5 to SLF Inc.'s 2007 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 to SLF Inc.'s 2007 Consolidated Financial Statements.

The table on the following page summarizes the Company's contractual obligations as at December 31, 2007.

Contractual Obligations

	Payments due by period				
($ millions)	Total	Within 1 year	1-3 years	4-5 years	Over 5 years
Senior debentures and unsecured financing	4,010	—	—	—	4,010
Subordinated debt	1,796	—	—	—	1,796
Operating leases	408	88	147	98	75
Credit-related arrangements					
Contractual commitments	1,809	1,085	724	—	—
Letters of credit	373	373	—	—	—
General fund policyholder liabilities(1)	198,504	13,299	13,169	11,798	160,238
Total contractual obligations	206,900	14,845	14,040	11,896	166,119

(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 liability amounts included in the 2007 SLF Inc. 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 its subsidiaries are regularly involved in legal actions, both as a defendant and as a plaintiff. In addition, government and regulatory bodies in Canada, the United States, the United Kingdom and Asia, including provincial and state regulatory bodies, state attorneys general, the SEC, the Financial Industry Regulatory Authority, formerly the National Association of Securities Dealers Inc. (NASD), and Canadian securities commissions, from time to time make inquiries and require the production of information or conduct examinations concerning compliance by SLF Inc. and its subsidiaries with insurance, securities and other laws. Management does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition or results of operations.

Controls and Procedures

Disclosure Controls and Procedures

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

An evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 issued by the Canadian Securities Administrators and Rule 13a-15 under the United States Securities and Exchange Act of 1934, as of December 31, 2007, was carried out under the supervision of and with the participation of the Company's 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 as of December 31, 2007.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its financial statements in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2007, and based on that assessment concluded that internal control over financial reporting was effective. See Management's Report on Internal Control over Financial Reporting and the Report of Independent Registered Chartered Accountants on Internal Control over Financial Reporting in Sun Life Financial Inc.'s 2007 Consolidated Financial Statements.

No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2007 that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

Exhibit 2

Consolidated Financial Statements

Sun Life Financial Inc.

For the Year Ended December 31, 2007

February 13, 2008

Life's brighter under the sun

Sun Life Financial

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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 that 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 Board prior to their approval of the Consolidated Financial Statements for issuance to shareholders. Other key responsibilities of the Audit and Conduct Review Committee include reviewing the Company's existing internal control procedures and planned revisions to those procedures, and advising the Board on auditing matters and financial reporting issues.

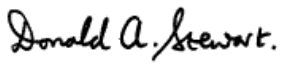
Management is also responsible for maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and that Sun Life Financial Inc. and its subsidiaries, collectively 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 9 on page 42. The report of the Appointed Actuary appears on page 75.

The Company's external auditors, Deloitte & Touche LLP, Independent Registered Chartered Accountants, conduct an independent audit of the Consolidated Financial Statements and meet separately with both management and the Audit and Conduct Review Committee to discuss the results of their audit. The auditors' report to the Board and shareholders appears on page 76.



Donald A. Stewart
Chief Executive Officer



Richard P. McKenney
Executive Vice-President and Chief Financial Officer

Toronto, February 13, 2008

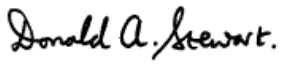
Management's Report on Internal Control over Financial Reporting

Management of Sun Life Financial is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer (CEO) and the Executive Vice-President and Chief Financial Officer (CFO) and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting, as defined in Rule 13a-15 under the *United States Securities and Exchange Act* of 1934, as of December 31, 2007 based on the framework and criteria established in *Internal Control—Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management has concluded that internal control over financial reporting was effective as of December 31, 2007.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2007, has been audited by Deloitte & Touche LLP, the Company's Independent Registered Chartered Accountants, who also audited the Company's Consolidated Financial Statements for the year ended December 31, 2007. As stated in the Report of Independent Registered Chartered Accountants, they have expressed an unqualified opinion on the Company's internal control over financial reporting as of December 31, 2007.



Donald A. Stewart
Chief Executive Officer



Richard P. McKenney
Executive Vice-President and Chief Financial Officer

Toronto, February 13, 2008

Consolidated Statements of Operations

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

	2007	2006*	2005*
REVENUE			
Premium income:			
Annuities	**$ 3,530**	$ 5,380	$ 4,556
Life insurance	**6,010**	6,168	5,683
Health insurance	**3,584**	3,061	2,701
	13,124	14,609	12,940
Net investment income *(Note 5)* :			
Changes in fair value of held-for-trading assets	**(1,558)**		
Income from derivative investments	**86**		
Realized gains on sales of available-for-sale assets	**127**		
Other net investment income	**6,197**	6,664	6,079
	4,852	6,664	6,079
Fee income	**3,212**	3,014	2,899
	21,188	24,287	21,918
POLICY BENEFITS AND EXPENSES			
Payments to policyholders, beneficiaries and depositors:			
Maturities and surrenders	**6,250**	5,707	5,922
Annuity payments	**1,398**	1,388	1,473
Death and disability benefits	**2,620**	2,438	2,397
Health benefits	**2,616**	2,253	1,885
Policyholder dividends and interest on claims and deposits	**1,360**	1,109	1,125
	14,244	12,895	12,802
Net transfers to segregated funds	**952**	835	704
Increase (decrease) in actuarial liabilities *(Note 9)*	**(2,515)**	2,525	872
Commissions	**1,811**	1,916	1,726
Operating expenses *(Note 15)*	**3,260**	3,028	2,921
Premium taxes	**240**	205	190
Interest expense *(Notes 10, 11 and 12)*	**349**	323	273
	18,341	21,727	19,488
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	**2,847**	2,560	2,430
Income taxes expense *(Note 18)*	**522**	389	531
Non-controlling interests in net income of subsidiaries *(Note 13)*	**35**	27	23
TOTAL NET INCOME	**2,290**	2,144	1,876
Less: Participating policyholders' net income	**2**	7	9
SHAREHOLDERS' NET INCOME	**2,288**	2,137	1,867
Less: Preferred shareholder dividends	**69**	48	24
COMMON SHAREHOLDERS' NET INCOME	**$ 2,219**	$ 2,089	$ 1,843
Average exchange rates:			
U.S. dollars	***1.07***	*1.13*	*1.21*
U.K. pounds	***2.15***	*2.09*	*2.21*
Earnings per share			
Basic	**$ 3.90**	$ 3.62	$ 3.14
Diluted	**$ 3.85**	$ 3.58	$ 3.12
Weighted average shares outstanding in millions *(Note 16)*			
Basic	**569**	577	587
Diluted	**572**	580	590

* Prior periods have not been restated as a result of the changes in accounting policies described in Note 2.

The attached notes form part of these Consolidated Financial Statements.

Consolidated Balance Sheets

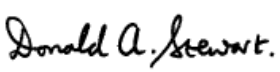
AS AT DECEMBER 31(in millions of Canadian dollars)

		2007	2006*
ASSETS			
Bonds			$ 69,230
Bonds — held-for-trading *(Note 5)*		**$ 50,608**	
Bonds — available-for-sale *(Note 5)*		**9,148**	
Mortgages and corporate loans *(Note 5)*		**20,742**	15,993
Stocks			4,899
Stocks — held-for-trading *(Note 5)*		**4,438**	
Stocks — available-for-sale *(Note 5)*		**788**	
Real estate		**4,303**	3,825
Cash, cash equivalents and short-term securities		**5,500**	6,239
Derivative assets *(Note 5)*		**1,947**	
Policy loans and other invested assets		**4,349**	6,013
Other invested assets — held-for-trading *(Note 5)*		**440**	
Other invested assets — available-for-sale *(Note 5)*		**757**	
Invested assets		**103,020**	106,199
Goodwill *(Note 7)*		**6,018**	5,981
Intangible assets *(Note 7)*		**775**	777
Other assets *(Note 8)*		**4,478**	4,874
Total general fund assets		**$114,291**	$117,831
Segregated funds net assets		**$ 73,205**	$ 70,789
LIABILITIES AND EQUITY			
Actuarial liabilities and other policy liabilities *(Note 9)*		**$ 79,830**	$ 81,036
Amounts on deposit		**3,747**	3,599
Deferred net realized gains *(Note 5)*		**276**	4,152
Senior debentures *(Note 10)*		**3,014**	3,491
Derivative liabilities *(Note 5)*		**638**	
Other liabilities *(Note 11)*		**7,675**	6,834
Total general fund liabilities		**95,180**	99,112
Subordinated debt *(Note 12)*		**1,796**	1,456
Non-controlling interests in subsidiaries *(Note 13)*		**98**	79
Total equity		**17,217**	17,184
Total general fund liabilities and equity		**$114,291**	$117,831
Segregated funds contract liabilities		**$ 73,205**	$ 70,789
Exchange rate at balance sheet date:			
	U.S. dollars	***1.00***	*1.17*
	U.K. pounds	***1.98***	*2.28*

* Prior periods have not been restated as a result of the changes in accounting policies described in 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	2007	2006*	2005*
PREFERRED SHARES					
Balance, beginning of year	$ —	$ 1,250	$ 1,250	$ 712	$ —
Preferred shares issued *(Note 14)*	—	250	250	550	725
Issuance costs, net of taxes *(Note 14)*	—	(5)	(5)	(12)	(13)
Balance, end of year	—	1,495	1,495	1,250	712
COMMON SHARES					
Balance, beginning of year	—	7,082	7,082	7,173	7,238
Stock options exercised *(Note 17)*	—	66	66	73	99
Common shares purchased for cancellation *(Note 14)*	—	(115)	(115)	(164)	(164)
Balance, end of year	—	7,033	7,033	7,082	7,173
CONTRIBUTED SURPLUS					
Balance, beginning of year	—	72	72	66	70
Stock-based compensation *(Note 17)*	—	1	1	18	17
Stock options exercised *(Notes 14 and 17)*	—	(11)	(11)	(12)	(21)
Balance, end of year	—	62	62	72	66
RETAINED EARNINGS					
Balance, beginning of year, as previously reported	101	10,016	10,117	9,095	8,204
Adjustment for change in accounting policy *(Note 2)*	6	186	192	—	—
Balance, beginning of year, after change in accounting policy	107	10,202	10,309	9,095	8,204
Net income	2	2,288	2,290	2,144	1,876
Dividends on common shares	—	(752)	(752)	(663)	(581)
Dividends on preferred shares	—	(69)	(69)	(48)	(24)
Common shares purchased for cancellation *(Note 14)*	—	(387)	(387)	(411)	(380)
Balance, end of year	109	11,282	11,391	10,117	9,095
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes					
Balance, beginning of year	(9)	(1,328)	(1,337)	(1,500)	(1,097)
Adjustment for change in accounting policy *(Note 2)*	—	359	359	—	—
Balance, beginning of year, after change in accounting policy	(9)	(969)	(978)	(1,500)	(1,097)
Total other comprehensive income (loss)	(5)	(1,781)	(1,786)	163	(403)
Balance, end of year	(14)	(2,750)	(2,764)	(1,337)	(1,500)
Total retained earnings and accumulated other comprehensive income	95	8,532	8,627	8,780	7,595
Total equity	$ 95	$ 17,122	$ 17,217	$ 17,184	$ 15,546
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes					
Balance, end of year, consists of:					
Unrealized gains on available-for-sale assets	$ —	$ 25	$ 25	$ —	$ —
Unrealized foreign currency translation gains (losses), net of hedging activities	(14)	(2,807)	(2,821)	(1,337)	(1,500)
Unrealized gains on derivatives designated as cash flow hedges	—	32	32	—	—
Balance, end of year	$ (14)	$ (2,750)	$ (2,764)	$ (1,337)	$ (1,500)

Consolidated Statements of Comprehensive Income

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)

	2007	2006*	2005*
Total net income	$ 2,290	$ 2,144	$ 1,876

Other comprehensive income (loss), net of taxes *(Note 19):*			
Unrealized foreign currency translation gains (losses), excluding hedges	**(1,781)**	167	(381)
Unrealized foreign currency gains, net investment hedges	**282**		
Net adjustment for foreign exchange losses (gains) *(Note 22)*	**3**	(4)	(22)
Unrealized gains (losses) on available-for-sale assets	**(238)**		
Reclassifications to net income for available-for-sale assets	**(84)**		
Unrealized gains on cash flow hedging instruments	**40**		
Reclassifications to net income for cash flow hedges	**(8)**		
Total other comprehensive income (loss)	**(1,786)**	163	(403)
Total comprehensive income	**504**	2,307	1,473
Less: Participating policyholders' net income	**2**	7	9
Participating policyholders' foreign currency translation gains (losses), excluding hedges	**(5)**	—	(1)
Shareholders' comprehensive income	**$ 507**	$ 2,300	$ 1,465

* Prior periods have not been restated as a result of the changes in accounting policies described in 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)

	2007	2006*	2005*
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Total net income	**$ 2,290**	$ 2,144	$ 1,876
Items not affecting cash:			
Increase (decrease) in actuarial and other policy-related liabilities	**(2,328)**	2,538	802
Unrealized (gains) losses on held-for-trading assets and derivatives	**2,447**		
Amortization of:			
Net deferred realized and unrealized gains on investments	**(121)**	(751)	(632)
Deferred acquisition costs and intangible assets	**89**	137	164
Write-down of intangible asset	**52**		
Loss on sale of equity investments *(Note 3)*	**—**	—	43
(Gain) loss on foreign exchange *(Note 5)*	**(37)**	14	(28)
Future income taxes	**453**	(335)	77
Provisions for losses (recoveries) on investments	**2**	(10)	(47)
Stock-based compensation *(Note 17)*	**96**	80	68
Accrued expenses and taxes	**(109)**	129	158
Investment income due and accrued	**(7)**	(6)	(66)
Other changes in other assets and liabilities	**(649)**	550	417
Realized (gains) losses on held-for-trading and available-for-sale assets	**(1,091)**		
New mutual fund business acquisition costs capitalized	**(69)**	(66)	(92)
Redemption fees of mutual funds	**24**	45	37
Net cash provided by operating activities	**1,042**	4,469	2,777
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Borrowed funds	**113**	28	(77)
Issuance of senior unsecured financing *(Note 11)*	**929**	—	—
Issuance of senior debentures *(Note 10)*	**250**	1,000	600
Redemption of senior debentures *(Note 10)*	**(727)**	—	(7)
Issuance of subordinated debt *(Note 12)*	**398**	—	—
Redemption and maturity of subordinated debt *(Note 12)*	**(28)**	—	—
Issuance of preferred shares *(Note 14)*	**250**	550	725
Payments to underwriters *(Note 14)*	**(9)**	(18)	(20)
Issuance of common shares on exercise of stock options	**55**	61	78
Common shares purchased for cancellation *(Note 14)*	**(502)**	(575)	(544)
Dividends paid on common shares	**(752)**	(633)	(450)
Dividends paid on preferred shares	**(69)**	(57)	(15)
Net cash provided by (used in) financing activities	**(92)**	356	290
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Sales, maturities and repayments of:			
Bonds	**20,999**	29,644	27,508
Mortgages and corporate loans	**6,279**	2,590	1,912
Stocks	**3,459**	1,572	1,891
Real estate	**221**	204	243
Purchases of:			
Bonds	**(20,896)**	(31,104)	(30,135)
Mortgages and corporate loans	**(7,159)**	(3,938)	(2,774)
Stocks	**(3,298)**	(2,203)	(1,736)
Real estate	**(628)**	(523)	(294)
Policy loans	**(69)**	(87)	(77)
Short-term securities	**(658)**	1,120	(58)
Cash cost of acquisition *(Note 3)*	**(725)**	—	(563)
Cash and cash equivalents acquired on acquisition *(Note 3)*	**132**	—	77
Other investments	**19**	78	52
Disposal, net of cash disposed *(Note 3)*	**—**	—	130
Redemption of preferred shares of subsidiary *(Note 13)*	**—**	—	(150)
Net cash used in investing activities	**(2,324)**	(2,647)	(3,974)
Changes due to fluctuations in exchange rates	**41**	18	(101)
Increase (decrease) in cash and cash equivalents	**(1,333)**	2,196	(1,008)
Cash and cash equivalents, beginning of year	**4,936**	2,740	3,748
Cash and cash equivalents, end of year	**3,603**	4,936	2,740
Short-term securities, end of year	**1,897**	1,303	2,351
Cash, cash equivalents and short-term securities, end of year	**$ 5,500**	$ 6,239	$ 5,091
Supplementary Information			
Cash and cash equivalents:			

Cash	**$ 399**	$ 642	$ 506
Cash equivalents	**3,204**	4,294	2,234
	$ 3,603	$ 4,936	$ 2,740
Cash disbursements made for:			
Interest on borrowed funds, debentures and subordinated debt	**$ 319**	$ 303	$ 268
Income taxes, net of refunds	**$ 499**	$ 567	$ 304

* Prior periods have not been restated as a result of the changes in accounting policies described in 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)

	2007	2006	2005
ADDITIONS TO SEGREGATED FUNDS			
Deposits:			
Annuities	**$ 9,921**	$ 7,444	$ 6,788
Life insurance	**3,399**	1,309	417
	13,320	8,753	7,205
Net transfers from general funds	**952**	835	704
Net realized and unrealized (losses) gains	**(210)**	5,386	3,971
Other investment income	**3,813**	2,637	1,826
	17,875	17,611	13,706
DEDUCTIONS FROM SEGREGATED FUNDS			
Payments to policyholders and their beneficiaries	**8,793**	7,910	7,219
Management fees	**867**	747	664
Taxes and other expenses	**189**	137	163
Effect of changes in currency exchange rates	**5,610**	(988)	1,772
	15,459	7,806	9,818
Net additions to segregated funds for the year	**2,416**	9,805	3,888
Acquisitions *(Note 3)*	**—**	—	532
Segregated funds net assets, beginning of year	**70,789**	60,984	56,564
Segregated funds net assets, end of year	**$ 73,205**	$ 70,789	$ 60,984

Consolidated Statements of Segregated Funds Net Assets

AS AT DECEMBER 31 (in millions of Canadian dollars)

	2007	2006
ASSETS		
Segregated and mutual fund units	**$ 58,185**	$ 56,528
Stocks	**7,376**	8,317
Bonds	**7,868**	5,823
Cash, cash equivalents and short-term securities	**863**	584
Real estate	**202**	215
Mortgages	**38**	42
Other assets	**906**	721
	75,438	72,230
LIABILITIES	**2,233**	1,441
Net assets attributable to segregated funds policyholders	**$ 73,205**	$ 70,789

Investments held within segregated funds are not impacted by the changes in accounting policies described in Note 2.

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. (SLF Inc.) is a publicly traded company and is the holding company of Sun Life Assurance Company of Canada (Sun Life Assurance) and Sun Life Global Investments Inc., formerly Sun Life Financial Corp. Both SLF 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). SLF Inc. and 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
- 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 25.

The significant accounting policies used in the preparation of these Consolidated Financial Statements are summarized below.

BASIS OF CONSOLIDATION

The Consolidated Financial Statements of the Company reflect the assets and liabilities and results of operations of all subsidiaries and variable interest entities in which the Company is the primary beneficiary after intercompany balances and transactions have been eliminated. The purchase method is used to account for the acquisition of 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. The equity method is used to account for other entities over which the Company is able to exercise significant influence. Investments in these other entities 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 non-variable interest entity investments in which the Company exercises joint control, resulting in the consolidation of the Company’s proportionate share of assets, liabilities, income and expenses in the Consolidated Financial Statements.

FINANCIAL INSTRUMENTS AND INVESTMENTS

As a result of the adoption of Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments - Recognition and Measurement; CICA Handbook Section 3865, Hedges; and CICA Handbook Section 1530, Comprehensive Income, which are described in Note 2, certain accounting policies relating to financial instruments and investments were revised in 2007. The following table shows the accounting policies adopted in 2007 and the policies followed in 2006 and prior years for financial instruments and investments significantly impacted by the adoption of these new Handbook Sections.

1. Accounting Policies (Cont'd)

ADOPTED IN 2007	2006 AND PRIOR
BONDS — HELD-FOR-TRADING AND AVAILABLE-FOR-SALE	**BONDS**
Measurement: Bonds are designated as held-for-trading or available-for-sale and are carried at fair value. Changes in fair value of held-for-trading bonds are recorded to changes in fair value of held-for-trading assets in the consolidated statements of operations. Changes in fair value of available-for-sale bonds are recorded to unrealized gains and (losses) in other comprehensive income (OCI).	*Measurement:* Bonds are carried at amortized cost, net of allowances for losses.
Recognition: Purchases and sales of bonds are recognized or derecognized on the consolidated balance sheets on their trade dates, the date that the Company commits to purchase or sell the bond.	*Recognition:* Purchases and sales of bonds are recognized or derecognized on their trade dates as in 2007.
Realized gains and losses: Realized gains and losses on the sale of available-for-sale bonds are reclassified from accumulated OCI and recorded as realized gains on the consolidated statements of operations. Since held-for-trading bonds are measured at fair value, realized gains are included with unrealized gains in changes in fair value of held-for-trading assets in the consolidated statements of operations.	*Realized gains and losses:* Realized gains and losses on the sales of bonds are deferred and amortized into net investment income on a constant yield basis over the remaining period to maturity.
Impairment: Since held-for-trading bonds are recorded at fair value with changes in fair value recorded to income, they are not tested for impairment. Available-for-sale bonds are tested for impairment at least on a quarterly basis. Objective evidence of impairment includes financial difficulty of the issuer, bankruptcy or defaults and delinquency in payments of interest or principal.	*Impairment:* The conditions for determining impairment are the same as described in 2007 for available-for-sale bonds.
When there is objective evidence that an available-for-sale bond is impaired and the decline in value is considered other than temporary, the loss accumulated in OCI is reclassified to other net investment income. Once an impairment loss is recorded to income, it is not reversed. Following impairment loss recognition, these assets will continue to be recorded at fair value with changes in fair value recorded to OCI, and tested for further impairment quarterly. Interest is no longer accrued and previous interest accruals are reversed.	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.
Interest income: Interest income earned on both held-for-trading and available-for-sale bonds is recorded as other net investment income on the consolidated statements of operations.	*Interest income:* As in 2007, interest income earned on bonds is recorded as other net investment income on the consolidated statements of operations.

1. Accounting Policies (Cont'd)

ADOPTED IN 2007	2006 AND PRIOR
MORTGAGES AND CORPORATE LOANS	**MORTGAGES**
Measurement: Loans previously reported as bonds that do not meet the definition of a debt security are classified as corporate loans in 2007. These loans are reported along with mortgage loans on the consolidated balance sheets. Mortgages and corporate loans are accounted for at amortized cost using the effective interest method.	*Measurement:* As in 2007, mortgages are accounted for at amortized cost using the effective interest method. Corporate loans are included with bonds and are accounted for as described previously for bonds.
Recognition: Purchases and sales of mortgages and corporate loans are recognized or derecognized on the consolidated balance sheets on their trade dates, the date that the Company commits to purchase or sell the asset.	*Recognition:* Purchases and sales of mortgages are recognized or derecognized on their trade dates as in 2007.
Realized gains and losses: Realized gains and losses on the sale of mortgages and corporate loans are recorded in other net investment income on the consolidated statements of operations.	*Realized gains and losses:* Realized gains and losses on the sales of mortgages are deferred and amortized into net investment income on a constant yield basis over the remaining period to maturity.
Impairment: A mortgage is classified as impaired where payment is 90 days past due, foreclosure or power of sale procedures have started, or other circumstances warrant. 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.	*Impairment:* The conditions for impairment and the accounting for impaired mortgages are the same as described for 2007.
Interest income: Interest income earned is recorded as other net investment income on the consolidated statements of operations.	*Interest income:* As in 2007, interest income earned is recorded as other net investment income on the consolidated statements of operations.

1. Accounting Policies (Cont'd)

ADOPTED IN 2007	2006 AND PRIOR
STOCKS — HELD-FOR-TRADING AND AVAILABLE-FOR-SALE	**STOCKS**
Measurement: Stocks are designated as held-for-trading or available-for-sale and are generally carried at fair value. Stocks that do not have a quoted price on an active market and that are designated as available-for-sale, are carried at cost. Changes in fair value of held-for-trading stocks are recorded to changes in fair value of held-for-trading assets in the consolidated statements of operations. Changes in fair value of available-for-sale stocks are recorded to unrealized gains and (losses) in OCI.	*Measurement:* 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.
Recognition: Purchases and sales of stocks are recognized or derecognized on the consolidated balance sheets on their trade dates, the date that the Company commits to purchase or sell the stock.	*Recognition:* Purchases and sales of stocks are recognized or derecognized on their trade dates as in 2007.
Realized gains and losses: Realized gains and losses on the sale of available-for-sale stocks are reclassified from accumulated OCI and recorded as realized gains on the consolidated statements of operations. Since held-for-trading stocks are measured at fair value, realized gains are included with unrealized gains in changes in fair value of held-for-trading assets in the consolidated statements of operations.	*Realized gains and losses:* 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.
Impairment: Since held-for-trading stocks are recorded at fair value, with changes in fair value recorded to income, they are not tested for impairment. Available-for-sale stocks are tested for impairment at least on a quarterly basis. Objective evidence of impairment for stocks includes a significant or prolonged decline in fair value of the stock below cost or changes with adverse effects that have taken place in the technological, market, economic or legal environment in which the issuer operates that may indicate that the carrying value will not recover. The accounting for other-than-temporarily impaired available-for-sale stocks is the same as described previously for available-for-sale bonds.	*Impairment:* Impairment is tested on an entire portfolio basis. The Company records a write-down for any other than temporary decline in the aggregate value of the stock portfolio.
Dividend income: Dividends received on both held-for-trading and available-for-sale stocks are recorded as other net investment income on the consolidated statements of operations.	*Dividend income:* As in 2007, dividends earned on stocks are recorded as other net investment income on the consolidated statements of operations.

1. Accounting Policies (Cont'd)

ADOPTED IN 2007	2006 AND PRIOR
DERIVATIVE FINANCIAL INSTRUMENTS	**DERIVATIVE FINANCIAL INSTRUMENTS**
Derivatives not designated as accounting hedges (derivative investments) Derivatives are required to be classified as held-for-trading unless designated as a hedge for accounting purposes. Derivative investments are derivatives that have not been designated as hedges for accounting purposes. Derivative investments are recorded on the consolidated balance sheets at fair value with changes in fair value recorded to income from derivative investments in the consolidated statements of operations. Derivatives with a positive fair value are recorded as derivative assets while derivatives with a negative fair value are recorded as derivative liabilities. Income earned on these derivatives, such as interest income, is also recorded to income from derivative investments.	***Derivatives not designated as accounting hedges*** Most of the Company's derivatives are accounted for as either fixed term portfolio investments at amortized cost or equity portfolio investments using a moving average market method such as is used for stocks. Generally, derivatives accounted for at amortized cost are off-balance sheet and the net receivables and payables are accrued to other assets or other liabilities with the net spread recorded to other investment income. Realized gains or losses associated with these derivatives are deferred and amortized to net investment income. Option premiums are deferred in other invested assets and amortized to net investment income over the term of the options. Certain equity derivative instruments that are used to manage exposure from stock-based compensation plans and stock market fluctuations in the actuarial liabilities are recorded at fair value in other invested assets or other liabilities, with changes in fair value recognized in other net investment income.
Derivatives designated as hedges for accounting purposes Hedge accounting is applied to certain derivatives to reduce income statement volatility. All derivatives designated as hedges for accounting purposes are documented at inception and hedge effectiveness is assessed on a quarterly basis. All derivatives, including derivatives designated as hedges for accounting purposes, are recorded on the consolidated balance sheets at fair value. The accounting for the change in fair value of these derivatives depends on the type of hedge they are designated as for accounting purposes. *Fair value hedges* Certain interest rate swaps, cross currency swaps and equity forwards are designated as hedges of the interest rate, foreign currency or equity exposures associated with available-for-sale assets. Changes in fair value of the derivatives are recorded to other net investment income. The change in fair value of these available-for-sale assets related to the hedged risk is recorded in other net investment income. As a result, ineffectiveness, if any, is recognized in other net investment income. Interest income earned and paid on the available-for-sale assets and swaps in the fair value hedging relationships are recorded to other net investment income. *Cash flow hedges* Certain equity forwards are designated as cash flow hedges of the anticipated payments of awards under certain stock-based compensation plans. The difference between the forward price and the spot price of these forwards is excluded from the assessment of hedge effectiveness and is recorded in other net investment income. Changes in fair value based on spot price changes are recorded to OCI, with the remaining changes in fair value recorded to other net investment income. A portion of the amount included in accumulated OCI related to these forwards is reclassified to operating expenses in the consolidated	***Derivatives designated as hedges for accounting purposes*** As in 2007, all derivatives designated as hedges for accounting purposes are documented at inception and hedge effectiveness is assessed on a quarterly basis. Generally, the accounting for the derivatives follows the accounting for the underlying hedged item when hedge accounting is used. Certain cross currency interest rate swaps are designated as hedges of the foreign currency exposure associated with foreign currency bonds. Changes in fair value of the swaps due to fluctuations in exchange rates are recorded to net investment income, consistent with the accounting for the exchange gains and losses recorded on the bonds. Certain equity forwards and swaps are designated as hedges of the anticipated payments of awards under certain stock-based compensation plans. 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. Certain currency swaps and forwards hedge foreign exchange fluctuations associated with certain foreign currency investment financing activities. Changes in exchange gains or losses on these currency swaps and forwards are included in other assets or other liabilities and unrealized foreign currency translation gains and losses in equity, offsetting the respective exchange gains or losses arising from the conversion of the underlying investment.

1. Accounting Policies (Cont'd)

ADOPTED IN 2007	2006 AND PRIOR
statements of operations as the liability is accrued for the stock- based compensation awards over the vesting period. All amounts recorded to or from OCI are net of related taxes. *Net investment hedges* The Company uses currency swaps and/or forwards to reduce foreign exchange fluctuations associated with certain foreign currency investment financing activities. Changes in fair value of these swaps and forwards, along with interest earned and paid on the swaps, are recorded to the foreign exchange gains and losses in OCI, offsetting the respective exchange gains or losses arising from the underlying investments. All amounts recorded to or from OCI are net of related taxes. If the hedging relationship is terminated, amounts deferred in accumulated OCI 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.	

REAL ESTATE

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

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.

Fair 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 fair 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.

CASH, CASH EQUIVALENTS AND SHORT-TERM SECURITIES

Cash, cash equivalents and short-term securities are highly liquid investments. 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. Cash equivalents and short-term securities were carried at amortized cost in 2006. On January 1, 2007, cash equivalents and short-term securities were designated as held-for-trading and are recorded at fair value with changes in fair value reported in changes in fair value of held-for-trading assets on the consolidated statements of operations.

POLICY LOANS AND OTHER INVESTED ASSETS

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

Policy loans and other invested assets on the consolidated balance sheets include investments accounted for by the equity method, leases and joint ventures. Effective January 1, 2007, the investments accounted for by the equity method include the Company's proportionate share of changes in the investees' OCI. In 2006, other invested assets included the Company's investment in segregated funds and mutual funds, which were designated as held-for-trading or available-for-sale upon the adoption of the new financial instruments standards described in Note 2.

1. Accounting Policies (Cont'd)

OTHER INVESTED ASSETS — HELD-FOR-TRADING AND AVAILABLE-FOR-SALE

Other invested assets designated as held-for-trading are primarily investments in segregated funds and mutual funds. These are reported on the consolidated balance sheets at fair value with changes in fair value reported as changes in fair value of held-for-trading assets in the consolidated statements of operations**.** Other invested assets designated as available-for-sale includes investments in limited partnerships. These investments are accounted for at cost and distributions received, such as dividends, are recorded to other net investment income. Other invested assets designated as available-for-sale also includes investments in segregated funds and mutual funds, which are recorded at fair value with changes in fair value recognized in OCI.

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.

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 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 2 to 10 years.

SEGREGATED FUNDS

Segregated funds are lines of business in which the Company issues a contract where the benefit amount is directly linked to the fair 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. 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.

1. Accounting Policies (Cont'd)

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 and the requirements of OSFI.

SENIOR DEBENTURES AND SUBORDINATED DEBT

Senior debentures and subordinated debt are recorded at amortized cost using the effective interest method.

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 and liabilities 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.

In determining the impact of taxes, the Company is required to comply with the standards of both the Canadian Institute of Actuaries and the 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 AND FEE INCOME RECOGNITION

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. Fee income includes fund management fees as well as mortality, policy administration and surrender charges on segregated funds, and is recognized on an accrual basis.

FOREIGN CURRENCY TRANSLATION

The Company's exchange gains and losses arising from the conversion of its self-sustaining foreign operations are included in the unrealized foreign currency translation gains (losses) 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 part of accumulated other comprehensive income in the consolidated statements of equity.

A proportionate amount of the exchange gain or loss accumulated in other comprehensive income 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.

1. Accounting Policies (Cont'd)

PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The Company sponsors non-contributory defined benefit pension plans for eligible qualifying employees. 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 returns 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 fair 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 variations in actuarial estimates in excess of the greater of 10% of the plan assets or the benefit obligation at the beginning of the year 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 expenses with an offset to contributed surplus in the consolidated statements of equity. 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, new shares are issued, contributed surplus is reversed and the shares issued are credited to share capital in the consolidated statements of equity.

Other stock-based compensation plans are accounted for as liability awards. The liabilities for these 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 SLF Inc. The liabilities are accrued and expensed on a straight-line basis over the vesting periods. The liabilities are paid in cash at the end of the vesting period.

2. Changes in Accounting Policies

ADOPTED IN 2007

FINANCIAL INSTRUMENTS, HEDGES AND COMPREHENSIVE INCOME:

A) SUMMARY OF THE NEW STANDARDS:

On January 1, 2007, the Company adopted 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. Recognition, derecognition and measurement policies followed in prior years' financial statements were not reversed and therefore, prior period financial statements have not been restated. Under the new standards, all financial assets are classified as held-for-trading, held-to-maturity, loans and receivables, or available-for-sale, and all financial liabilities, other than actuarial liabilities, are classified as held-for-trading or other financial liabilities. Financial instruments classified as held-for-trading are 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 other financial liabilities are measured at amortized cost using the effective interest rate method. Available-for-sale financial assets are measured at fair value with changes in unrealized gains and losses recognized in OCI.

All derivative financial instruments are reported on the balance sheet at fair value. Changes in fair value are recognized in net income unless the derivative is part of a hedging relationship that qualifies as a cash flow hedge or hedge of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the derivative hedging instrument is recorded at fair value and the related gain or loss is recorded in net income. The carrying value of the hedged item is adjusted for the gain or loss on the hedged item attributable to the hedged risk and the adjustment to the carrying value of the hedged item attributable to the hedged risk is also recorded in net income. As a result, the change in the carrying value of the hedged item, to the extent that the hedging relationship is effective, offsets the change 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 are 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 self-sustaining 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 also required to identify derivatives embedded in other contracts unless the host contract is an insurance policy issued by the Company. Embedded derivatives identified are bifurcated from the host contract if the host contract is not already measured at fair value, with changes in fair value recorded to income (such as held-for-trading assets), if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. Embedded derivatives are recorded at fair value, with changes in fair value of these embedded derivatives recorded to net income.

The Company is also required to present a new statement of comprehensive income and its components, as well as the components of accumulated OCI, in its Consolidated Financial Statements. Comprehensive income includes both net income and OCI. Major components of OCI include changes in unrealized gains and losses 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.

CICA Handbook Section 4211, Life Insurance Enterprises — Specific Items, replaced CICA Handbook Section 4210 in 2007. The accounting requirements for life insurance portfolio investments in Handbook Section 4211 are only applied to investments in real estate, and are significantly unchanged from Section 4210. Other financial assets previously included as portfolio investments are required to follow the accounting requirements in the new Handbook sections 3855, 3865 and 1530. As a result, realized gains and losses on financial instruments no longer covered by Section 4211 are not deferred and amortized into income but are recognized in net income as fair value changes (for assets designated as held-for-trading), or on the date of sale. This includes gains and losses on the sales of bonds, stocks, mortgages and derivatives. Investments held within segregated funds continue to follow the accounting requirements in Section 4211, which are unchanged from Section 4210.

B) IMPACT OF ADOPTION:

Deferred realized gains and losses on sales of financial assets previously accounted for as life insurance portfolio investments, including gains and losses arising from sales of bonds, stocks, mortgages and derivatives, were recorded to retained earnings on January 1, 2007. Realized gains and losses on the sales of these assets occurring on or after January 1, 2007, are reported in investment income in 2007.

2. Changes in Accounting Policies (Cont'd)

Corporate loans with a carrying value of $4,931 that were previously included with bonds on the consolidated balance sheets were classified as loans and were reported with mortgages on January 1, 2007, because they do not meet the definition of a debt security. These loans, as well as mortgage loans, continue to be accounted for at amortized cost using the effective interest rate method in 2007. Investments in mortgages and corporate loans support both actuarial liabilities and the non-life insurance business.

The Company chose a transition date of January 1, 2003 for embedded derivatives and, therefore, is only required to account separately for those embedded derivatives in hybrid instruments issued, acquired or substantially modified after that date. The Company did not identify any embedded derivatives that required bifurcation on January 1, 2007. The Company did not have any material non-derivative financial liabilities that were designated as held-for-trading.

Transaction costs for items classified as held-for-trading are expensed immediately. For other financial instruments that are recorded at amortized cost and available-for-sale bonds, transaction costs are capitalized on initial recognition and are recognized in income using the effective interest rate method.

Accumulated OCI and comprehensive income have been included in the 2007 Consolidated Financial Statements. The Company reclassified the December 31, 2006 currency translation account balance of $(1,337) included as a separate component of equity in 2006, to OCI on January 1, 2007.

In December 2006, the Canadian government announced its intention to align the current Canadian tax rules with the new financial reporting standards. In November 2007, draft legislation was released for public comment. Once the tax rules are finalized, any difference from original estimates will be recorded through the income statement. In the opening balance sheet, the Company has assumed that the future level of taxes paid by the Company will be consistent with the recent past, and as a result, there was no impact on retained earnings from this source.

Investments supporting actuarial liabilities

On January 1, 2007, the Company designated bonds, stocks, and other invested assets supporting actuarial liabilities with a carrying value of $58,565 and fair value of $61,959 as held-for-trading. On January 1, 2007, derivatives supporting actuarial liabilities that were not classified as hedges for accounting purposes, with a fair value of $843, were recorded on the balance sheet. The difference between the fair value and carrying value of these instruments, net of the related tax expense, was recorded to opening retained earnings on January 1, 2007. The actuarial liabilities are supported, in part, by assets that are designated as held-for-trading and derivatives that are not designated as hedges for accounting purposes. Because the value of the actuarial liabilities is determined by reference to the assets supporting those liabilities, changes in the actuarial liabilities offset a significant portion of the changes in fair value of those assets recorded to retained earnings on transition. The Company also designated bonds and stocks with a carrying value of $209 and a fair value of $207 as available-for-sale. These assets were designated as such in order to match the measurement of the liabilities they are supporting. The Company also designated other invested assets with a carrying value of $178 as available-for-sale. These assets are investments in limited partnerships and are recorded at cost because these assets are not traded in an active market.

On January 1, 2007, deferred net realized gains of $3,317 relating to assets supporting actuarial liabilities, excluding real estate, and before the related tax expense, were recorded to retained earnings. Since deferred net realized gains are generally taken into account in establishing the actuarial liabilities, most of the deferred net realized gains recorded to retained earnings were offset by changes in actuarial liabilities also recorded to retained earnings on January 1, 2007.

Investments not supporting actuarial liabilities

On January 1, 2007, the Company designated bonds and stocks not supporting actuarial liabilities with a carrying value of $10,544 and a fair value of $10,906 as available-for-sale. The difference between the fair value and carrying value of these assets, net of the related tax expense, was recorded to opening OCI as of January 1, 2007. Because changes in fair value of these assets are recorded to OCI, these assets only impact net income when they are sold or other-than-temporarily impaired, and the gain or loss and the related tax expense recorded in accumulated OCI is reclassified to net income. The Company also designated other invested assets with a carrying value of $574 as available-for-sale. These assets are investments in segregated and mutual funds which are recorded at fair value, and investments in limited partnerships which are recorded at cost. The Company also designated bonds and other invested assets not supporting actuarial liabilities with a carrying value of $187 and a fair value of $185 as held-for-trading. Changes in fair value of these assets were recorded to income in 2007. These assets are primarily investments held by non-insurance subsidiaries of the Company.

On January 1, 2007, derivatives not supporting actuarial liabilities with a fair value of $279 were recorded on the balance sheet. The difference between the fair value and carrying value of these instruments, net of the related tax expense, was recorded to opening retained earnings. For derivatives designated as accounting hedges, the effective portion of the difference between the carrying value and fair value of the derivatives was recorded to opening OCI. An adjustment to retained earnings was also recorded related to the hedged item in a fair value hedging relationship.

2. Changes in Accounting Policies (Cont'd)

Changes in fair value of assets designated as held-for-trading and derivatives not designated as accounting hedges and not supporting actuarial liabilities impacted net income in 2007.

Deferred net realized gains of $580 related to assets not supporting actuarial liabilities, excluding real estate, and before the related tax expense, were recorded to retained earnings on January 1, 2007.

The increases (decreases) to opening retained earnings and opening OCI, recorded on January 1, 2007, are summarized below.

Summary of impact on retained earnings and OCI

Opening retained earnings

Increase due to recording held-for-trading assets at fair value (1)	**$ 3,392**
Increase due to recording derivatives at fair value, net of adjustments relating to fair value hedges	**252**
Reversal of deferred net realized gains and other fair value adjustments (2)	**3,886**
Decrease due to change in actuarial liabilities and other policy liabilities	**(7,245)**
Decrease due to income taxes	**(93)**
Total increase in opening retained earnings, January 1, 2007	**$ 192**

$186 of the above increase was allocated to shareholders and $6 was allocated to participating policyholders in the consolidated statements of equity.

Opening OCI

Increase due to recording available-for-sale assets at fair value, net of adjustments for fair value hedges of available-for-sale assets (3)	**$ 443**
Increase due to cash flow and net investment hedge accounting	**66**
Decrease due to income taxes	**(150)**
Total increase in opening OCI	**$ 359**
Reclassification of currency translation account to OCI	**$ (1,337)**
Opening OCI, January 1, 2007	**$ (978)**

The currency translation account for prior periods has also been reclassified to opening OCI in the consolidated statements of equity.

(1) Consists of $3,394 related to held-for-trading bonds, stocks and other invested assets supporting actuarial liabilities and $(2) related to held-for-trading bonds and other invested assets not supporting actuarial liabilities.

(2) Consists of $3,317 related to investments supporting actuarial liabilities and $580 related to investments not supporting actuarial liabilities. This amount also includes $(11) of other adjustments required to record financial instruments at fair value.

(3) Consists of $(2) related to available-for-sale bonds and stocks supporting actuarial liabilities and $362 related to available-for-sale bonds and stocks not supporting actuarial liabilities. The remaining amount of $83 consists of fair value adjustments for available-for-sale other invested assets and fair value hedges.

DETERMINING THE VARIABILITY TO BE CONSIDERED IN APPLYING THE VARIABLE INTEREST ENTITY STANDARDS:

On January 1, 2007, the Company adopted the requirements of the CICA's Emerging Issues (EIC) 163, Determining the Variability to be Considered in Applying Accounting Guideline 15, Variable Interest Entities (AcG-15). EIC 163 provides additional clarification on the nature of the variability to be considered in applying AcG-15 based on an assessment of the design of the entity. These amendments did not have an impact on the Consolidated Financial Statements.

CONVERTIBLE AND OTHER DEBT INSTRUMENTS WITH EMBEDDED DERIVATIVES:

In the second quarter of 2007, the Company adopted, on a retrospective basis, EIC 164, Convertible and Other Debt Instruments with Embedded Derivatives. EIC 164 clarifies the accounting treatment for certain types of convertible debt instruments. It provides guidance on the classification of the debt instrument as a liability or equity, whether the instrument contains an embedded derivative, and the accounting for future tax impacts and earnings per share computations. The adoption of this EIC did not have an impact on the Consolidated Financial Statements.

2. Changes in Accounting Policies (Cont'd)

ACCOUNTING POLICY CHOICE FOR TRANSACTION COSTS:

During the third quarter of 2007, the Company adopted, on a retrospective basis, EIC 166, Accounting Policy Choice for Transaction Costs. This EIC addresses the accounting policy choice of recognizing transaction costs in income or adding transaction costs to the carrying amount of financial assets and financial liabilities that are not classified as held-for-trading. The EIC requires that the same accounting policy be applied to all similar financial instruments classified as other than held-for-trading, but allows a different accounting policy choice for financial instruments that are not similar. The Company's transaction cost recognition policy is consistent with this guidance.

FUTURE IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS — DISCLOSURE AND PRESENTATION:

On January 1, 2008, the Company will adopt three new CICA Handbook Sections: Section 1535, Capital Disclosures, Section 3862, Financial Instruments — Disclosures, and Section 3863, Financial Instruments — Presentation. Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital; information about what the entity regards as capital; whether the entity has complied with any capital requirements; and the consequences of not complying with these capital requirements. Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments — Disclosure and Presentation. Section 3863 carries forward unchanged the presentation requirements of Section 3861 while Section 3862 requires enhanced financial instrument disclosures focusing on disclosures related to the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company will apply the new disclosures in its 2008 Consolidated Financial Statements. The Company does not expect the adoption of these accounting standards to have a material impact on the Consolidated Financial Statements.

3. Acquisitions and Disposals

ACQUISITIONS

On May 31, 2007, the Company completed the acquisition of the U.S. group benefits business of Genworth Financial, Inc. (Genworth EBG Business) for $725. The transaction was financed with existing capital. Genworth EBG Business's results are included in 2007 income reported from June 1, 2007. Genworth EBG Business's results and assets, including goodwill, are included in the SLF U.S. reportable segment in these Consolidated Financial Statements.

The acquired business complemented the Company's existing U.S. group business platform and increased the Company's market share across its U.S. group lines of business. The acquisition increased the Company's access to markets, broadened its product and service offerings and strengthened its distribution platform. In the fourth quarter of 2007, the identification and valuation of the intangible assets acquired was completed. The acquired intangible asset is a distribution network of $71 which is subject to amortization on a straight-line basis over its projected economic life of 25 years. $315 of the goodwill recorded is expected to be deductible for tax purposes. Amendments to the consideration paid and the tangible and intangible assets acquired may be required in 2008. As a result, the goodwill arising from the acquisition of the Genworth EBG business is subject to adjustment in 2008 as part of the finalization of the allocation of the purchase price to the assets acquired and the liabilities assumed.

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 $563. CMG Asia's results are included in the SLF Asia reportable segment in these Consolidated Financial Statements. The acquisition significantly strengthened the Company's presence in Hong Kong by substantially increasing its sales force and its customer base and expanded its operations to include new group insurance and pension businesses. The Company also achieved 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.

3. Acquisitions and Disposals (Cont'd)

These acquisitions are summarized below:

	2007 Genworth EBG Business	2005 CMG Asia
Percentage of shares acquired	**100%**	100%
Invested assets acquired	**$ 977**	$ 1,548
Other assets acquired (1)	**129**	122
	1,106	1,670
Actuarial liabilities and other policy liabilities acquired	**654**	1,453
Amounts on deposit acquired	**49**	159
Other liabilities acquired	**38**	40
	$ 741	$ 1,652
Net balance sheet assets acquired	**$ 365**	$ 18
Consideration:		
Cash cost of acquisition	**$ 709**	$ 554(2)
Transaction and other related costs	**16**	9
Total consideration	**$ 725**	$ 563
Goodwill on acquisition	**$ 360**	$ 545
Cash and cash equivalents acquired	**$ 132**	$ 77

(1) Other assets acquired includes $71 of intangible assets related to Genworth EBG Business and $47 of intangible assets related to CMG Asia.

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

On June 22, 2007, the Company purchased approximately two million of additional trust units of CI Financial Income Fund for $66 in order to maintain its existing combined interest of 36.5% in CI Financial Income Fund and Canadian International LP (collectively, CI Financial). The Company's interest in CI Financial had decreased slightly as a result of CI Financial's purchase of Rockwater Capital Corporation. The purchase resulted in a $57 increase to goodwill and an $8 increase to intangible assets for equity accounting purposes.

In the fourth quarter of 2006, the Company increased its ownership interest in CI Financial by 0.74% by purchasing approximately two million units of CI Financial Income Fund for $55. The purchase resulted in a $36 increase to goodwill and a $16 increase to intangible assets for equity accounting purposes.

DISPOSALS

On December 13, 2007, the Company entered into an agreement to sell Sun Life Retirement Services (U.S.), Inc., a 401(k) plan administration business in the United States, to Hartford Financial Services LLC. The sale is expected to close in the first quarter of 2008 and is not expected to have a material impact on the Consolidated Financial Statements.

On November 7, 2007, the Company sold the U.S. subsidiaries that comprise the Independent Financial Marketing Group (IFMG) business, to LPL Holdings, Inc. The sale is not material to these Consolidated Financial Statements.

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., 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 2005. This loss includes a foreign exchange loss of $52, equivalent to the amount of the foreign exchange loss accumulated in OCI in the consolidated statements of equity.

4. Segmented Information

The Company has five reportable 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. 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. The Company's revenues from these segments are derived principally from mutual funds, investment management and annuities, life and health insurance, and life retrocession. Revenues not attributed to the strategic business units are derived primarily from investments of a corporate nature and earnings on capital.

Corporate includes the results of the Company's U.K. business unit, its active Reinsurance business unit and Corporate Support operations, which include run-off reinsurance as well as investment income, expenses, capital and other items not allocated to the Company's other business groups. 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 fair market values prevailing when the arrangements are negotiated. Inter-segment revenue for 2007 consists of interest of $146 ($281 in 2006 and $248 in 2005) and fee income of $79 in 2007 ($78 in 2006 and $55 in 2005).

The results of the segments' operations are discussed in the Management's Discussion and Analysis. The results for Corporate for the year ended December 31, 2007 include the $43 write-down of intangible assets described in Note 7.

Results by segment for the years ended December 31

		United States				
	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate	Consolidation Adjustments	Total
2007							
Revenue	**$ 9,285**	**$ 7,830**	**$ 1,687**	**$ 977**	**$ 1,634**	**$ (225)**	**$ 21,188**
Change in actuarial liabilities	**$ 180**	**$ (2,336)**	**$ —**	**$ 10**	**$ (368)**	**$ (1)**	**$ (2,515)**
Interest expenses	**$ 173**	**$ 236**	**$ 3**	**$ —**	**$ 84**	**$ (147)**	**$ 349**
Income taxes expense (benefit)	**$ 200**	**$ 142**	**$ 185**	**$ 23**	**$ (28)**	**$ —**	**$ 522**
Total net income	**$ 1,049**	**$ 584**	**$ 281**	**$ 123**	**$ 253**	**$ —**	**$ 2,290**
2006							
Revenue	$ 9,333	$ 10,465	$ 1,662	$ 1,022	$ 2,164	$ (359)	$ 24,287
Change in actuarial liabilities	$ 524	$ 1,717	$ —	$ 244	$ 40	$ —	$ 2,525
Interest expenses	$ 134	$ 211	$ 5	$ —	$ 199	$ (226)	$ 323
Income taxes expense (benefit)	$ 262	$ 21	$ 150	$ 17	$ (61)	$ —	$ 389
Total net income	$ 1,001	$ 449	$ 234	$ 101	$ 359	$ —	$ 2,144
2005							
Revenue	$ 8,658	$ 9,161	$ 1,648	$ 759	$ 1,995	$ (303)	$ 21,918
Change in actuarial liabilities	$ (240)	$ 769	$ —	$ 253	$ 90	$ —	$ 872
Interest expenses	$ 122	$ 151	$ 8	$ —	$ 217	$ (225)	$ 273
Income taxes expense (benefit)	$ 385	$ 113	$ 110	$ 17	$ (94)	$ —	$ 531
Total net income	$ 971	$ 496	$ 179	$ 42	$ 188	$ —	$ 1,876

Assets by segment as at December 31

		United States				
	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate	Consolidation Adjustments	Total
2007							
General fund assets	**$ 55,497**	**$ 39,633**	**$ 945**	**$ 5,497**	**$ 13,967**	**$ (1,248)**	**$ 114,291**
Segregated funds net assets	**$ 36,686**	**$ 27,741**	**$ —**	**$ 1,936**	**$ 6,842**	**$ —**	**$ 73,205**
2006							
General fund assets	$ 52,702	$ 44,172	$ 981	$ 5,334	$ 16,516	$ (1,874)	$ 117,831
Segregated funds net assets	$ 33,806	$ 27,522	$ —	$ 1,232	$ 8,229	$ —	$ 70,789

4. Segmented Information (Cont'd)

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

	2007	2006	2005
Revenue:			
United States	**$ 720**	$ 618	$ 453
United Kingdom	**878**	1,309	1,264
Canada	**14**	227	294
Other countries	**22**	10	(16)
Total revenue	**$ 1,634**	$ 2,164	$ 1,995
Total net income (loss):			
United States	**$ 212**	$ 190	$ 91
United Kingdom	**207**	193	179
Canada	**(153)**	(17)	(44)
Other countries	**(13)**	(7)	(38)
Total net income (loss)	**$ 253**	$ 359	$ 188
Assets:			
General funds:			
United States	**$ 3,865**	$ 4,715	
United Kingdom	**9,416**	10,254	
Canada	**552**	1,400	
Other countries	**134**	147	
Total general fund assets	**$ 13,967**	$ 16,516	
Segregated funds:			
United Kingdom	**$ 6,842**	$ 8,229	
Total segregated funds net assets	**$ 6,842**	$ 8,229	

5. Financial Investments and Related Net Investment Income

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

A) FAIR VALUE OF FINANCIAL INVESTMENTS

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

	2007			2006		
	Carrying Value	**Fair Value**	**Yield %**	Carrying Value	Fair Value	Yield %
ASSETS						
Bonds				$ 69,230	$ 72,524	6.31
Bonds — held-for-trading	**$ 50,608**	**$ 50,608**	**5.89**			
Bonds — available-for-sale	**9,148**	**9,148**	**5.62**			
Mortgages and corporate loans	**20,742**	**21,046**	**6.18**	15,993	16,322	6.44
Stocks				4,899	5,544	11.24
Stocks — held-for-trading	**4,438**	**4,438**	**2.64**			
Stocks — available-for-sale	**788**	**788**	**3.57**			
Real estate	**4,303**	**5,183**	**10.77**	3,825	4,549	12.02
Policy loans	**2,959**	**2,959**	**6.84**	3,105	3,105	6.35
Cash, cash equivalents and short-term securities	**5,500**	**5,500**	**n/a**	6,239	6,239	n/a
Derivative assets	**1,947**	**1,947**	**n/a**			
Other invested assets including held-for-trading and Available-for-sale other invested assets	**2,587**	**4,295**	**n/a**	2,908	4,605	n/a
Total invested assets	**$103,020**	**$105,912**	**6.01**	$106,199	$112,888	6.79

5. Financial Investments and Related Net Investment Income (Cont'd)

Other invested assets include the Company's investment in segregated funds, mutual funds, investments accounted for by the equity method, investments in limited partnerships and leases. In 2006, other invested assets also included derivatives that were reported at fair value. Other invested assets includes the Company's investment in trust units and limited partnership units of CI Financial with a carrying value of $1,226 and a fair value of $2,935 ($1,159 and $2,734, respectively, in 2006).

The preceding table includes only derivative financial instruments that have a positive fair value and are, therefore, recorded as assets on the consolidated balance sheets. Derivative liabilities with a fair value of $(638) are also included on the consolidated balance sheets.

i) FAIR VALUE METHODOLOGY AND ASSUMPTIONS

For 2007, the fair value of publicly traded bonds and stocks is determined using quoted market bid prices. Prior to 2007, these fair values were determined using quoted market closing prices. The fair value of non-publicly traded bonds in both 2007 and prior years is determined using a discounted cash flow approach that includes provisions for credit risk and the expected maturities of the securities. The valuation techniques used are primarily based on observable market prices or rates. In limited circumstances, valuation assumptions not based on observable market data may be used. The Company does not believe that using alternative assumptions in the valuation techniques for these bonds would result in significantly different fair values. Stocks that do not have a quoted market price on an active market and are designated as available-for-sale are reported at cost in 2007 and are not material to these Consolidated Financial Statements.

The fair value of derivative financial instruments is determined based on the type of derivative. 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, futures and common stock index swaps are based on the quoted market prices, the value of underlying securities or indices or option pricing models. In limited circumstances, valuation assumptions not based on observable market data may be used. The Company does not believe that using alternative assumptions in the valuation techniques for these derivatives would result in significantly different fair values.

Fair value of mortgages and corporate loans is determined by discounting the expected future cash flows using current market interest rates with similar credit risks and terms to maturity. 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 are assumed to be equal to their carrying values. The fair values of cash equivalents and short-term securities are based on market yields. The fair values of other invested assets are determined by reference to quoted market prices.

ii) YIELD CALCULATION

In 2007, yield for all assets, excluding real estate, is calculated based on total net interest, dividend or other investment income divided by the total average amortized cost or cost of the assets, which includes accrued investment income. In 2006, yield for all assets, including real estate, was calculated the same as for 2007 except that it was based on the average carrying value which included deferred net realized gains. The yield on real estate for 2007 is calculated in the same manner as 2006.

B) REAL ESTATE INVESTMENTS

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

	2007	2006
Canada	**$ 2,828**	$ 2,372
United States	**1,168**	1,091
United Kingdom	**306**	361
Other	**1**	1
Total real estate	**$ 4,303**	$ 3,825

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.

	2007		2006	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Real estate held for investment	**$ 4,295**	**$ 5,175**	$ 3,822	$ 4,546
Real estate held for sale	**8**	**8**	3	3
Total real estate	**$ 4,303**	**$ 5,183**	$ 3,825	$ 4,549

The carrying value of real estate that was non-income producing for the preceding 12 months was $87 in 2007 ($53 in 2006).

5. Financial Investments and Related Net Investment Income (Cont'd)

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

	2007	2006
Balance, January 1	**$ 255**	$ 215
Net realized gains for the year	**76**	59
Amortization of deferred net realized gains	**(36)**	(28)
Effect of changes in currency exchange rates	**(19)**	9
Balance, December 31	**$ 276**	$ 255

C) DEFERRED NET REALIZED GAINS

Prior to 2007, realized gains on bonds, stocks, mortgages and derivatives were deferred and amortized to income as described in Note 1. Gains on sales of real estate continue to be deferred and amortized and these deferred gains are included in section B of this note. Changes in deferred net realized gains on bonds, mortgages, stocks and derivatives during 2006 are shown in the following table. These gains, net of the related taxes, were recorded to retained earnings on January 1, 2007, as described in Note 2.

	Bonds	Mortgages	Stocks	Derivatives	Total
Balance, January 1, 2006	$ 2,291	$ 158	$ 980	$ 215	$ 3,644
Net realized gains for the year	146	49	169	243	607
Amortization of deferred net realized gains	(258)	(35)	(203)	(53)	(549)
Effect of changes in currency exchange rates	114	2	80	(1)	195
Balance, December 31, 2006	$ 2,293	$ 174	$ 1,026	$ 404	$ 3,897

D) NET INVESTMENT INCOME

Changes in fair value of held-for-trading assets recorded to net income for the year ended December 31, 2007, consist of the following:

	2007
Bonds	**$ (1,691)**
Stocks	**103**
Other invested assets	**33**
Cash equivalents and short-term securities	**(3)**
Total changes in fair value of held-for-trading assets	**$ (1,558)**

Income from derivative investments consists of income from derivatives that are not classified as hedges for accounting purposes. Income from derivative investments on the consolidated statement of operations for the year ended December 31, 2007 consists of the following:

	2007
Changes in fair value	**$ 75**
Interest income	**10**
Other income	**1**
Total income from derivative investments	**$ 86**

5. Financial Investments and Related Net Investment Income (Cont'd)

Other net investment income has the following components:

	2007	2006	2005
Interest income:			
Bonds		$ 3,874	$ 3,720
Held-for-trading bonds	**$ 3,091**		
Available-for-sale bonds	**531**		
Mortgages and corporate loans	**1,286**	930	889
Policy loans	**212**	203	184
Cash, cash equivalents and short-term securities	**231**	170	155
Interest income	**5,351**	5,177	4,948
Dividends from stocks		103	118
Dividends on held-for-trading stocks	**103**		
Dividends on available-for-sale stocks	**23**		
Real estate income (net) (1)	**300**	260	252
Amortization of deferred net realized gains and unrealized gains and losses	**121**	751	632
Derivative realized and unrealized gains and losses (2)		116	(22)
Foreign exchange gains (losses)	**37**	(14)	28
Other income (3)	**351**	359	215
Investment expenses and taxes	**(89)**	(88)	(92)
Total other net investment income	**$ 6,197**	$ 6,664	$ 6,079

(1) Includes operating lease rental income of $316 ($275 and $271, respectively, in 2006 and 2005).

(2) Consists of realized and unrealized gains on derivatives that are reported at fair value in 2006 and 2005. Additional derivative gains of $31 in 2006 and $(66) in 2005 are included in other items (net).

(3) Includes equity income from CI Financial of $228 in 2007 ($167 in 2006, and $119 in 2005). 2005 also includes the loss on sale of Cuprum of $43 as described in Note 3. In 2007, this includes write-downs of available-for-sale assets as described in Note 6 and the effect of hedge accounting described in section E of this note.

E) DERIVATIVE FINANCIAL INSTRUMENTS

The accounting policies used for derivative financial instruments are described in Note 1.

The fair values of derivative financial instruments by major class of derivative as at December 31, are shown in the following table.

	2007		2006	
	Fair Value		Fair Value	
	Positive	Negative	Positive	Negative
Interest rate contracts	**$ 286**	**$ (555)**	$ 189	$ (240)
Foreign exchange contracts	**1,281**	**(42)**	704	(105)
Other contracts	**380**	**(41)**	585	(11)
Total derivatives	**$ 1,947**	**$ (638)**	$ 1,478	$ (356)

The following table presents the fair values of derivative assets and liabilities categorized by derivatives designated as hedges for accounting purposes and those not designated as hedges as at December 31, 2007.

	2007		
	Total Notional Amount	Fair Value	
		Positive	Negative
Derivative investments (1)	**$ 37,074**	**$ 1,216**	**$ (611)**
Fair value hedges	**2,577**	**237**	**(7)**
Cash flow hedges	**77**	**10**	**-**
Net investment hedges	**2,914**	**484**	**(20)**
Total	**$ 42,642**	**$ 1,947**	**$ (638)**

(1) Derivative investments are derivatives that have not been designated as hedges for accounting purposes.

5. Financial Investments and Related Net Investment Income (Cont'd)

Additional information on the derivatives designated as hedges for accounting purposes is included in the following sections.

i) FAIR VALUE HEDGES

The Company recorded $14 to income as hedge ineffectiveness for fair value hedges in other net investment income for the year ended December 31, 2007.

ii) CASH FLOW HEDGES

Cash flow hedges include equity forwards hedging the variation in the cash flows associated with the anticipated payments under certain stock-based compensation plans expected to occur in 2008, 2009 and 2010. The amounts included in accumulated OCI related to these derivatives are reclassified to net income as the liability is accrued for the stock-based compensation plan over the vesting period. The amount excluded from hedge effectiveness assessment of $(3) for cash flow hedges is recorded in other net investment income for the year ended December 31, 2007. The Company expects to reclassify $1 from accumulated OCI to net income within the next 12 months.

F) 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. As at December 31, 2007, the Company had loaned securities (which are included in invested assets) with a carrying value and fair value of approximately $2,065 ($2,973 and $3,062, respectively, in 2006).

G) ASSET SECURITIZATIONS

In prior years, 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.

As at December 31, the key assumptions used in the discounted cash flow models to determine the fair value of retained interest amounts are as follows:

	2007	2006
Carrying value of retained interests	**$ 91**	$ 103
Fair value of retained interests	**$ 91**	$ 111
Weighted average remaining life (in years)	**1.14-14.2**	0.7-13.3
Discount rate	**2.5%-12.5%**	2.5%-12.5%
Anticipated credit losses	**0.5%**	0.6%

The sensitivity to a 10% and 20% adverse change in key assumptions did not have a material impact on the above fair values.

The following table summarizes certain cash flows received from securitization trusts in 2007, 2006 and 2005:

	2007	2006	2005
	Mortgages	Mortgages	Mortgages
Cash flows received on retained interests and servicing fees	**$ 14**	$ 18	$ 33

6. Financial Instrument Risk Management

The Company's enterprise-wide risk management framework includes policies, risk tolerance limits and worldwide practices for risk management. It provides oversight for the risk management activities within the Company's business segments. The Company has enterprise-wide consolidated risk management policies, which provide a consistent approach to measurement, mitigation and control, and monitoring of risk exposures. The Company has 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 exposures. 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 Company's Risk Review Committee on an annual basis. Further details of the risk management programs can be found in the Management's Discussion and Analysis.

The Company uses derivative instruments to manage risks related to interest rate, equity market and currency fluctuations and in replication strategies for permissible investments**.** The Company does not engage in speculative investment in derivatives. The gap in market sensitivities or exposures between liabilities and supporting assets is monitored and managed within defined tolerance limits by, where appropriate, the use of derivative instruments. Models and techniques are used by the Company to measure the continuing effectiveness of its risk management strategies.

The significant risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The following sections describe how the Company manages each of these risks.

A) CREDIT RISK

Credit risk is the risk of financial loss resulting from the failure of debtors to make payments of interest and/or principal when due. The Company mitigates credit risk through detailed credit and underwriting policies and comprehensive due diligence and credit analyses.

i) MAXIMUM EXPOSURE TO CREDIT RISK

The Company's maximum credit exposure related to financial instruments is summarized in the following table. Maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2007	2006
Cash, cash equivalents and short-term securities	**$ 5,500**	$ 6,239
Bonds		69,230
Held-for-trading bonds	**50,608**	
Available-for-sale bonds	**9,148**	
Mortgages	**15,468**	15,993
Corporate loans	**5,274**	
Derivative assets (1)	**1,947**	1,478
Other financial assets (2)	**2,722**	2,591
Total balance sheet maximum credit exposure	**$ 90,667**	$ 95,531
Off-balance sheet items		
Loan commitments (3)	**$ 1,332**	$ 1,171
Guarantees	**98**	106
Total off-balance sheet items	**$ 1,430**	$ 1,277

(1) The positive market value is 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) Other financial assets include accounts receivable and investment income due and accrued as shown in Note 8.

(3) Loan commitments include commitments to extend credit under commercial and residential mortgage loans and private bonds. Private bond commitments contain provisions that allow for withdrawal of the commitment if there is a deterioration in the credit quality of the borrower.

Collateral held and other credit enhancements

During the normal course of business, the Company invests in financial assets secured by real estate properties, pools of financial assets, third-party financial guarantees, credit insurance and other arrangements. In the case of derivatives, collateral is collected from the counterparty to mitigate the credit exposure according to the Credit Support Annex (CSA), which forms part of the International Swaps and Derivatives Association's (ISDA) Master Agreement. It is the Company's common practice to execute a CSA in conjunction with an ISDA Master Agreement.

6. Financial Instrument Risk Management (Cont'd)

ii) CONCENTRATION RISK

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics, such as groups of debtors in the same economic or geographic regions or in similar industries. The financial instrument issuers have similar economic characteristics so that their ability to meet contractual obligations may be impacted similarly by changes in the economic or political conditions. The Company mitigates this risk through setting counterparty exposure limits and diversification requirements. 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 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. It is the Company's policy to diversify all investment portfolios. The Company's mortgages and corporate loans are diversified by type and location and, for mortgage loans, by borrower.

The following tables provide details of the bonds, mortgages and corporate loans held as at December 31 by issuer country, geographic location and industry sector where applicable.

The carrying value of bonds by issuer country as at December 31 is shown in the following table. For 2007 carrying values are equal to their fair values.

	2007			2006
	Held-for-Trading Bonds	**Available-for-Sale Bonds**	**Total Bonds**	Total Bonds
Canada	**$ 18,457**	**$ 1,567**	**$ 20,024**	$ 24,131
United States	**20,452**	**5,865**	**26,317**	31,025
United Kingdom	**5,704**	**600**	**6,304**	6,818
Other	**5,995**	**1,116**	**7,111**	7,256
Balance, December 31	**$ 50,608**	**$ 9,148**	**$ 59,756**	$ 69,230

The carrying value of bonds by issuer and industry sector as at December 31 is shown in the following table. For 2007 carrying values are equal to their fair values.

	2007			2006	
	Held-for-Trading Bonds	**Available-for-Sale Bonds**	**Total**	Carrying Value	Fair Value[1]
Bonds issued or guaranteed by:					
Canadian federal government	**$ 2,320**	**$ 567**	**$ 2,887**	$ 2,797	$ 2,927
Canadian provincial and municipal governments	**5,849**	**336**	**6,185**	6,062	7,089
U.S. Treasury and other U.S. agencies	**1,055**	**372**	**1,427**	1,515	1,549
Other foreign governments	**3,195**	**521**	**3,716**	3,122	3,576
Total government issued or guaranteed bonds	**12,419**	**1,796**	**14,215**	13,496	15,141
Corporate bonds by industry sector:					
Financials	**13,062**	**3,497**	**16,559**	20,249	20,793
Utilities and energy	**7,475**	**752**	**8,227**	9,697	10,285
Telecom	**2,136**	**666**	**2,802**	3,227	3,284
Consumer staples and discretionary	**5,185**	**952**	**6,137**	8,175	8,315
Industrials	**2,665**	**374**	**3,039**	3,541	3,722
Other	**1,730**	**429**	**2,159**	2,603	2,676
Total corporate	**32,253**	**6,670**	**38,923**	47,492	49,075
Asset-backed securities	**5,936**	**682**	**6,618**	8,242	8,308
Total bonds	**$ 50,608**	**$ 9,148**	**$ 59,756**	$ 69,230	$ 72,524

(1) 2006 includes $5,127 of bonds that were designated as corporate loans on January 1, 2007, as described in Note 2.

6. Financial Instrument Risk Management (Cont'd)

The carrying value of mortgages and corporate loans by geographic location as at December 31, 2007 is shown in the following table. The carrying value of mortgages split into residential and non- residential mortgages is also included. Residential mortgages include mortgages for both single and multiple family dwellings.

	2007				
	Mortgages			Corporate Loans	Total Mortgages and Corporate Loans
	Non-residential	Residential	Total		
Canada	$ 6,382	$ 2,723	$ 9,105	$ 4,818	$ 13,923
United States	6,005	274	6,279	258	6,537
United Kingdom	84	—	84	—	84
Other	—	—	—	198	198
Total mortgages and corporate loans	$ 12,471	$ 2,997	$ 15,468	$ 5,274	$ 20,742

The carrying value of mortgages by geographic location as at December 31, 2006 is as follows:

	2006		
	Non-residential	Residential	Total
Canada	$ 6,347	$ 2,794	$ 9,141
United States	6,404	306	6,710
United Kingdom	142	—	142
Total mortgages	$ 12,893	$ 3,100	$ 15,993

iii) CONTRACTUAL MATURITIES OF BONDS, MORTGAGES, CORPORATE LOANS AND DERIVATIVES

The contractual maturities of bonds as at December 31, 2007, 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. Actual maturities could differ from contractual maturities because of the borrower's right to call or extend or right to prepay obligations, with or without prepayment penalties.

	2007		
	Held-for-Trading Bonds	Available-for-Sale Bonds	Total Bonds
Due in 1 year or less	$ 1,521	$ 337	$ 1,858
Due in years 2-5	10,320	2,532	12,852
Due in years 6-10	12,660	3,291	15,951
Due after 10 years	26,107	2,988	29,095
Total bonds	$ 50,608	$ 9,148	$ 59,756

As at December 31, 2007, the carrying value of scheduled mortgage and corporate loan maturities, before allowances for losses, are as follows.

	Mortgages	Corporate Loans	Total
2008	$ 1,506	$ 474	$ 1,980
2009	1,050	367	1,417
2010	914	370	1,284
2011	1,219	725	1,944
2012	826	751	1,577
Thereafter	9,970	2,601	12,571
Total mortgages and corporate loans, before allowances for losses	$ 15,485	$ 5,288	$ 20,773

6. Financial Instrument Risk Management (Cont'd)

Notional amounts of derivative financial instruments are the basis for calculating payments and are generally not the actual amounts exchanged. The following table provides the notional amounts of derivative instruments outstanding as at December 31 by type of derivative and term to maturity:

	2007				2006			
	Term to Maturity				Term to Maturity			
	Under 1 Year	1 to 5 years	Over 5 years	Total	Under 1 Year	1 to 5 Years	Over 5 Years	Total
Over-the-counter contracts:								
Interest rate contracts:								
Swap contracts	**$ 625**	**$ 7,453**	**$ 12,116**	**$ 20,194**	$ 876	$ 6,615	$ 11,976	$ 19,467
Options purchased	**60**	**283**	**1,841**	**2,184**	1,385	898	1,629	3,912
Foreign exchange contracts:								
Forward contracts	**1,849**	**105**	**—**	**1,954**	2,529	98	—	2,627
Swap contracts	**222**	**3,157**	**5,351**	**8,730**	333	1,681	4,668	6,682
Other contracts:								
Options purchased	**2,245**	**3,814**	**49**	**6,108**	3,313	5,550	270	9,133
Forward contracts	**648**	**53**	**—**	**701**	556	42	—	598
Swap contracts	**230**	**95**	**13**	**338**	261	147	13	421
Credit derivatives	**—**	**—**	**90**	**90**	—	—	23	23
Exchange-traded contracts:								
Interest rate contracts:								
Futures contracts	**1,182**	**85**	**—**	**1,267**	373	37	—	410
Foreign exchange contracts:								
Futures contracts	**34**	**—**	**—**	**34**	—	—	—	—
Other contracts:								
Futures contracts	**1,042**	**—**	**—**	**1,042**	867	—	—	867
Total notional amount	**$ 8,137**	**$ 15,045**	**$ 19,460**	**$ 42,642**	$ 10,493	$ 15,068	$ 18,579	$ 44,140

iv) ASSET QUALITY

The Company's accounting policies for the recording and assessing of impairment are described in Note 1. Details concerning the credit quality of financial instruments held and considered impaired or temporarily impaired as at the current balance sheet date are described in the following sections.

Bonds by Credit Rating

Investment grade bonds are those rated BBB and above. The Company's bond portfolio was 97.6% (97.5% in 2006) investment grade based on carrying value. The carrying value and fair value of bonds by rating is shown in the following table. For 2007, carrying value is equivalent to fair value so only carrying value is shown.

	2007			2006	
	Held-for-Trading Bonds	Available-for-Sale Bonds	Total	Carrying Value	Fair Value
Bonds by credit rating (1):					
AAA	**$ 9,896**	**$ 2,214**	**$ 12,110**	$ 13,432	$ 13,805
AA	**9,567**	**1,501**	**11,068**	12,042	12,888
A	**15,443**	**2,538**	**17,981**	22,175	23,492
BBB	**14,382**	**2,773**	**17,155**	19,849	20,522
BB and lower	**1,320**	**122**	**1,442**	1,732	1,817
Total bonds	**$ 50,608**	**$ 9,148**	**$ 59,756**	$ 69,230	$ 72,524

(1) Local currency denominated sovereign debts of certain developing countries, used in backing the local liabilities, have been classified as investment grade.

6. Financial Instrument Risk Management (Cont'd)

Derivative Financial Instruments by Counterparty Credit Rating

Derivative instruments are either exchange-traded or over-the-counter contracts negotiated between counterparties. 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, 2007, the Company held assets of $183 ($51 in 2006) pledged as collateral for derivative contracts. The assets pledged are cash, cash equivalents and short-term securities.

The following tables show the derivative financial instruments with a positive fair value as at December 31, split by counterparty credit rating.

	2007		
	Gross positive Replacement Cost(1)	**Impact of Master Netting Agreements(2)**	**Net Replacement Cost(3)**
Over-the-counter contracts:			
AAA	**$ 260**	**$ (10)**	**$ 250**
AA	**1,407**	**(216)**	**1,191**
A	**272**	**(79)**	**193**
Exchange-traded	**8**	**—**	**8**
Total	**$ 1,947**	**$ (305)**	**$ 1,642**

	2006		
	Gross positive Replacement Cost (1)	Impact of Master Netting Agreements (2)	Net Replacement Cost (3)
Over-the-counter contracts:			
AAA	$ 140	$ —	$ 140
AA	1,142	(226)	916
A	190	(7)	183
Exchange-traded	6	(2)	4
Total	$ 1,478	$ (235)	$ 1,243

(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) The credit risk associated with derivative assets subject to master netting arrangements is reduced by derivative liabilities due to the same counterparty in the event of default. The Company's overall exposure to credit risk reduced through master netting arrangements may change substantially following the reporting date as the exposure is affected by each transaction subject to the arrangement.

(3) Gross positive replacement cost after netting agreements.

Mortgages and Corporate Loans Past Due or Impaired

The distribution of mortgages and corporate loans by credit quality as at December 31 is shown in the following table.

	2007						2006	
	Gross Carrying Value			**Allowance for Losses**			Mortgages	
	Mortgages	**Corporate Loans**	**Total**	**Mortgages**	**Corporate Loans**	**Total**	Gross Carrying Value	Allowance For Losses
Neither past due nor impaired	**$ 15,400**	**$ 5,200**	**$ 20,600**	**$ 7**	**$ —**	**$ 7**	$ 15,883	$ 11
Past due but not impaired:								
Past due less than 90 days	**58**	**33**	**91**	**—**	**—**	**—**	74	—
Past due 90 to 179 days	**1**	**3**	**4**	**—**	**—**	**—**	—	—
Impaired	**26**	**52**	**78**	**10**	**14**	**24**	63	16
Balance, December 31	**$ 15,485**	**$ 5,288**	**$ 20,773**	**$ 17**	**$ 14**	**$ 31**	$ 16,020	$ 27

Impaired mortgages and corporate loans of $4 as at December 31, 2007 ($7 of impaired mortgages as at December 31, 2006) do not have an allowance for losses because, at a minimum, either the fair value of the collateral or the expected future cash flows exceed the carrying value of the mortgage or loan.

6. Financial Instrument Risk Management (Cont'd)

The weighted average investment in impaired mortgage and corporate loans, before allowances for losses was $43 as at December 31, 2007 ($63 of mortgages in 2006). The carrying value of mortgages and corporate loans that were non-income producing for the preceding 12 months was $13 ($5 of mortgages were non-income producing in 2006).

Changes in Allowances for Losses

The changes in the allowances for losses are as follows:

	Bonds	Mortgages	Corporate Loans	Other	Total
Balance, December 31, 2005	$ 97	$ 29	$ —	$ 14	$ 140
Provision for losses (recoveries)	(9)	(1)	—	—	(10)
Write-offs, net of recoveries	(29)	(1)	—	1	(29)
Effect of changes in currency exchange rates	(5)	—	—	—	(5)
Balance, December 31, 2006	**$ 54**	**$ 27**	**$ —**	**$ 15**	**$ 96**
Adjustment for change in accounting policy (Note 2)	**(54)**	**—**	**13**	**(15)**	**(56)**
Provision for losses	**—**	**—**	**2**	**—**	**2**
Write-offs, net of recoveries	**—**	**(7)**	**(1)**	**—**	**(8)**
Effect of changes in currency exchange rates	**—**	**(3)**	**—**	**—**	**(3)**
Balance, December 31, 2007	**$ —**	**$ 17**	**$ 14**	**$ —**	**$ 31**

Restructured Mortgages and Corporate Loans

Mortgages and corporate loans with a carrying value of nil have had their terms renegotiated during the year ended December 31, 2007 ($94 of mortgages were restructured in 2006).

Possession of Collateral/Foreclosed Assets

During 2007, the Company took possession of the real estate collateral of $8 it held as security for mortgages ($3 of real estate held as collateral in 2006). These assets are either retained as real estate investments if they comply with the Company's investment policy standards or sold.

Temporarily Impaired Available-for-Sale Assets

The available-for-sale assets disclosed in the following table exhibit evidence of impairment, however, the impairment loss has not been recognized in net income because it is considered temporary. Held-for-trading assets are excluded from the following table, as changes in fair value are recorded to net investment income. Available-for-sale bonds, stocks and other invested assets have generally been identified as temporarily impaired if their amortized cost as at December 31, 2007 was greater than their fair value, resulting in an unrealized loss. Unrealized losses may be 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 investment management practices and review of its investment holdings, it is believed that the contractual terms of these investments will be met and/or the Company has the ability to hold these investments until recovery in value.

	December 31, 2007	
	Fair Value	**Unrealized Losses**
Available-for-sale bonds	**$ 4,895**	**$ 273**
Available-for-sale stocks (1)	**238**	**34**
Available-for-sale other invested assets (2)	**108**	**12**
Total temporarily impaired financial assets	**$ 5,241**	**$ 319**

(1) This includes available-for-sale private equities that are accounted for at cost with a carrying value of $13.

(2) This pertains to available-for-sale limited partnerships that are accounted for at cost with a carrying value of $120.

For available-for-sale limited partnerships and equities accounted for at cost, management does not consider these assets to be other-than-temporarily impaired as the length of time that the fair value has been less than the cost and the extent of the loss are not sufficient to indicate that the fair value will not recover.

6. Financial Instrument Risk Management (Cont'd)

Impaired Available-for-Sale Assets and Non-Income Producing Bonds

During 2007, the Company wrote-down $2 of impaired available-for-sale bonds and stocks recorded at fair value and stocks and limited partnerships of $33 that were recorded at cost. These assets were written-down since the length of time that the fair value was less than the cost and the extent of the loss indicated that the fair value would not recover. These write-downs are included in other net investment income in the consolidated statements of operations.

The impaired bonds and other invested assets and the related allowances for losses for 2006 are shown in the following table. Bonds for 2006 include corporate loans that were designated as loans on January 1, 2007.

	2006	
	Impaired Carrying Value	Allowance for Losses
Bonds	$ 113	$ 54
Other	22	15
Total	$ 135	$ 69

The average carrying value of bonds that were non-income producing for the 12 months ended December 31, 2007 was nil ($17 for the 12 months ended December 31, 2006).

B) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to fund all cash outflow commitments as they fall due. The Company generally maintains a conservative liquidity position that exceeds all the liabilities payable on demand. The Company's asset-liability management allows it to maintain its financial position by ensuring that sufficient liquid assets are available to cover its potential funding requirements. The Company invests in various types of assets with a view of matching them with its liabilities of various durations. To strengthen its liquidity further, the Company actively manages and monitors its capital and asset levels, diversification and credit quality of its investments and cash forecasts and actual amounts against established targets. The Company also maintains liquidity contingency plans for the management of liquidity in the event of a liquidity crisis.

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. and its 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 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.

C) MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk, interest rate risk and other price risks such as equity risk. The following sections describe how the Company manages these risks.

i) CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As an international provider of financial services, the Company operates in a number of countries, with revenues and expenses denominated in several local currencies. In each country in which it operates, the Company generally maintains the currency profile of its assets so as to match the currency of aggregate liabilities and minimum surplus requirements in that country. This approach provides an operational hedge against disruptions in local operations caused by currency fluctuations. However, changes in exchange rates can affect the Company'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 have an adverse effect on the Company's reported net income. Foreign exchange derivative contracts such as currency swaps and forwards are used as a risk management tool to manage the currency exposure in accordance with the Company's policy.

6. Financial Instrument Risk Management (Cont'd)

ii) INTEREST RATE RISK

Interest rate risk is the potential for financial loss arising from changes in interest rates. The Company is exposed to interest rate price risk on monetary financial assets and liabilities that have a fixed interest rate and is exposed to interest rate cash flow risk on monetary financial assets and liabilities with floating interest rates that are reset as market rates change. The impact of interest rate risk for the Company's actuarial liabilities and the assets supporting those liabilities and the policy for managing this risk is included in Note 9.

iii) EQUITY RISK

Equity risk is the uncertainty in the valuation of assets and the cost of embedded options and guarantees arising from changes in equity markets. The impact of equity risk for the Company's actuarial liabilities and the assets supporting those liabilities and the policy for managing this risk is included in Note 9.

The Company's equity portfolio is diversified and contains a significant amount of exchange-traded funds which are indexed to various stock indices.

The carrying value of stocks by issuer country as at December 31 is shown in the following table. For 2007 carrying values are generally equal to their fair values.

	2007			2006
	Held-for-Trading Stocks	**Available-for-Sale Stocks**	**Total Stocks**	Total Stocks
Canada	**$ 2,016**	**$ 222**	**$ 2,238**	$ 1,762
United States	**1,141**	**566**	**1,707**	1,601
United Kingdom	**893**	**—**	**893**	1,274
Other	**388**	**—**	**388**	262
Total stocks	**$ 4,438**	**$ 788**	**$ 5,226**	$ 4,899

7. Goodwill and Intangible Assets

A) GOODWILL

In addition to the goodwill of $6,018 ($5,981 in 2006) shown on the consolidated balance sheets, goodwill of $404 ($346 in 2006) for investments accounted for by the equity method is included in other invested assets. There were no write-downs of goodwill due to annual impairment testing during 2007, 2006 and 2005.

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

	SLF Canada	SLF U.S.	SLF Asia	Corporate	Total
Balance, January 1, 2006	$ 3,732	$ 1,454	$ 519	$ 568	$ 6,273
Adjustment to purchase equation of CMG Asia (Note 3)	—	—	19	—	19
Acquisitions (Note 3)	36	—	—	10	46
Disposals	—	—	—	(7)	(7)
Effect of changes in currency exchange rates	—	(1)	(3)	—	(4)
Balance, December 31, 2006	**$ 3,768**	**$ 1,453**	**$ 535**	**$ 571**	**$ 6,327**
Acquisitions (Note 3)	**75**	**360**	**—**	**52**	**487**
Disposals	**(2)**	**(32)**	**—**	**(7)**	**(41)**
Effect of changes in currency exchange rates	**—**	**(237)**	**(75)**	**(39)**	**(351)**
Balance, December 31, 2007	**$ 3,841**	**$ 1,544**	**$ 460**	**$ 577**	**$ 6,422**

7. Goodwill and Intangible Assets (Cont'd)

B) INTANGIBLE ASSETS

In addition to the intangible assets of $775 ($777 in 2006) shown on the consolidated balance sheets, intangible assets of $766 ($759 in 2006) 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 $25 ($25 in 2006 and $22 in 2005). There were no write-downs of intangibles due to impairment during 2007, 2006 and 2005. The Company expects to record amortization expenses of $23 to operating expenses each year for each of the next five years. As at December 31, the components of the intangible assets are as follows:

	2007			2006		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Amount**	Gross Carrying Amount	Accumulated Amortization	Net Amount
Finite-life intangible assets:						
Sales potential of field force (1)	**$ 486**	**$ 60**	**$ 426**	$ 423	$ 48	$ 375
Asset administration contracts	**224**	**49**	**175**	224	38	186
Distribution channels	**—**	**—**	**—**	32	16	16
Brand name (2)	**—**	**—**	**—**	54	2	52
Other	**2**	**2**	**—**	2	2	—
	712	**111**	**601**	735	106	629
Indefinite-life intangible assets:						
Fund management contracts	**930**	**—**	**930**	895	—	895
State licenses	**10**	**—**	**10**	12	—	12
	940	**—**	**940**	907	—	907
Total intangible assets	**$ 1,652**	**$ 111**	**$ 1,541**	$ 1,642	$ 106	$ 1,536

(1) Increase in 2007 is due to the acquisition of the Genworth EBG Business as described in Note 3.

(2) On March 26, 2007, the Company announced the retirement of the Clarica brand as part of its integrated brand strategy in Canada. The write-down of the brand name of $52 was recorded to operating expenses in the first quarter ($43, net of the related taxes of $9).

8. Other Assets

Other assets consist of the following:

	2007	2006
Accounts receivable	**$ 1,629**	$ 1,401
Investment income due and accrued	**1,093**	1,190
Future income taxes (Note 18)	**382**	747
Deferred acquisition costs	**139**	185
Prepaid expenses	**231**	207
Premiums receivable	**395**	323
Accrued benefit asset (Note 21)	**422**	454
Capital assets	**171**	179
Other	**16**	188
Total other assets	**$ 4,478**	$ 4,874

Amortization of deferred acquisition costs charged to income amounted to $64 in 2007 ($112 and $142 in 2006 and 2005, respectively).

Capital assets are carried at a cost of $722 ($728 in 2006), less accumulated depreciation and amortization of $551 ($549 in 2006). Depreciation and amortization charged to income totalled $62 in 2007($67 and $63 in 2006 and 2005, respectively).

9. 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 equity market performance, interest rates, asset default, inflation, mortality and morbidity rates, policy terminations, 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 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
- 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 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 on real estate are taken into account in establishing the actuarial liabilities. In prior years, deferred net realized gains on bonds, stocks, mortgages and derivatives were also 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 $906 are included in policyholder dividends and interest on claims and deposits in the consolidated statements of operations ($846 in 2006 and $802 in 2005).

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

B) COMPOSITION OF ACTUARIAL LIABILITIES AND OTHER POLICY LIABILITIES

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

	2007				
	Canada	United States	Asia	Corporate[1]	Total
Individual participating life	$ 14,388	$ 4,945	$ 2,671	$ 3,282	$ 25,286
Individual non-participating life	2,670	7,175	217	528	10,590
Group life	1,294	224	9	5	1,532
Individual annuities	9,272	10,404	—	4,163	23,839
Group annuities	5,963	4,024	323	—	10,310
Health insurance	5,392	901	—	86	6,379
Total actuarial liabilities	38,979	27,673	3,220	8,064	77,936
Add: Other policy liabilities[2]	591	621	63	619	1,894
Actuarial liabilities and other policy liabilities	$ 39,570	$ 28,294	$ 3,283	$ 8,683	$ 79,830

	2006				
	Canada	United States	Asia	Corporate[1]	Total
Individual participating life	$ 12,213	$ 5,362	$ 2,508	$ 3,296	$ 23,379
Individual non-participating life	2,013	7,723	333	487	10,556
Group life	1,216	127	8	3	1,354
Individual annuities	8,977	14,486	—	3,883	27,346
Group annuities	5,538	5,277	353	—	11,168
Health insurance	4,850	527	(1)	107	5,483
Total actuarial liabilities	34,807	33,502	3,201	7,776	79,286
Add: Other policy liabilities[2]	464	541	62	683	1,750
Actuarial liabilities and other policy liabilities	$ 35,271	$ 34,043	$ 3,263	$ 8,459	$ 81,036

(1) Primarily business from the U.K., 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.

C) TOTAL ASSETS SUPPORTING LIABILITIES AND EQUITY

The following tables show the total assets supporting total liabilities for the product lines shown (including actuarial and other policy liabilities), and assets supporting equity and other:

	2007							
	Bonds		Stocks		Mortgages and Corporate Loans	Real Estate	Other	Total
	Held-for-Trading	Available-for-sale	Held-for-Trading	Available-for-sale				
Individual participating life	$ 13,827	$ —	$ 3,667	$ 13	$ 4,493	$ 2,947	$ 3,700	$ 28,647
Individual non-participating life	6,468	425	691	3	2,738	200	4,223	14,748
Group life	1,147	—	3	—	1,106	19	(32)	2,243
Individual annuities	18,392	57	18	—	5,724	—	1,081	25,272
Group annuities	6,722	—	58	5	2,831	122	866	10,604
Health insurance	4,048	—	1	—	2,908	66	398	7,421
Equity and other	4	8,666	—	767	942	949	14,028	25,356
Total assets	$ 50,608	$ 9,148	$ 4,438	$ 788	$ 20,742	$ 4,303	$ 24,264	$ 114,291

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

	2006					
	Bonds	Mortgages	Stocks	Real Estate	Other	Total
Individual participating life	$ 14,591	$ 4,034	$ 3,542	$ 2,632	$ 4,382	$ 29,181
Individual non-participating life	9,542	2,233	500	117	2,505	14,897
Group life	1,394	675	5	22	99	2,195
Individual annuities	23,574	4,897	60	30	2,124	30,685
Group annuities	9,607	2,151	45	147	892	12,842
Health insurance	4,704	1,723	14	48	579	7,068
Equity and other	5,818	280	733	829	13,303	20,963
Total assets	$ 69,230	$ 15,993	$ 4,899	$ 3,825	$ 23,884	$117,831

D) CHANGES IN ACTUARIAL LIABILITIES

Changes in actuarial liabilities during the year are as follows:

	2007	2006
Actuarial liabilities, January 1, before change in accounting policy	**$ 79,286**	$ 75,777
Adjustment for change in accounting policy (Note 2)	**7,129**	—
Actuarial liabilities, January 1, after change in accounting policy	**86,415**	75,777
Change in liabilities on in-force business	**(5,201)**	(2,942)
Liabilities arising from new policies	**2,803**	5,415
Significant changes in assumptions or methodology (1):		
Gross increases	**380**	149
Gross decreases	**(497)**	(97)
Increase (decrease) in actuarial liabilities (2)	**(2,515)**	2,525
Actuarial liabilities before the following:	**83,900**	78,302
Acquisition (Note 3)	**536**	—
Effect of changes in currency exchange rates	**(6,500)**	984
Actuarial liabilities, December 31	**77,936**	79,286
Add: Other policy liabilities	**1,894**	1,750
Actuarial liabilities and other policy liabilities, December 31	**$ 79,830**	$ 81,036

(1) The increase in actuarial liabilities in 2007 included $123 from changes to the economic scenarios used in the calculation of actuarial liabilities, $107 for strengthening of longevity assumptions, and $150 for reductions in the long-term lapse rates for universal life policies written in Canada and the United States. The decrease in 2007 included $215 for reductions in mortality assumptions on life insurance liabilities and $282 for the recapture of reinsurance ceded to a Barbados subsidiary. The increase in actuarial liabilities in 2006 resulted from strengthening of longevity assumption in Canada and the U.K. The decreases in 2006 arose from changes in assumptions as a result of changes in pension legislation in the U.K.

(2) The change in fair value of held-for-trading assets caused by the change in interest rates is offset by the change in actuarial liabilities.

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

The fair value of actuarial liabilities is determined by reference to the fair value of the assets supporting those liabilities. To the extent that the assets supporting actuarial liabilities are reported at fair value on the balance sheet, the change in the value of those assets would be largely offset by a change in the value of liabilities (including actuarial liabilities and related future income taxes and deferred net realized gains), resulting in no change to surplus.

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. In general, assumed mortality rates for life insurance contracts do not reflect any future expected improvement, except in some instances where the net effect of reflecting future improvement increases the policy liabilities. 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.

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

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 $73. For products where lower mortality would be financially adverse to the Company, a 1% decrease in the mortality assumption would decrease net income by $50.

Morbidity

Morbidity refers to both the rates of accident or sickness and the rates of recovery therefrom. 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 U. K. 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 $21.

Asset default

Assumptions related to investment returns include expected future credit losses on fixed income investments. Past Company and industry experience, as well as specific reviews of the current portfolio, are used to project credit losses.

In addition to the allowances for losses on invested assets outlined in Note 6, the actuarial liabilities include an amount of $2,947 determined on a pre-tax basis ($2,578 in 2006) to provide for possible future asset defaults and loss of asset value (equity and real estate included) on current assets and on future purchases.

Equity Market Movements

The majority of held-for-trading equities are held to back products such as participating or universal life lines where investment returns are passed through to policyholders through routine changes in the amount of dividends declared or to the rate of interest credited; in these cases equity market movements are largely offset by changes in actuarial liabilities.

Much of the remainder of held-for-trading equities are held to back long-term fixed liabilities.

In addition, there are products such as segregated fund and annuity option guarantees where the liabilities are affected by movements in equity markets, even though mitigating hedging programs are in place. For these blocks the Company uses stochastic modelling techniques, which test a large number of different scenarios of future market returns, to estimate the actuarial liability for the various guarantees.

Overall, it is estimated the impact on the Company of an immediate 10% increase across all equity markets would be an increase in net income of $40; conversely, the impact of a decrease of 10% would be an immediate estimated decrease in net income of $61.

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 routine changes in the amount of dividends declared or to the rate of interest credited. These products generally have minimum interest rate guarantees.

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

Effective January 1, 2007, as a result of adopting the requirements of Handbook Section 3855, the values of both held-for-trading bonds and actuarial liabilities are affected similarly by changes in interest rates. The estimated impact of an immediate 1% parallel increase in interest rates as at December 31, 2007, across the entire yield curve in all markets, would be an increase in net income of $164. Conversely an immediate 1% parallel decrease in interest rates would result in an estimated decrease in net income of $286.

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 $105 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 $74 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 $229.

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:

	2007	2006	2005
Premiums:			
Direct premiums	**$ 13,550**	$ 14,947	$ 13,305
Reinsurance assumed	**564**	574	530
Reinsurance ceded	**(990)**	(912)	(895)
	$ 13,124	$ 14,609	$ 12,940
Payments to policyholders, beneficiaries and depositors:			
Direct payments	**$ 14,292**	$ 12,987	$ 12,961
Reinsurance assumed	**526**	419	453
Reinsurance ceded	**(574)**	(511)	(612)
	$ 14,244	$ 12,895	$ 12,802

Actuarial liabilities are shown net of ceded reinsurance of $2,448 in 2007 ($2,401 in 2006).

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

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 2007 analysis tested the capital adequacy of the Company until December 31, 2011, 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 $3,691 ($2,899 in 2006). All of these regulatory requirements constrain the Company's ability to distribute its retained earnings.

10. Senior Debentures

The following obligations are included in senior debentures:

	Currency of Borrowing	Interest Rate	Maturity	2007	2006
Partnership capital securities	U.S. dollars	8.53%	—	**$ —**	$ 698
Sun Life Assurance debentures					
Series A debenture	Cdn. dollars	6.87%	2031	**960**	990
Series B debenture	Cdn. dollars	7.09%	2052	**200**	200
Funding debenture	Cdn. dollars	7.09%	2052	**—**	3
SLF Inc. senior unsecured debentures					
Series A	Cdn. dollars	4.80%	2035	**600**	600
Series B	Cdn. dollars	4.95%	2036	**954**	700
Series C	Cdn. dollars	5.00%	2031	**300**	300
				$ 3,014	$ 3,491
Fair value				**$ 3,068**	$ 3,704

Fair value is based on market price for the same or similar instruments as appropriate. Interest expense for senior debentures was $192, $205 and $144 for 2007, 2006 and 2005, respectively.

Partnership capital securities

On May 6, 2007, the Company redeemed the outstanding U.S. $600 principal amount of the 8.53% partnership capital securities. The redemption premiums of $18 (net of taxes of $12) were recorded in the first quarter of 2007.

Sun Life Assurance debentures

On September 7, 2007, Sun Life Assurance repurchased the outstanding $3 principal amount of the 7.09% funding debenture and $30 principal amount of the $990 outstanding 6.87% Series A debentures. Redemption premiums of $1 (net of taxes of $1) were recorded in the third quarter of 2007.

SLF Inc. senior unsecured debentures

On November 23, 2005, SLF Inc. issued $600 principal amount of Series A Senior Unsecured 4.8% Fixed/Floating Debentures due 2035. These debentures 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. SLF Inc. may redeem the debentures after 10 years at 100% of the principal amount.

On March 13, 2006, SLF Inc. issued $700 principal amount of Series B Senior Unsecured 4.95% Fixed/Floating Debentures due 2036.

10. Senior Debentures (Cont'd)

An additional $250 principal amount was issued on February 26, 2007. These debentures bear interest at a fixed rate of 4.95% per annum payable semi-annually until June 1, 2016, and at a variable rate equal to the Canadian dollar offered rate for three months' bankers' acceptances plus 1% thereafter until maturity on June 1, 2036. SLF Inc. may redeem the debentures on or after June 1, 2016, at 100% of the principal amount.

On July 11, 2006, SLF Inc. issued $300 principal amount of Series C Senior Unsecured 5% Fixed/Floating Debentures due 2031. These debentures bear interest at a fixed rate of 5% per annum payable semi-annually until July 11, 2011, and at a variable rate equal to the Canadian dollar offered rate for three months' bankers' acceptances plus 1% thereafter until maturity on July 11, 2031. SLF Inc. may redeem the debentures on or after July 11, 2011 at 100% of the principal amount.

All senior unsecured debentures are direct senior unsecured obligations of the Company and rank equally with all other unsecured and unsubordinated indebtedness of SLF Inc.

11. Other Liabilities

A) COMPOSITION OF OTHER LIABILITIES

Other liabilities consist of the following:

	2007	2006
Accounts payable	**$ 1,762**	$ 1,811
Bank overdrafts	**303**	281
Bond repurchase agreements	**1,982**	2,151
Accrued expenses and taxes	**1,012**	1,211
Borrowed funds	**335**	214
Senior unsecured financing	**996**	—
Future income taxes (Note 18)	**582**	226
Accrued benefit liability (Note 21)	**479**	505
Other	**224**	435
Total other liabilities	**$ 7,675**	$ 6,834

B) BOND REPURCHASE AGREEMENTS

The Company enters into bond repurchase agreements for operational funding and liquidity purposes. Bond repurchase agreements have maturities ranging from 3 to 84 days, averaging 46 days, and bear interest at rates averaging 4.26% as at December 31, 2007 (4.15% in 2006). As at December 31, 2007, the Company had assets with a total market value of $1,822 ($2,147 in 2006), 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	2007	2006
Encumbrances on real estate	Cdn. dollars	2008-2016	**$ 188**	$ 112
	U.S. dollars	2008-2014	**147**	102
Total borrowed funds			**$ 335**	$ 214

As at December 31, 2007, aggregate maturities of encumbrances on real estate are as follows:

Year	Amount
2008	**$ 38**
2009	**17**
2010	**63**
2011	**67**
2012	**72**
Thereafter	**78**
Total	**$ 335**

Interest expense for the borrowed funds was $16, $15 and $19 for 2007, 2006 and 2005, respectively.

11. Other Liabilities (Cont'd)

D) SENIOR UNSECURED FINANCING

On November 8, 2007, a variable interest entity consolidated by the Company issued a U.S. $1,000 variable principal floating rate certificate (the Certificate) to a financial institution (the Lender). At the same time, Sun Life Assurance Company of Canada-U.S. Operations Holdings, Inc. (U.S. Holdings), a subsidiary of SLF Inc., entered into an agreement with the Lender, pursuant to which U.S. Holdings will bear the ultimate obligation to repay the outstanding principal amount of the Certificate and be obligated to make quarterly interest payments at three month LIBOR plus a fixed spread.

The maximum capacity of this agreement is U.S. $2,500. The agreement expires on November 8, 2037 and the maturity date may be extended annually for an additional one-year period upon the mutual agreement of the parties, provided such date is not beyond November 8, 2067.

The agreement could be cancelled or unwound at the option of U.S. Holdings in whole or in part from time to time, or in whole under certain events. If the agreement is cancelled before November 8, 2015, U. S. Holdings may be required to pay a make-whole amount based on the present value of expected quarterly payments between the cancellation date and November 8, 2015.

For the year ended December 31, 2007, the Company recorded $9 of interest expense relating to this obligation.

12. Subordinated Debt

The following obligations are included in subordinated debt and qualify as capital for Canadian regulatory purposes:

	Currency	Interest Rate	Maturity	2007	2006
Subordinated debentures(1)	Cdn. dollars	6.65%	2015	**$ 300**	$ 300
Subordinated debentures (2)	Cdn. dollars	6.15%	2022	**799**	799
Subordinated debentures (3)	Cdn. dollars	6.30%	2028	**150**	150
Subordinated debentures	Cdn. dollars	5.40%	2042	**398**	—
Subordinated notes(4)	U.S. dollars	6.63%	2007	**—**	32
Subordinated notes	U.S. dollars	7.25%	2015	**149**	175
Total				**$ 1,796**	$ 1,456
Fair value				**$ 1,849**	$ 1,591

(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) Matured on December 15, 2007.

Fair value is based on market prices for the same or similar instruments as appropriate. Interest expense on subordinated debt was $105, $93 and $96 for 2007, 2006 and 2005, respectively.

On May 29, 2007, SLF Inc. issued $400 principal amount of Series 2007-1 Subordinated Unsecured 5.40% Fixed/Floating Debentures due in 2042. These debentures bear interest at a fixed rate of 5.40% per annum payable semi-annually until May 29, 2037, and at a variable rate equal to the Canadian dollar offered rate for three months' bankers' acceptances plus 1% thereafter until maturity on May 29, 2042. SLF Inc. may redeem the debentures at the greater of par or the Canada yield price prior to May 29, 2037 and at par on or after May 29, 2037, together with the unpaid and accrued interest.

SUBSEQUENT EVENT

On January 30, 2008 SLF Inc issued $400 principal amount of Series 2008-1 Subordinated Unsecured 5.59% Fixed/Floating Debentures due in 2023. The proceeds will be used for general corporate purposes, including investments in subsidiaries.

13. Non-controlling Interests in Subsidiaries

Non-controlling interests in subsidiaries on the consolidated balance sheets and non-controlling interests in net income of subsidiaries on the consolidated statements of operations consists of non-controlling interests in MFS and McLean Budden Limited in 2007 and 2006. In 2005, non-controlling interests in net income of subsidiaries included non-controlling interests in MFS and McLean Budden Limited of $20 and $3 of dividends on Class E Preferred Shares of Sun Life Assurance. Sun Life Assurance redeemed its Class E Preferred Shares on June 30, 2005, at $25 per share for a total of $150, excluding declared dividends also paid on redemption.

14. Share Capital and Shares Purchased for Cancellation

A) SHARE CAPITAL

The authorized share capital of SLF 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 SLF 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 before issuing the shares, to fix 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 five series of Class A non-voting preferred shares.

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

	2007		2006		2005	
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
Preferred shares (in millions of shares)						
Balance, January 1	**51**	**$ 1,250**	29	$ 712	—	$ —
Preferred shares issued, Class A, Series 1	**—**	**—**	**—**	**—**	16	400
Preferred shares issued, Class A, Series 2	**—**	**—**	**—**	**—**	13	325
Preferred shares issued, Class A, Series 3	**—**	**—**	10	250	**—**	**—**
Preferred shares issued, Class A, Series 4	**—**	**—**	12	300	—	—
Preferred shares issued, Class A, Series 5	**10**	**250**	**—**	**—**	—	—
Issuance costs, net of taxes	**—**	**(5)**	—	(12)	—	(13)
Balance, December 31	**61**	**$ 1,495**	51	$ 1,250	29	$ 712
Common shares (in millions of shares)						
Balance, January 1	**572**	**$ 7,082**	582	$ 7,173	592	$ 7,238
Stock options exercised (Note 17)	**2**	**66**	2	73	3	99
Common shares purchased for cancellation	**(10)**	**(115)**	(12)	(164)	(13)	(164)
Balance, December 31	**564**	**$ 7,033**	572	$ 7,082	582	$ 7,173

On February 2, 2007, SLF Inc. issued $250 Class A non-cumulative Preferred Shares Series 5, at $25 per share. Holders are entitled to receive non-cumulative quarterly dividends of $0.281 per share, yielding 4.50% annually. Underwriting commissions of $5 (net of taxes of $4) were deducted from preferred shares in the consolidated statements of equity. Subject to regulatory approval, on or after March 31, 2012, SLF Inc. may redeem these shares in whole or in part at a declining premium.

On October 10, 2006, SLF Inc. issued $300 Class A non-cumulative Preferred Shares Series 4 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 December 31, 2011, SLF Inc. may redeem these shares in whole or in part at a declining premium. On January 13, 2006, SLF Inc. issued $250 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, SLF Inc. may redeem these shares in whole or in part at a declining premium. Underwriting commissions of $12 (net of taxes of $6) related to the 2006 preferred share issuances were deducted from preferred shares in the consolidated statements of equity.

14. Share Capital and Shares Purchased for Cancellation (Cont'd)

On July 15, 2005, SLF 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, SLF Inc. may redeem these shares in whole or in part at a declining premium. On February 25, 2005, SLF 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, SLF Inc. may redeem these shares, in whole or in part, at a declining premium. Underwriting commissions of $13 (net of taxes of $7) related to the 2005 preferred share issuances were deducted from preferred shares in the consolidated statements of equity.

B) SHARES PURCHASED FOR CANCELLATION

SLF Inc. has purchased and cancelled common shares under several normal course issuer bid programs. Under each of these programs, SLF Inc. was authorized to purchase, for cancellation, through the facilities of the Toronto Stock Exchange (TSX), approximately 5% of its issued and outstanding common shares at that time. The time periods covered, and the maximum number of shares that could be repurchased under these programs are as follows:

Period Covered	Maximum Shares Authorized for Purchase
January 12, 2004 to January 11, 2005	30 million
January 12, 2005 to January 11, 2006	30 million
January 12, 2006 to January 11, 2007	29 million
January 12, 2007 to January 11, 2008	29 million

SLF Inc. also purchased and cancelled common shares pursuant to private agreements between SLF Inc. and an arms length third-party seller (the Private Purchases) between December 12 and December 31, 2007. Under these Private Purchases, SLF Inc. could purchase up to 2.55 million of its common shares. The shares purchased for cancellation were included in the calculation of the maximum number of common shares that could be purchased under the normal course issuer bid program that covers the period from January 12, 2007 to January 11, 2008.

Amounts repurchased under these programs are as follows:

	2007	2006	2005
Number of shares repurchased (in millions)	**10**	12	13
Amount (1)	**$ 502**	$ 575	$ 544
Average price per share	**$ 51.18**	$ 46.31	$ 41.10

(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.

SUBSEQUENT EVENT

On January 10, 2008, SLF Inc. announced a new normal course issuer bid that commenced on January 12, 2008 and continues until January 11, 2009. Under this program, SLF Inc. may purchase, for cancellation, up to 20 million common shares, representing approximately 3.5% of the amount outstanding on January 10, 2008.

15. Operating Expenses

Operating expenses consist of the following:

	2007	2006	2005
Compensation costs	**$ 1,898**	$ 1,851	$ 1,769
Premises and equipment costs	**265**	259	287
Restructuring and other related charges	**—**	1	10
Capital asset depreciation and amortization (Note 8)	**62**	67	63
Other (1)	**1,035**	850	792
Total operating expenses	**$ 3,260**	$ 3,028	$ 2,921

(1) Includes the write-down of the brand name intangible asset of $52 as described in Note 7.

16. 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:

	2007	2006	2005
Common shareholders' net income	**$ 2,219**	$ 2,089	$ 1,843
Less: Effect of stock options of subsidiaries (1)	**20**	11	5
Common shareholders' net income on a diluted basis	**$ 2,199**	$ 2,078	$ 1,838
Weighted average number of shares outstanding for basic earnings per share (in millions)	**569**	577	587
Add: Adjustments relating to the dilutive impact of stock options (2)	**3**	3	3
Weighted average number of shares outstanding on a diluted basis (in millions)	**572**	580	590

(1) A subsidiary of SLF Inc. grants stock options exercisable for shares of the subsidiary and restricted stock awards of the subsidiary. If these outstanding stock options were exercised and the restricted stock awards were fully vested, the Company would record an increase in non-controlling interests, and therefore, a reduction in common shareholders' net income.

(2) 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. Only stock options exercisable for shares of SLF Inc. are included in the adjustment relating to the dilutive impact of stock options.

17. Stock-Based Compensation

A) STOCK OPTION PLANS

SLF 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 are granted 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 SLF Inc. Director Stock Option Plan were discontinued.

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

	2007		2006		2005	
	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	**9,138**	**$ 32.58**	10,049	$ 28.95	12,457	$ 26.90
Granted	**1,261**	**52.55**	1,460	49.29	1,339	40.80
Exercised	**(2,075)**	**27.45**	(2,228)	26.57	(2,999)	26.11
Forfeited	**(156)**	**46.04**	(143)	37.47	(748)	25.61
Balance, December 31	**8,168**	**$ 35.98**	9,138	$ 32.58	10,049	$ 28.95
Exercisable, December 31	**5,333**	**$ 29.19**	5,909	$ 28.39	5,750	$ 27.59

The aggregate intrinsic value, which is the difference between the market price of an SLF Inc. common share and the exercise price of the stock option, for options exercisable as at December 31, 2007 is $141. The aggregate intrinsic value of options exercised in 2007 was $51 ($48 and $49 for 2006 and 2005, respectively). As at December 31, 2007, the number of stock options vested and expected to vest at the end of the relevant vesting period is 7,814 thousand. The aggregate intrinsic value of the options vested and expected to vest is $159, with a weighted average exercise price of $35.35 and a weighted average remaining term to maturity of 5.88 years.

Compensation cost and the tax benefits recorded as well as the tax benefit realized for stock options are shown in the following table. 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.

17. Stock-Based Compensation (Cont'd)

	2007	2006	2005
Compensation expense recorded	**$ 10**	$ 13	$ 9
Income tax benefit on expense recorded	**$ 1**	$ 1	$ 1
Income tax benefit realized on exercised options	**$ 4**	$ 6	$ 4

The unrecognized compensation cost, adjusted for an estimate of future forfeitures, for non-vested stock options as at December 31, 2007 was $3. The weighted average recognition period over which this compensation cost is expected to be recognized is 2.7 years.

The stock options outstanding and exercisable as at December 31, 2007, 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 Remaining Contractual Life (Years)	Weighted Average Exercise Price
$17.00 to $24.00	**1,626**	**4.23**	**$ 19.25**	**1,626**	**4.23**	**$ 19.25**
$25.00 to $30.00	**1,640**	**4.26**	**28.31**	**1,622**	**4.22**	**28.32**
$31.00 to $35.00	**1,141**	**4.12**	**32.85**	**1,138**	**4.11**	**32.84**
$36.00 to $45.00	**1,228**	**7.00**	**40.47**	**622**	**6.83**	**40.23**
$46.00 to $53.00	**2,533**	**8.64**	**50.91**	**325**	**8.05**	**48.79**
	8,168	**6.00**	**$ 35.98**	**5,333**	**4.75**	**$ 29.19**

The weighted average fair values of the stock options, calculated using the Black-Scholes option-pricing model, granted during the year ended December 31, 2007, was $8.73 ($8.40 and $8.31 for 2006 and 2005, 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	2007	2006	2005
Risk-free interest rate	**4.1%**	4.1%	4.3%
Expected volatility	**16.0%**	16.0%	20.0%
Expected dividend yield	**2.4%**	2.2%	2.4%
Expected life of the option (in years)	**5.6**	5.6	5.6

Expected volatility is based on historical volatility of the Company's stock, implied volatilities from traded options on the Company's stock and other factors. The expected term of options granted is derived based on historical employee exercise behaviour and employee termination experience. The risk-free rate for periods within the expected term of the option is based on Canadian government bond yield curve in effect at the time of grant.

B) EMPLOYEE SHARE OWNERSHIP PLAN

In Canada, the Company matches eligible employees' contributions to the Sun Life Financial Employee Stock Plan (Plan). The match is provided for employees who have met two years of employment eligibility and is equal to 50% of the employee's contributions up to 5% of an employees annual compensation. The match is further capped by a one thousand five hundred dollar annual maximum. Employees may elect to contribute from 1% to 20% of their target annual compensation to the Plan. 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 SLF Inc.'s common share price on the TSX. Any fluctuation in SLF 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 SLF 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

17. Stock-Based Compensation (Cont'd)

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 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 generally 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 value of an equal number of common shares.

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 fair value of the common shares at the end of the three-year performance period.

Additional information for other stock-based compensation plans: The activities in these plans and the liabilities accrued on the balance sheet are summarized in the following table.

Number of units (in thousands)	DSUs	RSUs	PSUs	Total
Units outstanding December 31, 2005	587	2,080	461	3,128
Units outstanding December 31, 2006	588	2,138	611	3,337
Units outstanding December 31, 2007	**554**	**1,809**	**515**	**2,878**
Liability accrued as at December 31, 2007	**$ 30**	**$ 62**	**$ 18**	**$ 110**

Compensation cost and the tax benefits recorded as well as the tax benefits realized for other stock-based compensation plans are shown 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 following table include increases in the liabilities for DSUs, RSUs and PSUs due to changes in the fair value of the common shares of SLF 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.

	2007	2006	2005
Compensation expense recorded	**$ 49**	$ 50	$ 46
Income tax benefit on expense recorded	**$ 17**	$ 17	$ 16

The unrecognized liability and compensation cost for other stock-based compensation plan units outstanding as at December 31, 2007, including an adjustment for expected future forfeitures, as at December 31, 2007 was $43. The weighted average recognition period over which this compensation cost is expected to be recognized is 1.81 years. The unrecognized compensation cost and weighted average recognition period includes only costs related to the RSUs and PSUs since DSUs are vested at the date of grant. The Company paid $63 related to the liabilities of these plans in 2007 ($27 and $1 for 2006 and 2005, respectively).

D) STOCK-BASED COMPENSATION PLANS OF A SUBSIDIARY

A subsidiary of the Company grants stock options exercisable for shares of the subsidiary, restricted shares of the subsidiary and restricted share units (RSUs). Restricted share awards were granted in 2007, 2006 and 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. Dividends are paid to restricted share holders and are not forfeited in the event that the award does not ultimately vest. The restricted stock awards vest over a four or five-year period. The stock options granted in 2007, 2006 and 2005 vest over a four-year period. The RSUs granted in 2007 vest over a two-year period from the grant date and RSU holders are entitled to receive non-forfeitable dividend equivalent payments over the vesting period. The RSUs are settled in cash upon vesting, while the stock options and restricted stock awards are settled in shares of the subsidiary. The outstanding awards and related operating expenses in the consolidated statements of operations for these awards are as follows:

	2007	2006	2005
Awards outstanding (in thousands)	**151**	172	192
Expense recorded	**$ 37**	$ 17	$ 13
Income tax benefit recorded	**$ 14**	$ 6	$ 5

18. Income Taxes

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

	2007	2006	2005
Canadian income tax expense (benefit):			
Current	**$ (89)**	$ 418	$ 127
Future	**135**	(271)	151
Total	**46**	147	278
Foreign income tax expense (benefit):			
Current	**158**	306	327
Future	**318**	(64)	(74)
Total	**476**	242	253
Total income taxes expense	**$ 522**	$ 389	$ 531

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 $134 as at December 31, 2007 ($105 and $75 in 2006 and 2005, respectively).

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

	2007	%	2006	%	2005	%
Total net income	**$ 2,290**		$ 2,144		$ 1,876	
Add: Income taxes expense	**522**		389		531	
Non-controlling interests in net income of subsidiaries	**35**		27		23	
Total net income before income taxes and non-controlling interests in net income of subsidiaries	**$ 2,847**		$ 2,560		$ 2,430	
Taxes at the combined Canadian federal and provincial statutory income tax rate	**$ 996**	**35.0**	$ 896	35.0	$ 850	35.0
Increase (decrease) in rate resulting from:						
Higher (lower) effective rates on income subject to taxation in foreign jurisdictions	**(250)**	**(8.8)**	(239)	(9.3)	(148)	(6.1)
Tax (benefit) cost of unrecognized losses	**19**	**0.6**	(41)	(1.6)	(35)	(1.5)
Tax exempt investment income	**(155)**	**(5.4)**	(179)	(7.0)	(116)	(4.8)
Changes to statutory income tax rates	**(86)**	**(3.0)**	(41)	(1.6)	—	—
Other	**(2)**	**(0.1)**	(7)	(0.3)	(20)	(0.7)
Company's effective worldwide income taxes	**$ 522**	**18.3**	$ 389	15.2	$ 531	21.9

During 2007 and 2006, the Canadian federal government and certain provinces reduced corporate income tax rates for years after 2007. The statutory income tax rate will decline gradually to 28% in 2012 as these rate reductions become effective. This reduction requires the Company to review its Canadian future tax liability on an ongoing basis. The re-measure in 2007 and 2006 impacted both the business attributable to participating policyholders and shareholders. The participating policyholders' benefited by $32 ($36 in 2006), while the increase to shareholders' income amounted $54 ($5 in 2006).

The Company has accumulated tax losses, primarily in the United Kingdom, totalling $572 ($837 in 2006). 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 $95 ($155 in 2006) 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.

18. Income Taxes (Cont'd)

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

	2007		2006	
	Assets	**Liabilities**	Assets	Liabilities
Investments	**$ (27)**	**$ 1,257**	$ 61	$ 272
Actuarial liabilities	**261**	**(464)**	123	(7)
Deferred acquisition costs	**144**	**(199)**	325	—
Losses available for carry forward	**6**	**(111)**	216	(15)
Other	**3**	**82**	99	(24)
	387	**565**	824	226
Valuation allowance	**(5)**	**17**	(77)	—
Total	**$ 382**	**$ 582**	$ 747	$ 226

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:

	2007	2006	2005
Investments	**$ (524)**	$ 14	$ (107)
Actuarial liabilities	**883**	(101)	68
Deferred acquisition costs	**(67)**	(45)	2
Losses (incurred) utilized	**(3)**	(75)	10
Other	**164**	(128)	104
Future income tax expense (benefit)	**$ 453**	$ (335)	$ 77

19. Income Taxes Included in OCI

OCI included on the consolidated statements of comprehensive income is presented net of income taxes. The following income tax amounts are included in each component of OCI for the year ended December 31:

	2007
Unrealized foreign currency gains and losses on net investment hedges	**$ 13**
Unrealized gains and losses on available-for-sale assets	**21**
Reclassifications to net income for available-for-sale assets	**29**
Unrealized gains and losses on cash flow hedging instruments	**28**
Reclassifications to net income for cash flow hedges	**4**
Total income taxes benefit (expense) included in OCI	**$ 95**

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:

	2008	**2009**	**2010**	**2011**	**2012**	**Thereafter**
Future rental payments	**$ 88**	**$ 79**	**$ 68**	**$ 52**	**$ 46**	**$ 75**

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

B) CONTRACTUAL COMMITMENTS

In the normal course of business, various contractual commitments are outstanding, which are not reflected in the Consolidated Financial Statements. As at December 31, 2007, there were outstanding contractual commitments with original maturities that were scheduled to expire as follows:

	30 Days	31 to 366 Days	2009 or Later	Total
Contractual commitments	**$ 285**	**$ 800**	**$ 724**	**$ 1,809**

In addition to the loan commitments for bonds and mortgages included in Note 6A, the above commitments include equity and real estate commitments.

C) LETTERS OF CREDIT

The Company issues commercial letters of credit in the normal course of business. As at December 31, 2007, letters of credit in the amount of $373 are outstanding.

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.

Guarantees made by the Company that can be quantified are included in Note 6A.

E) GUARANTEES OF SUN LIFE ASSURANCE PREFERRED SHARES AND SUBORDINATED DEBENTURES

On November 15, 2007, SLF Inc. provided a full and unconditional guarantee of the following subordinated debentures issued by Sun Life Assurance: the $150 of 6.30% subordinated debentures due 2028, the $300 of 6.65% subordinated debentures due 2015, and the $800 of 6.15% subordinated debentures due 2022. All of the subordinated debentures were held by external parties. On that date, SLF Inc. also provided a subordinated guarantee of the preferred shares issued by Sun Life Assurance from time to time, other than such preferred shares held by SLF Inc. and its affiliates. Sun Life Assurance has no outstanding preferred shares subject to the guarantee. Claims under the guarantee of the subordinated debentures will rank equally with all other subordinated indebtedness of SLF Inc. As a result of these guarantees, Sun Life Assurance is entitled to rely on exemptive relief from most continuous disclosure and the certification requirements of Canadian securities laws.

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

The following tables set forth certain consolidating summary financial information for SLF Inc. and Sun Life Assurance (Consolidated):

	SLF Inc. (Unconsolidated)	Sun Life Assurance (Consolidated)	Other Subsidiaries of SLF Inc. (Combined)	Consolidation Adjustments	SLF Inc. (Consolidated)
2007					
Revenue	**$ 217**	**$ 15,154**	**$ 6,445**	**$ (628)**	**$ 21,188**
Shareholders' net income	**$ 2,288**	**$ 1,389**	**$ 858**	**$ (2,247)**	**$ 2,288**
2006					
Revenue	$ 112	$ 16,424	$ 8,347	$ (596)	$ 24,287
Shareholders' net income	$ 2,137	$ 1,411	$ 728	$ (2,139)	$ 2,137
2005					
Revenue	$ 17	$ 15,071	$ 7,203	$ (373)	$ 21,918
Shareholders' net income	$ 1,867	$ 1,319	$ 567	$ (1,886)	$ 1,867

	SLF Inc. (Unconsolidated)	Sun Life Assurance (Consolidated)	Other Subsidiaries of SLF Inc. (Combined)	Consolidation Adjustments	SLF Inc. (Consolidated)
2007					
Invested assets	**$ 20,352**	**$ 77,928**	**$ 23,586**	**$ (18,846)**	**$ 103,020**
Total other assets	**$ 5,798**	**$ 9,505**	**$ 10,925**	**$ (14,957)**	**$ 11,271**
Actuarial and other policy liabilities	**$ —**	**$ 64,502**	**$ 15,175**	**$ 153**	**$ 79,830**
Total other liabilities	**$ 9,028**	**$ 13,049**	**$ 13,359**	**$ (18,192)**	**$ 17,244**
2006					
Invested assets	$ 20,303	$ 76,211	$ 28,130	$ (18,445)	$ 106,199
Total other assets	$ 3,257	$ 10,865	$ 9,439	$ (11,929)	$ 11,632
Actuarial and other policy liabilities	$ —	$ 60,182	$ 19,877	$ 977	$ 81,036
Total other liabilities	$ 6,468	$ 17,138	$ 11,701	$ (15,696)	$ 19,611

F) LEGAL AND REGULATORY PROCEEDINGS

SLF Inc. and its subsidiaries are regularly involved in legal actions, both as a defendant and as a plaintiff. In addition, government and regulatory bodies in Canada, the United States, the United Kingdom and Asia, including provincial and state regulatory bodies, state attorneys general, the Securities and Exchange Commission, the Financial Industry Regulatory Authority and Canadian securities commissions, from time to time make inquiries and require the production of information or conduct examinations concerning compliance by SLF Inc. and its subsidiaries with insurance, securities and other laws. Management does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition or results of operations.

Additional information concerning these and related matters is provided in SLF Inc.'s annual Management's Discussion and Analysis and Annual Information Form for the year ended December 31, 2007, copies of which are available on the Company's website at www.sunlife.com and at www.sedar.com and www.sec.gov.

G) 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 U.K. regulators with respect to these policies and other matters.

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	
	2007	2006	**2007**	2006
Change in projected benefit obligation:				
Projected benefit obligation, January 1	**$ 2,643**	$ 2,490	**$ 328**	$ 338
Change in January 1 balance due to acquisition	**—**	—	**5**	—
Service cost	**53**	56	**7**	9
Interest cost	**128**	124	**15**	17
Actuarial losses (gains)	**(159)**	(25)	**(23)**	(27)
Benefits paid	**(104)**	(100)	**(10)**	(9)
Curtailments, settlements and plan amendments	**4**	7	**(64)**	**—**
Effect of changes in currency exchange rates	**(139)**	91	**(9)**	**—**
Projected benefit obligation, December 31 (1), (2)	**$ 2,426**	$ 2,643	**$ 249**	$ 328
Accumulated benefit obligation, December 31 (3)	**$ 2,213**	$ 2,387		
Change in plan assets:				
Fair value of plan assets, January 1	**$ 2,502**	$ 2,264	**$ —**	$ —
Net actual return on plan assets	**122**	242	**—**	—
Employer contributions	**16**	17	**11**	11
Benefits paid	**(104)**	(100)	**(11)**	(11)
Effect of changes in currency exchange rates	**(143)**	79	**—**	—
Fair value of plan assets, December 31 (1)	**$ 2,393**	$ 2,502	**$ —**	$ —
Net funded status, December 31	**$ (33)**	$ (141)	**$ (249)**	$ (328)
Unamortized net actuarial loss	**319**	474	**22**	49
Unamortized past service cost	**12**	14	**(50)**	(20)
Unamortized transition asset	**(72)**	(92)	**(6)**	(7)
Contributions (transfers), October 1 to December 31 (1)	**(1)**	(1)	**1**	1
Accrued benefit asset (liability), December 31 (1)	**$ 225**	$ 254	**$ (282)**	$ (305)
Balance sheet classification of accrued benefit asset (liability), December 31:				
Other assets	**$ 422**	$ 454	**$ —**	$ —
Other liabilities	**$ 197**	$ 200	**$ 282**	$ 305
Pension plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	**$ 778**	$ 1,539		
Plan assets	**$ 553**	$ 1,264		

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	**5.5%**	**5.2%**	**5.4%**	**5.1%**
Expected long-term rate of return on plan assets	**7.0%**	**7.5%**		
Rate of compensation increase	**3.7%**	**3.7%**		

(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, 2007. The date of the next required actuarial valuation for funding purposes is January 1, 2008 for the plans in the United States and Philippines. The required date for the United Kingdom plans is December 31, 2008, and January 1, 2010 for the Canadian plans.

(3) The accumulated benefit obligation is smaller than the projected benefit obligation since it does not recognize projected future compensation increases.

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

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 U.S. 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]		
	2007	2006	2005	**2007**	2006	2005
Components of defined benefit cost recognized:						
Service cost, curtailments and settlements	**$ 53**	$ 56	$ 56	**$ (7)**	$ 9	$ 7
Plan amendments	**4**	8	—	**(64)**	**—**	(4)
Interest cost	**128**	124	123	**15**	17	17
Actual return on plan assets	**(122)**	(242)	(231)	**—**	—	—
Actuarial losses (gains)	**(159)**	(25)	341	**(23)**	(27)	39
Benefit cost before adjustments to recognize the long-term nature of defined benefit plans	**$ (96)**	$ (79)	$ 289	**$ (79)**	$ (1)	$ 59
Adjustments to recognize the long-term nature of defined benefit plans:						
Difference between expected and actual return on plan assets for year	**$ (41)**	$ 73	$ 71	**$ —**	$ —	$ —
Difference between actuarial losses (gains) recognized and actual actuarial losses (gains) on accrued benefit obligation for year	**189**	55	(342)	**25**	31	(37)
Difference between amortization of past service costs for year and actual plan amendments for year	**1**	(7)	1	**45**	(2)	2
Amortization of transition obligation (asset)	**(18)**	(17)	(19)	**(2)**	(2)	(2)
Total adjustments to defer costs to future periods	**$ 131**	$ 104	$ (289)	**$ 68**	$ 27	$ (37)
Total benefit cost recognized	**$ 35**	$ 25	$ —	**$ (11)**	$ 26	$ 22

(1) The assumed medical cost trend rate used in measuring the accumulated post-retirement benefits obligation in Canada in 2007 was 10%, decreasing by 0.5% each year to an ultimate rate of 5.5% per year. In the United States in 2007, the assumed rate was 9%, decreasing evenly to 5% by 2013, 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	$ 23	$ (21)
Effect on aggregated service and interest costs	$ 2	$ (2)

Composition of fair value of plan assets, December 31:

	2007	2006
Equity investments	43%	51%
Fixed income investments	44%	41%
Real estate investments	4%	3%
Other	9%	5%
Total composition of fair value of plan assets	100%	100%

Target allocation of plan assets, December 31:

	2007	2006
Equity investments	42%	46%
Fixed income investments	45%	45%
Real estate investments	5%	5%
Other	8%	4%
Total	100%	100%

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, and pooled and non-pooled variable accumulation funds in addition to any other investment vehicle approved by the plan sponsors that 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	$ 21	$ 13	$ 34

Expected future benefit payments

	2008	2009	2010	2011	2012	2013 -2017
Pension	$ 85	$ 91	$ 95	$ 99	$ 108	$ 631
Post-retirement	13	13	14	15	15	84
Total	$ 98	$ 104	$ 109	$ 114	$ 123	$ 715

The total contribution made by the Company to defined contribution plans was $52 in 2007, $51 in 2006 and $38 in 2005.

22. Foreign Exchange Gain (Loss)

The net foreign exchange loss of $3, equivalent to the proportionate amount of the foreign exchange loss accumulated in the unrealized foreign currency translation gains (losses) from its self-sustaining foreign operations, was recognized in net investment income for the year ended December 31, 2007 (gains of $4 in 2006 and $22 in 2005, respectively). The foreign exchange gain amount recognized in 2005 includes an amount of $74 recognized as a result of the reduction of the Company's net investment in its United Kingdom self-sustaining foreign operation of 450 U. K. Pounds and the foreign exchange loss from the disposal of Cuprum of $52 as described in Note 3.

23. Related Party Transactions

Transactions between SLF Inc. and its subsidiaries, which are related parties of SLF Inc., have been eliminated on consolidation and are not disclosed in this note.

The Company receives distribution fees from CI Investments Inc. for sales of its products by agents licensed through the Company. Distribution fees for the year ended December 31, 2007 of $144 ($127 and $111 in 2006 and 2005, respectively) are included in fee income in the consolidated statements of operations.

24. Variable Interest Entities

The Company has a greater than 20% involvement in a number of variable interest entities (VIEs) where the Company does not have a controlling financial interest, including being a creditor in trusts, limited partnerships, limited liability companies and special purpose entities. These VIEs were used to finance commercial mortgages, franchise receivables, auto receivables, retail stores, equipment, and to make private debt and equity investments. The Company's maximum exposure to loss related to all of these investments is $369, which is the carrying amount of these assets.

In the fourth quarter of 2007, a subsidiary of the Company obtained external funding (as described in Note 11D) for excess U.S. statutory actuarial reserves attributable to specific blocks of universal life policies through the use of a VIE. The subsidiary of the Company consolidates this VIE as the primary beneficiary since it is exposed to the majority of the expected losses.

25. 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:

	2007		2006		2005	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
REVENUE						
Premiums	**$ 13,124**	**$ 8,517**	$ 14,609	$ 7,791	$ 12,940	$ 7,135
Total net investment income	**4,684**	**5,738**	6,664	6,022	6,079	6,030
Net realized gains	**168**	**376**		337		788
Fee income	**3,212**	**3,343**	3,014	3,077	2,899	2,965
	21,188	**17,974**	24,287	17,227	21,918	16,918
POLICY BENEFITS AND EXPENSES						
Payments to policyholders, beneficiaries and depositors	**15,196**	**9,813**	13,730	8,860	13,506	8,920
Increase (decrease) in actuarial liabilities	**(2,515)**	**1,262**	2,525	1,602	872	1,274
Acquisition expense amortization	**64**	**337**	112	779	142	443
Other expenses	**5,596**	**4,504**	5,360	4,159	4,968	3,975
	18,341	**15,916**	21,727	15,400	19,488	14,612
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	**2,847**	**2,058**	2,560	1,827	2,430	2,306
Income taxes expense	**522**	**308**	389	243	531	445
Non-controlling interests in net income of subsidiaries	**35**	**35**	27	27	23	23
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	**2,290**	**1,715**	2,144	1,557	1,876	1,838
Cumulative effect of accounting changes, net of taxes		**—**		4		—
TOTAL NET INCOME	**2,290**	**1,715**	2,144	1,561	1,876	1,838
Less participating policyholders' net income	**2**	**—**	7	—	9	—
SHAREHOLDERS' NET INCOME	**2,288**	**1,715**	2,137	1,561	1,867	1,838
Less preferred shareholder dividends	**69**	**69**	48	48	24	24
COMMON SHAREHOLDERS' NET INCOME	**$ 2,219**	**$ 1,646**	$ 2,089	$ 1,513	$ 1,843	$ 1,814
Earnings per share						
Basic						
Common shareholders' net income excluding cumulative effect of accounting changes	**$ 3.90**	**$ 2.89**	$ 3.62	$ 2.61	$ 3.14	$ 3.09
Cumulative effect of accounting changes		**—**		0.01		—
Common shareholders' net income	**$ 3.90**	**$ 2.89**	$ 3.62	$ 2.62	$ 3.14	$ 3.09
Diluted						
Common shareholders' net income excluding cumulative effect of accounting changes	**$ 3.85**	**$ 2.84**	$ 3.58	$ 2.58	$ 3.12	$ 3.07
Cumulative effect of accounting changes		**—**		0.01		—
Common shareholders' net income	**$ 3.85**	**$ 2.84**	$ 3.58	$ 2.59	$ 3.12	$ 3.07
Weighted average shares outstanding in millions						
Basic	**569**	**569**	577	577	587	587
Diluted	**572**	**572**	580	580	590	590

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

ii) Consolidated balance sheets:

	2007		2006	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP
ASSETS				
Bonds			$ 69,230	
Bonds — held-for-trading	**$ 50,608**	**$ 5,781**		$ 6,668
Bonds — available-for-sale	**9,148**	**53,962**		60,872
Mortgages and corporate loans	**20,742**	**20,742**	15,993	20,793
Stocks			4,899	
Stocks — held-for-trading	**4,438**	**1,463**		1,665
Stocks — available-for-sale	**788**	**3,763**		3,879
Real estate, net of accumulated depreciation (accumulated depreciation: 2007 — $441 ;2006—$409)	**4,303**	**2,961**	3,825	2,611
Cash and cash equivalents	**3,603**	**3,740**	4,936	4,926
Short-term securities (1)	**1,897**	**1,882**	1,303	1,299
Derivative assets	**1,947**	**1,931**		1,487
Policy loans and other invested assets	**4,349**	**6,157**	6,013	7,086
Other invested assets — held-for-trading	**440**	**264**		740
Other invested assets — available-for-sale	**757**	**954**		431
Invested assets	**103,020**	**103,600**	106,199	112,457
Goodwill	**6,018**	**4,565**	5,981	4,664
Intangible assets	**775**	**770**	777	771
Deferred acquisition costs	**139**	**6,677**	185	6,495
Future income taxes (2)	**382**	**233**	747	240
Other assets	**3,957**	**8,287**	3,942	6,622
Total other assets	**11,271**	**20,532**	11,632	18,792
Segregated funds assets (3)		**72,834**		70,559
Total consolidated assets	**$114,291**	**$196,966**	$117,831	$201,808
Segregated funds net assets (3)	**$ 73,205**		$ 70,789	
LIABILITIES AND EQUITY				
Actuarial liabilities and other policy liabilities	**$ 79,830**	**$ 53,920**	$ 81,036	$ 54,195
Contract holder deposits		**32,706**		38,666
Amounts on deposit	**3,747**	**3,616**	3,599	3,588
Derivative liabilities	**638**	**642**		364
Deferred net realized gains	**276**		4,152	
Senior debentures	**3,014**	**3,014**	3,491	3,491
Future income taxes (2)	**582**	**545**	226	598
Other liabilities	**7,093**	**10,625**	6,608	10,301
Total general fund liabilities	**95,180**	**105,068**	99,112	111,203
Subordinated debt	**1,796**	**1,796**	1,456	1,456
Non-controlling interests in subsidiaries	**98**	**98**	79	79
Segregated funds liabilities (3)		**72,834**		70,559
Equity	**17,217**	**17,170**	17,184	18,511
Total consolidated liabilities and equity	**$114,291**	**$196,966**	$117,831	$201,808
Segregated funds contract liabilities (3)	**$ 73,205**		$ 70,789	

(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.

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

iii) Consolidated statements of equity:

	2007		2006	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP
PARTICIPATING POLICYHOLDERS' CAPITAL ACCOUNT:				
Balance, January 1	**$ 92**	**$**	$ 85	$
Adjustment for change in accounting policy	**6**			
Net income attributed to participating policyholders	**2**		7	
Total other comprehensive income (loss)	**(5)**			
Balance, December 31	**95**		92	
SHAREHOLDERS' EQUITY:				
PREFERRED SHARES				
Balance, January 1	**1,250**	**1,250**	712	712
Shares issued, net of issuance costs	**245**	**245**	538	538
Balance, December 31	**1,495**	**1,495**	1,250	1,250
PAID IN CAPITAL				
Balance, January 1	**7,154**	**12,981**	7,239	13,148
Stock options exercised (2)	**55**	**55**	61	61
Common shares purchased for cancellation (1)	**(115)**	**(211)**	(164)	(278)
Stock option compensation (3)	**1**	**55**	18	16
Subsidiary equity transaction	**—**	**32**	—	34
Balance, December 31	**7,095**	**12,912**	7,154	12,981
RETAINED EARNINGS				
Balance, January 1, as previously reported	**10,016**	**4,450**	9,001	3,897
Adjustment for changes in accounting policies (Note 2 and Section D of this note)	**186**	**(1)**	—	—
Balance, January 1, after change in accounting policy	**10,202**	**4,449**	9,001	3,897
Net income for the year attributed to shareholders	**2,288**	**1,715**	2,137	1,561
Dividends on common shares	**(752)**	**(752)**	(663)	(663)
Dividends on preferred shares	**(69)**	**(69)**	(48)	(48)
Common shares purchased for cancellation	**(387)**	**(291)**	(411)	(297)
Balance, December 31	**11,282**	**5,052**	10,016	4,450
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes				
Balance, January 1, as previously reported	**(1,328)**	**(170)**	(1,491)	(569)
Adjustment for change in accounting policy (Note 2)	**359**	**—**	—	—
Balance, January 1, after changes in accounting policies	**(969)**	**(170)**	(1,491)	(569)
Total other comprehensive income (loss)	**(1,781)**	**(2,119)**	163	625
	(2,750)	**(2,289)**	(1,328)	56
Impact of adopting SFAS 158	—	—	—	(226)
Balance, December 31	**(2,750)**	**(2,289)**	(1,328)	(170)
Total retained earnings and accumulated other comprehensive income	**8,532**	**2,763**	8,688	4,280
TOTAL EQUITY	**$ 17,217**	**$ 17,170**	$ 17,184	$ 18,511
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes				
Balance, end of year, consists of:				
Unamortized net actuarial loss (4)		**(126)**		(240)
Unamortized past service cost (4)		**29**		7
Unamortized transition asset (4)		**5**		7
Unrealized gains on available-for-sale assets	**25**	**1,316**		2,744
Unrealized foreign currency translation gains (losses), net of hedging activities	**(2,821)**	**(2,866)**	(1,337)	(1,402)
Unrealized gains on derivatives designated as cash flow hedges	**32**	**3**		3
Deferred acquisition costs and other liabilities		**(650)**		(1,289)
Balance, December 31	**$ (2,764)**	**$ (2,289)**	$ (1,337)	$ (170)

(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.

(4) Included in other assets and other liabilities for plans with surpluses and deficits respectively under Cdn. GAAP.

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

iv) Comprehensive income:

A new consolidated statement of comprehensive income was introduced under Cdn. GAAP upon the adoption of Section 1530 on January 1, 2007 as described in Notes 1 and 2. For U.S. GAAP, changes to deferred acquisition costs and other liabilities are included in addition to the components included in comprehensive income for Cdn. GAAP.

	2007		2006	2005
	Cdn. GAAP	**U.S. GAAP**	U.S. GAAP	U.S. GAAP
Total net income	**$ 2,290**	**$ 1,715**	$ 1,561	$ 1,838
Other comprehensive income (loss), net of taxes:				
Unrealized foreign currency translation gains (losses), excluding hedges	**(1,781)**	**(1,807)**	236	(354)
Unrealized foreign currency gains (losses), net investment hedges	**282**	**343**	(60)	46
Net adjustment for foreign exchange losses	**3**	**—**	—	—
Unrealized gains (losses) on available-for-sale assets	**(238)**	**(1,140)**	78	494
Reclassifications to net income for available-for-sale assets	**(84)**	**(288)**	(30)	(492)
Unrealized gains on cash flow hedging instruments	**40**	**7**	5	11
Reclassifications to net income for cash flow hedges	**(8)**	**(7)**	(8)	(6)
Changes to deferred acquisition costs and other liabilities		**639**	268	58
Changes in unamortized net actuarial loss		**114**	—	—
Changes in past service cost		**22**	—	—
Changes in transition asset		**(2)**	—	—
Additional minimum pension liability (1)		**—**	136	(66)
Total other comprehensive income (loss)	**(1,786)**	**(2,119)**	625	(309)
Less:				
Participating policyholders' net income	**2**			
Participating policyholders' foreign currency translation gains (losses) excluding hedges	**(5)**			
Shareholders' comprehensive income (loss)	**$ 507**	**$ (404)**	$ 2,186	$ 1,529

(1) The additional minimum pension liability includes the impact of adopting FASB Statement No. 158 — Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158).

25. 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.

	2007	2006	2005
Total net income in accordance with Cdn. GAAP	**$ 2,290**	$ 2,144	$ 1,876
Adjustments related to:			
Investments			
Bonds(1)	**1,459**	(217)	208
Stocks and segregated fund units(1)	**114**	75	265
Derivative instruments	**(96)**	(65)	493
Real estate	**(125)**	(95)	(54)
Total investments	**1,352**	(302)	912
Deferred acquisition costs			
Deferred acquisition costs — deferred	**723**	897	720
Deferred acquisition costs — amortization and interest	**(273)**	(665)	(301)
Total deferred acquisition costs	**450**	232	419
Actuarial liabilities and other policyholder revenues and expenses			
Premium and fees revenue	**(4,167)**	(6,466)	(5,448)
Payments to policyholders, beneficiaries and depositors	**5,383**	4,870	4,586
Actuarial liabilities	**(3,777)**	923	(402)
Total actuarial liabilities and other policyholder revenues and expenses	**(2,561)**	(673)	(1,264)
Other	**(30)**	10	(191)
Income tax effect of above adjustments	**214**	146	86
Change in accounting policy	**—**	4	—
Total net income in accordance with U.S. GAAP	**$ 1,715**	$ 1,561	$ 1,838

(1) In 2007, differences in net income are attributable to different asset designations. Under Cdn. GAAP, assets are designated as held-for-trading for investments supporting actuarial liabilities, and available-for-sale for assets not supporting actuarial liabilities (as described in more detail in Note 2). For U.S. GAAP, most of the Company's assets are designated as available-for-sale.

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

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

(i) The following table shows the significant accounting policy differences between Cdn. GAAP and U.S. GAAP:

	Cdn. GAAP	U.S. GAAP
Held-for-trading Designation	Any financial asset that is not a loan or a receivable and whose fair value can be reliably measured can be designated as held-for-trading.	Only debt and equity securities that have reliably determinable fair values and are bought and held principally for the purpose of selling them in the near term are classified as held-for-trading.
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.
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, amortization is based on a constant percentage of premium. Amortization for participating policies in the United Kingdom is based on the change in the sum assured. 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.

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

	Cdn. GAAP	U.S. GAAP
Deferred net realized gains	Realized gains and losses on sales of real estate are deferred and amortized.	Realized gains and losses on sales of real estate are recognized in income immediately.
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.
Unrealized foreign currency translation gains (losses)	A proportionate amount of the exchange gain or loss accumulated in OCI 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 OCI 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.
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 viii) of this note.
Derivatives	For net investment hedges, changes in fair value of these hedging derivatives, along with interest earned and paid on the swaps are recorded to the foreign exchange gains and losses in OCI, offsetting the respective exchange gains or losses arising from the underlying investments. There is no requirement to bifurcate embedded derivatives from actuarial liabilities for insurance contracts. As a result, they are included as part of actuarial liabilities.	For net investment hedges, spot rate changes on the hedging derivatives are recorded to the foreign exchange gains and losses in OCI to offset the respective exchange gains or losses arising from the underlying investments. The remainder of the changes in fair value, along with interest earned and paid, are recorded in net income. Embedded derivatives in insurance contracts are separately accounted for as stand-alone derivatives when they are not clearly and closely related to their host instruments. They are recorded at fair value as derivative assets or liabilities, with changes in fair value recorded in income.

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

(ii) The following additional significant accounting policy differences between Cdn. GAAP and U.S. GAAP existed prior to 2007:

	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 fair value. The bonds are classified as available-for-sale or trading. Unrealized gains and losses are included in OCI 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 instruments, included with bonds under Cdn. GAAP, are reclassified to mortgages and corporate loans under U.S. GAAP, 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 fair value. The stocks are classified as available-for-sale or trading. Unrealized gains and losses are included in OCI 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.
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 used for risk management purposes 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.	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 adjustment to the carrying value of the hedged item are recognized in income. For cash flow hedges, the effective portion of the changes in the fair value of the derivatives is recorded in OCI and the ineffective portion is recognized in income. Embedded derivatives are separately accounted for as stand-alone derivatives and carried at fair values with the changes in fair value recorded in income when they are not clearly and closely related to their host instruments. This requirement includes insurance policies issued by the Company. Foreign exchange exposure of an anticipated purchase transaction would not qualify for hedge accounting.

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

	Cdn. GAAP	U.S. GAAP
	There is no requirement to separately account for embedded derivatives prior to 2007. Foreign exchange exposure of an anticipated purchase transaction may qualify for hedge accounting.	
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.

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

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

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

	2007	2006	2005
Bonds:			
Gross realized gains	**$ 276**	$ 383	$ 618
Gross realized losses	**$ (183)**	$ (256)	$ (122)
Stocks:			
Gross realized gains	**$ 412**	$ 193	$ 217
Gross realized losses	**$ (170)**	$ (78)	$ (65)

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

	2007	2006	2005
Bonds	**$ (182)**	$ (80)	$ 12
Stocks	**$ 59**	$ 301	$ 348

iii) Gross unrealized gains (losses) on available-for-sale bonds:

	2007			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Estimated Fair Value**
Issued or guaranteed by:				
Canadian federal government	**$ 2,721**	**$ 118**	**$ (6)**	**$ 2,833**
Canadian provincial and municipal governments	**5,429**	**828**	**(73)**	**6,184**
U.S. Treasury and other U.S. agencies	**1,234**	**79**	**(15)**	**1,298**
Other governments	**2,458**	**376**	**(11)**	**2,823**
Corporate	**34,637**	**1,000**	**(961)**	**34,676**
Asset-backed securities	**6,375**	**109**	**(336)**	**6,148**
Total bonds	**$ 52,854**	**$ 2,510**	**$ (1,402)**	**$ 53,962**

	2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Issued or guaranteed by:				
Canadian federal government	$ 3,174	$ 161	$ (3)	$ 3,332
Canadian provincial and municipal governments	5,581	958	(4)	6,535
U.S. Treasury and other U.S. agencies	1,236	34	(11)	1,259
Other governments	2,031	402	(6)	2,427
Corporate	37,586	1,783	(347)	39,022
Asset-backed securities	8,230	163	(96)	8,297
Total bonds	$ 57,838	$ 3,501	$ (467)	$ 60,872

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

(iv) Gross unrealized gains (losses) on available-for-sale stocks:

	Original Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Total 2007	**$ 3,139**	**$ 730**	**$ (106)**	**$ 3,763**
Total 2006	$ 3,037	$ 863	$ (21)	$ 3,879

v) Real estate

The depreciation expense included in U.S. GAAP other expenses is as follows:

	2007	2006	2005
Depreciation expense	**$ 61**	$ 56	$ 56

vi) Derivatives

Derivatives are accounted for consistently under both Cdn. and U.S. GAAP as a result of the adoption of the new CICA Handbook Sections 3865, Hedges, and 3855, Financial Instruments — Recognition and Measurement, on January 1, 2007. The Company also designated fair value and cash flow hedges consistently under both GAAPs and therefore, information on these hedges for the period ended December 31, 2007 is the same in Cdn. and U.S. GAAP (see Note 5). The following includes prior years' information on these hedges:

Fair value hedge
For the year ended December 31, 2006 and 2005, there is no hedge ineffectiveness recognized in net income. All components of each derivative's change in fair value have been included in the assessment of fair value hedge effectiveness.

Cash flow hedge
For the year ended December 31, 2006 and 2005, the Company excluded a net loss of $1 and $2 from hedge effectiveness assessment and reclassified $1 and $8 from OCI to income. There is no hedge ineffectiveness recognized in net income. As at December 31, 2006 and 2005, the Company expected to reclassify $6 and $3 to net income in the next 12 months.

The Company uses different accounting policies for net investment hedges in Cdn. and U.S. GAAP as described below:

Net investment hedges
The Company designates net investment hedges consistently in both Cdn. and U.S. GAAP. However, the Company uses different accounting policies for these hedges. Under Cdn. GAAP, changes in fair value of these hedging derivatives, along with interest earned and paid on the swaps, are recorded to the foreign exchange gains and losses in OCI, offsetting the respective exchange gains or losses arising from the underlying investments. Under U.S. GAAP, only the spot rate changes on the hedging derivatives are recorded to the foreign exchange gains and losses in OCI to offset the respective exchange gains or losses arising from the underlying investments. The remainder of the changes in fair value, along with interest earned and paid, are recorded in net income. For the years ended December 31, 2007, 2006 and 2005, the Company recorded $358, $(60) and $46 to the foreign exchange gains (losses) in OCI for U.S. GAAP purposes.

vii) 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, as at December 31, 2007.

	Less than 12 months		12 months or more		Total	
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds	**$ 14,150**	**$ 853**	**$ 7,463**	**$ 549**	**$ 21,613**	**$ 1,402**
Stocks	**1,136**	**106**	**1**	**—**	**1,137**	**106**
Total temporarily impaired securities	**$ 15,286**	**$ 959**	**$ 7,464**	**$ 549**	**$ 22,750**	**$ 1,508**

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

Available-for-sale debt securities have generally been identified as temporarily impaired if their amortized cost as at December 31, 2007, was greater than their fair value, resulting in an unrealized loss. Unrealized gains and losses in respect of investments designated as held-for-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 3,461 debt securities were in an unrealized loss position as at December 31, 2007, of which 1,960 were in a continuous loss position for less than 12 months and 1,501 positions for 12 months or more. Of the 3,461 debt securities, unrealized losses less than 12 months included 833 positions with an aggregate fair value of $3,078 (788 positions with an aggregate fair value of $1,888 for 12 months or more) having unrealized losses of less than one hundred thousand dollars per individual holding. A total of 83 common stock positions were in a loss position as at December 31, 2007 of which 75 were in a continuous loss position for less than 12 months and 8 positions for 12 months or more. Of the 83 common stock positions, unrealized losses less than 12 months included 15 positions with an aggregate fair value of $34 having unrealized losses of less than one hundred thousand dollars per individual holding.

viii) 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:

	2007			
	Future Income Tax Asset(1)		Future Income Tax Liability(1)	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Investments	$ (27)	$ (12)	$ 1,257	$ 1,041
Actuarial liabilities	261	932	(464)	(899)
Deferred acquisition costs	144	(789)	(199)	578
Losses available for carry forward	6	8	(111)	(109)
Other	3	99	82	(66)
Future tax asset/liability before valuation allowance	387	238	565	545
Valuation allowance	(5)	(5)	17	—
Total	$ 382	$ 233	$ 582	$ 545

	2006			
	Future Income Tax Asset(1)		Future Income Tax Liability(1)	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Investments	$ 61	$ (52)	$ 272	$ 1,550
Actuarial liabilities	123	1,343	(7)	(1,639)
Deferred acquisition costs	325	(933)	—	635
Losses available for carry forward	216	16	(15)	(215)
Other	99	(130)	(24)	202
Future tax asset/liability before valuation allowance	824	244	226	533
Valuation allowance	(77)	(4)	—	65
Total	$ 747	$ 240	$ 226	$ 598

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

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

ix) Acquisition: The Company completed the acquisition of the Genworth EBG Business on May 31, 2007 and the acquisition of CMG Asia on October 18, 2005 as described in Note 3. The following table shows the amounts of the assets, liabilities and goodwill at the dates of acquisition under Cdn. and U.S. GAAP. The amounts under each GAAP are different due to the different accounting policies used under each GAAP.

	Genworth EBG Business		CMG Asia	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP
Invested assets acquired	**$ 977**	**$ 977**	$ 1,548	$ 1,548
Other assets acquired (1)	**129**	**353**	122	422
Segregated funds assets acquired	**—**	**—**	—	532
	1,106	**1,330**	1,670	2,502
Actuarial liabilities and other policy liabilities acquired	**654**	**545**	1,453	1,344
Amounts on deposit acquired	**49**	**51**	159	159
Other liabilities acquired	**38**	**50**	40	38
Segregated funds liabilities acquired	**—**	**—**	—	532
	741	**646**	1,652	2,073
Net balance sheet assets acquired	**$ 365**	**$ 684**	$ 18	$ 429
Consideration:				
Cash cost of acquisition	**$ 709**	**$ 709**	$ 554(2)	$ 532
Transaction and other related costs	**16**	**16**	9	9
	$ 725	**$ 725**	$ 563	$ 541
Goodwill on acquisition	**$ 360**	**$ 41**	$ 545	$ 112

(1) Other assets acquired included value of business acquired of $248 for Genworth EBG Business and $287 for CMG Asia under U.S. GAAP.

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

The following supplemental unaudited pro forma information has been prepared to give effect to the acquisitions of Genworth EBG Business and CMG Asia, as if the transactions had been completed at the beginning of each year presented. Since CMG Asia was acquired in October of 2005, 2006 and 2007 net income from CMG Asia is included in the actual net income reported for those years. The proforma information is calculated by combining the results of operations of the Company with those of the Genworth EBG Business and CMG Asia prior to the acquisition dates. The pro forma information is not intended to reflect what would have actually resulted had the transactions been completed at the beginning of those years or what may be obtained in the future. Where applicable, the impact of synergy savings and integration costs arising from the acquisitions have been reflected.

Supplemental unaudited pro forma condensed information:

	Genworth EBG Business		CMG Asia
	2007	2006	2005
Revenue	**$ 18,335**	$ 18,071	$ 17,136
Total common shareholders' net income before realized gains	**$ 1,275**	$ 1,132	$ 1,034
Net realized gains	**376**	337	791
Common shareholders' net income	**$ 1,651**	$ 1,469	$ 1,825
Weighted average number of shares outstanding (in millions)	**569**	577	587
Basic earnings per share	**$ 2.90**	$ 2.55	$ 3.11
Common shareholders' net income on a diluted basis	**$ 1,631**	$ 1,458	$ 1,820
Weighted average number of shares outstanding on a diluted basis (in millions)	**572**	580	590
Diluted earnings per share	**$ 2.85**	$ 2.51	$ 3.08

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

x) 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:

	2007		2006		2005	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Common shareholders' net income excluding cumulative effect of accounting changes	**$ 2,219**	**$ 1,646**	$ 2,089	$ 1,509	$ 1,843	$ 1,814
Cumulative effect of accounting changes, net of income taxes	**—**	**—**		4		—
Common shareholders' net income	**2,219**	**1,646**	2,089	1,513	1,843	1,814
Less: Effect of stock options of subsidiaries	**20**	**20**	11	11	5	5
Common shareholders' net income on a diluted basis	**$ 2,199**	**$ 1,626**	$ 2,078	$ 1,502	$ 1,838	$ 1,809
Weighted average number of shares outstanding (in millions)	**569**	**569**	577	577	587	587
Add: Adjustments relating to the dilutive impact of stock options	**3**	**3**	3	3	3	3
Weighted average number of shares outstanding on a diluted basis (in millions)	**572**	**572**	580	580	590	590

xi) 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:

	2007	2006	2005
Deposits and withdrawals reclassified to financing activities:			
Deposits to policyholders' accounts	**$ 4,141**	$ 6,417	$ 6,401
Withdrawals from policyholders' accounts	**$ 7,090**	$ 6,510	$ 6,021

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, 2007, 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.

25. 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 as at December 31, 2007:

Benefit type	Account Balance	Net Amount at Risk	Weighted Average Attained Age of Contract Holders
Minimum death	**$ 30,646**	**$ 1,895**	**66**
Minimum income	**$ 2,476**	**$ 2,177**	**60**
Minimum accumulation or withdrawal	**$ 5,300**	**$ 4**	**62**

The following summarizes the additional reserve for the minimum guaranteed death benefit and income benefit as at December 31, 2007:

	Minimum Guaranteed Death Benefit	Guaranteed Minimum Income Benefit	Total
Balance as at January 1, 2006	$ 68	$ 194	$ 262
Benefit ratio and assumption changes	(7)	1	(6)
Incurred guaranteed benefits	69	1	70
Paid guaranteed benefits	(69)	(33)	(102)
Interest	4	(26)	(22)
Effect of changes in currency exchange rates	—	20	20
Balance as at December 31, 2006	**65**	**157**	**222**
Benefit ratio and assumption changes	**5**	**10**	**15**
Incurred guaranteed benefits	**28**	**1**	**29**
Paid guaranteed benefits	**(36)**	**(35)**	**(71)**
Interest	**3**	**28**	**31**
Effect of changes in currency exchange rates	**(12)**	**(23)**	**(35)**
Balance as at December 31, 2007	**$ 53**	**$ 138**	**$ 191**

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 Financial Accounting Standards Board (FASB) Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), and are recognized at fair value through earnings. The guaranteed minimum accumulation and withdrawal benefits were liabilities of $165 and $170 as at December 31, 2006 and December 31, 2007, respectively.

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

D) U.S. GENERALLY ACCEPTED ACCOUNTING STANDARDS ADOPTED BY THE COMPANY IN 2007

i) FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109 (FIN 48):

Effective January 1, 2007, the Company adopted FIN 48. As a result of the implementation of FIN 48, the Company recognized an increase of $1 in the reserve for unrecognized tax benefits (UTBs), which was accounted for as a decrease to the January 1, 2007 balance of retained earnings. Additionally, as a result of implementing FIN 48, the Company recorded $144 of UTBs related to a balance sheet reclassification (from future tax liability to current tax liability) that did not impact retained earnings.

The liability for UTBs related to permanent and temporary tax adjustments, exclusive of interest, was $617 as at December 31, 2007 ($624 as at January 1, 2007). Of this total, $452 of tax benefits would favourably affect the Company's effective tax rate if the tax benefits were recognized in the financial statements.

The net decrease in the liability of $7 since the date of adoption resulted from the following:

UTB balance as at January 1, 2007	**$ 624**
Increase (decrease) related to tax positions in prior year	**24**
Increase (decrease) related to tax positions in current year	**20**
Increase (decrease) related to foreign exchange movement	**(51)**
UTB balance as at December 31, 2007	**$ 617**

The Company records interest and penalties related to income taxes as a component of other expense in the consolidated statements of operations. The Company recognized $49 of net interest and penalties as at January 1, 2007. During the year ended December 31, 2007, the Company recognized an additional $16 in gross interest and penalties related to UTBs.

While the final outcome of the ongoing tax examinations is not yet determinable, the Company believes that an increase or decrease of the total amount of UTBs within the next 12 months would not materially impact its effective tax rate.

The following table summarizes, by major tax jurisdiction, the tax years that remain subject to examination by the relevant taxing authorities:

Tax Jurisdiction	Years Subject to Examination
Canada	2003 — forward
U.S.	2001 — forward
U.K.	2003 — forward

ii) FASB Statement No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS 155) — An amendment of FASB Statements No. 133 and 140:). The Company adopted the provisions of SFAS 155 on January 1, 2007. SFAS 155 supersedes the interim guidance in SFAS 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets, and requires beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or hybrid instruments that contain an embedded derivative requiring bifurcation. SFAS 155 permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. Under SFAS 155, an entity may make an irrevocable election to measure a hybrid financial instrument at fair value, in its entirety, with changes in fair value recognized in earnings. The adoption of SFAS 155 did not have a material impact on the Consolidated Financial Statements.

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

iii) Derivative Implementation Group Statement 133 Implementation Issue No. B40, Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets (DIG B40): The Company adopted the provisions of DIG B40 on January 1, 2007. Since SFAS 155 eliminated the interim guidance related to securitized financial assets, DIG B40 provides a narrow scope exception for securitized interests that contain only an embedded derivative related to prepayment risk. Under DIG B40, a securitized interest in prepayable financial assets would not be subject to bifurcation if certain conditions are met. The adoption of DIG B40 did not have a material impact on the Consolidated Financial Statements.

iv) FASB Statement No. 156, Accounting for Servicing of Financial Assets (SFAS 156): The Company adopted SFAS 156 on January 1, 2007. SFAS 156 permits, but does not require, an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities. The adoption of SFAS 156 did not have a material impact on the Consolidated Financial Statements.

v) American Institute of Certified Public Accountants' (AICPA) Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts (SOP 05-1): The Company adopted SOP 05-1 on January 1, 2007. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments (SFAS 97). SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The adoption of this SOP did not have a material impact on the Consolidated Financial Statements.

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

i) FASB Statement No. 141(R), Business Combinations (SFAS 141(R)): SFAS 141(R) requires the acquiring entity in a business combination to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date at their fair values as at that date. Contractual contingencies are also required to be measured at their acquisition date fair values. In addition, SFAS 141(R) requires that acquisition related costs and restructuring costs be recognized separately from the business combination. SFAS 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will adopt SFAS 141(R) on January 1, 2009.

ii) FASB Statement No. 157, Fair Value Measurements (SFAS 157): SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. It defines fair value to be the exit price and establishes a three-level hierarchy for fair value measurements based on the level of valuation inputs. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company will adopt SFAS 157 on January 1, 2008 and is currently assessing the impact on its Consolidated Financial Statements.

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

iii) FASB Statement No. 158 — Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158): SFAS 158 requires the measurement date for plan assets and liabilities to be the Company's fiscal year end. Previously it was permitted to use a date up to three months prior to the Company's fiscal year end. The Company will adopt the measurement date provision of SFAS 158 in 2008 for certain of its U.S. plans. The adoption of the measurement date change will not have a material impact on the Consolidated Financial Statements.

iv) FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159): SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value ("FV option"). The objective is to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for fiscal years beginning after November 15, 2007

As of January 1, 2008, the Company will adopt the FV option for certain available-for-sale fixed maturity securities attributable to certain life, health and annuity products. The Company believes this adoption will mitigate volatility related to derivatives, which are currently carried at fair value, with changes in fair value recorded as a component of derivative income. In addition, as the Company is constantly managing unexpected and significant changes in facts and circumstances related to the investment portfolios, such as issuer-specific credit events and greater than expected redemptions in certain product segments, adopting the FV option will allow more flexibility in regards to balancing the investment portfolios with respect to asset mix, interest rate risk, yield, duration, and credit quality. The adoption of the FV option will also allow for more effective investment management of a total return portfolio strategy in a volatile interest rate environment.

The Company is still assessing the impact the adoption of SFAS 159 will have on the Consolidated Financial Statements.

v) FASB Statement No. 160, Non-controlling Interests in Consolidated Financial Statements (SFAS 160): SFAS 160 requires that non-controlling interests in subsidiaries be presented within equity in the Consolidated Financial Statements, and that all transactions between an entity and non-controlling interests be accounted for as equity transactions. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The Company will adopt SFAS 160 on January 1, 2009.

26. Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation adopted in 2007.

Appointed Actuary's Report

THE SHAREHOLDERS AND DIRECTORS OF SUN LIFE FINANCIAL INC.

I have valued the policy liabilities of Sun Life Financial Inc. and its subsidiaries for its consolidated balance sheets at December 31, 2007 and 2006 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, 2008

Report of Independent Registered Chartered Accountants

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF SUN LIFE FINANCIAL INC.

We have audited the accompanying consolidated balance sheets of Sun Life Financial Inc. and subsidiaries (the "Company") and the separate consolidated statements of segregated funds net assets as at December 31, 2007 and 2006, and the related consolidated statements of operations, equity, comprehensive income, cash flows and changes in segregated funds net assets for each of the three years in the period ended December 31, 2007. 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.

With respect to the consolidated financial statements for the years ended December 31, 2007 and 2006, we conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). With respect to the consolidated financial statements for the year ended December 31, 2005, we conducted our audit in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Sun Life Financial Inc. and subsidiaries and their segregated funds as at December 31, 2007 and 2006, and the results of their operations, their cash flows and the changes in their segregated funds net assets for each of the three years in the period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 13, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP.
Independent Registered Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 13, 2008

Comments by Independent Registered Chartered Accountants on Canada- United States of America Reporting Difference

The standards of the Public Company Accounting Oversight Board (United States) 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 Company's financial statements, such as the changes described in Notes 1, 2 and 25 to the consolidated financial statements. Our report to the Board of Directors and Shareholders, dated February 13, 2008, is expressed in accordance with Canadian reporting standards which do not require a reference to such changes in accounting principles in the auditors' report when the changes are properly accounted for and adequately disclosed in the financial statements.

Deloitte & Touche LLP.
Independent Registered Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 13, 2008

Report of Independent Registered Chartered Accountants

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF SUN LIFE FINANCIAL INC.

We have audited the internal control over financial reporting of Sun Life Financial Inc. and subsidiaries (the "Company") as of December 31, 2007, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2007 of the Company and our report dated February 13, 2008 expressed an unqualified opinion on those financial statements and included a separate report titled Comments by Independent Registered Chartered Accountants on Canada-United States Reporting Difference referring to changes in accounting principles.



Independent Registered Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 13, 2008

Exhibit 3

Annual Information Form

Sun Life Financial Inc.

For the Year Ended December 31, 2007

February 13, 2008

Life's brighter under the sun

Sun Life Financial

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, 2007, 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, 2007, and

(ii) SLF Inc.’s Consolidated Financial Statements and accompanying notes (Consolidated Financial Statements) for the year ended December 31, 2007.

These documents have been filed with securities regulators in Canada and with the United States Securities and Exchange Commission (SEC) and may be accessed at www.sedar.com and www.sec.gov, respectively.

Forward-looking Statements

Certain statements contained in this AIF, including those relating to the Company’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 the information concerning possible or assumed future results of operations of the Company. These statements represent the Company’s expectations, estimates and projections regarding future events and are not historical facts. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Future results and stockholder value of SLF Inc. may differ materially from those expressed in these forward-looking statements due to, among other factors, the matters set out under “Risk Factors” in this AIF and the factors detailed in its other filings with Canadian and U.S. securities regulators, including its annual MD&A, and annual and interim financial statements, which are available for review at www.sedar.com and www.sec.gov.

Factors that could cause actual results to differ materially from expectations include, but are not limited to, the performance of equity markets; interest rate fluctuations; investment losses and defaults; the cost, effectiveness and availability of risk mitigating hedging programs; the credit worthiness of guarantors and counterparties to derivatives; risks related to market liquidity; changes in legislation and regulations including tax laws; regulatory investigations and proceedings and private legal proceedings and class actions relating to practices in the mutual fund, insurance, annuity and financial product distribution industries; risks relating to product design and pricing; insurance risks including mortality, morbidity, longevity and policyholder behaviour including the occurrence of natural or man-made disasters, pandemic diseases and acts of terrorism; risks relating to operations in Asia including risks relating to joint ventures; currency exchange rate fluctuations; the impact of competition; the risks relating to financial modelling errors; business continuity risks; failure of information systems and Internet enabled technology; breaches of computer security and privacy; the availability, cost and effectiveness of reinsurance; the inability to maintain strong distribution channels and risks relating to market conduct by intermediaries and agents; dependence on third party relationships including outsourcing arrangements; downgrades in financial strength or credit ratings; the ability to successfully complete and integrate acquisitions; the ability to attract and retain employees; and the performance of the Company’s investments and investment portfolios managed for clients such as segregated and mutual funds. The Company does not undertake any obligation to update or revise 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

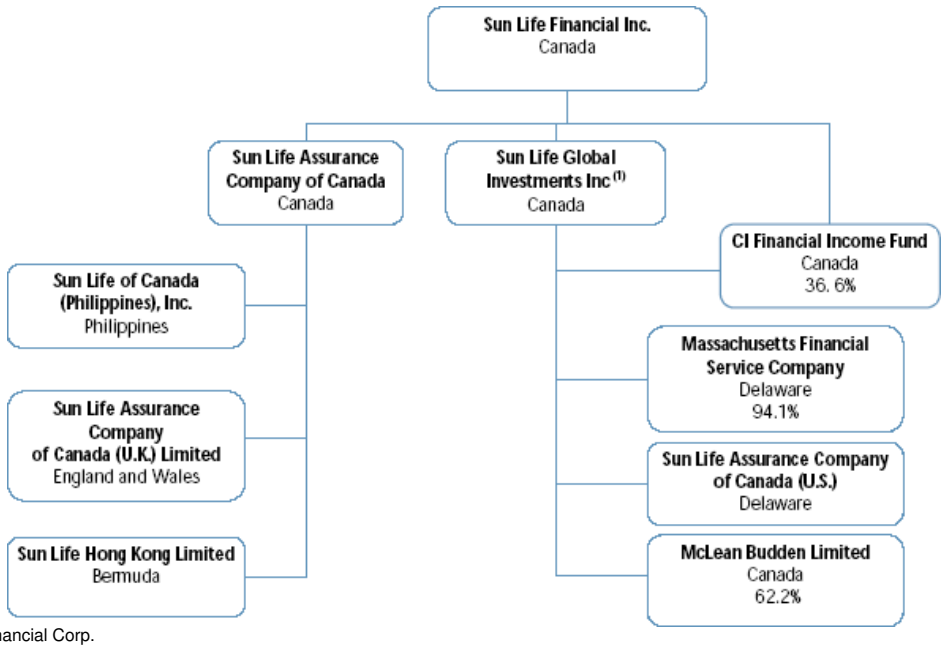
Sun Life Financial Inc. (SLF Inc.) was incorporated under the Insurance Companies Act, Canada (the Insurance Act) on August 5, 1999, for the purpose of becoming the holding company of Sun Life Assurance Company of Canada (Sun Life Assurance) following its demutualization.

Sun Life Assurance was incorporated in 1865 as a stock insurance company and was converted into a mutual insurance company in 1962. On March 22, 2000, Sun Life Assurance implemented a plan of demutualization under which it converted back to a stock company pursuant to Letters Patent of Conversion issued under the Insurance Act. Under its plan of demutualization, Sun Life Assurance became a wholly-owned subsidiary of SLF Inc.

Sun Life Financial's head and registered office is located at 150 King Street West, Toronto, Ontario, M5H 1J9.

Principal Subsidiaries and Significant Equity Investments

Sun Life Financial's corporate structure as at December 31, 2007, including SLF Inc.'s principal direct and indirect subsidiaries and significant equity investments, is shown below. Where a company is not a direct or indirect wholly owned subsidiary of SLF Inc. the following chart shows the percentage of voting securities that are beneficially owned or controlled by SLF Inc.



(1) Formerly Sun Life Financial Corp.

General Development of the Business

Overview

Sun Life Financial is a leading international financial services organization, offering a diverse range of life and health insurance products and services, savings, investment management, retirement, and pension products and services to both individual and corporate customers. 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.), Sun Life Financial Reinsurance (SLF Reinsurance), and Corporate Support operations which include run-off reinsurance and revenue and expenses of a corporate nature not attributable to other segments.

The Company's business model is one of balance as it strives to establish scale and scope in each of the diversified markets in which it chooses to compete. It weighs the higher growth prospects in emerging markets against the relative stability of more mature operations. In a similar way, the Company's stable protection business balances the relatively more volatile wealth management business. It also ensures that customers have access to complementary insurance, retirement and savings products that meet their specific needs at every stage of their lives. The following table shows the Company's products by business segment.

Products	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate
Individual life insurance	n	n		n	n
Individual annuity and savings	n	n		n	n
Group life and health	n	n		n	
Group pension and retirement	n	n		n	
Mutual funds	n		n	n	
Asset management	n	n	n	n	
Individual health insurance	n			n	
Reinsurance (life retrocession)					n

The Company's strong focus on multi-channel distribution offers customers choices as to how and when they purchase products and access services.

Distribution Channels	SLF Canada	SLF U.S.	MFS	SLF Asia
Direct sales agents	n			n
Independent and managing general agents	n	n		n
Financial intermediaries (e.g., brokers)	n	n	n	n
Banks		n	n	n
Pension and benefit consultants	n	n	n	n
Direct sales (including Internet)	n		n	n

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 optimal use of its capital and provides maximum shareholder value.

The Company monitors the market on an on-going basis to assess potential strategic transactions. The following summary outlines the acquisitions, disposals and business combination activities in the past three years. Additional information is provided in Note 3 to SLF Inc.'s 2007 Consolidated Financial Statements.

Corporate Reorganization in 2005

On January 4, 2005, the Company completed a reorganization under which most of Sun Life Assurance's asset management businesses in Canada and the United States, including the majority of its U.S. annuities business, were transferred to Sun Life Global Investments Inc. (SLGI), a subsidiary of SLF Inc. Under this reorganization, Sun Life Assurance transferred its shares of McLean Budden Limited, Massachusetts Financial Services Company and Sun Life Assurance's other U.S. subsidiaries to SLGI. CI Financial Inc. shares were transferred to SLF Inc. and to SLGI. 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.

CMG Asia Limited

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 for use as a base for further expansion in Asia.

U.S. Group Benefits Business Acquisition

On May 31, 2007, the Company completed its acquisition of Genworth Financial Inc.'s U.S. Employee Benefits Group (Genworth EBG Business). Sun Life Financial's U.S. group business combined with the Genworth EBG business and became Sun Life Financial Employee Benefits Group offering customers group life, disability, dental and stop loss insurance and voluntary worksite products. This acquisition added scale and scope to Sun Life Financial's U.S. group business and solidified its top ten leadership position in the important U.S. employee benefits industry. In addition, the increased access to markets, broadened product and service offerings, and strengthened distribution platform position Sun Life Financial for long-term growth.

Other Developments

On August 26, 2005, the Company sold its 31.72% investment in Administradora de Fondos de Pensiones Cuprum S.A., a Chilean pension fund manager, to Empresas Penta S.A.

On June 22, 2007, SLF Inc. purchased approximately two million of additional trust units of CI Financial Income Fund for $66 million in order to maintain the Company's existing combined interest in CI Financial Income Fund and Canadian International LP (collectively, CI Financial). SLF Inc.'s interest in CI Financial had decreased slightly as a result of CI Financial's purchase of Rockwater Capital Corporation in the second quarter of 2007.

On August 31, 2007, the Company entered into an agreement to sell the U.S. subsidiaries that comprise the Independent Financial Marketing Group (IFMG) business to LPL Holdings, Inc. The sale, which closed in the fourth quarter of 2007, did not have a material impact on the Company's 2007 financial condition or results of operations.

On December 13, 2007, the Company entered into an agreement to sell Sun Life Retirement Services (U.S.), Inc., a 401(k) plan administration business in the United States, to The Hartford Financial Services Group, Inc. The transaction is expected to close in the first quarter of 2008 and is not expected to have a material impact on the Company's financial condition or results of operations.

Business of Sun Life Financial

Wealth and Protection Industries

The global financial services industry continues to evolve rapidly in response to demographic trends. The graying of the population in developed markets is placing a greater demand on wealth accumulation products for working age employees, income distribution products for employees closer to retirement and wealth transfer vehicles for retirees. The aging of the population is also beginning to strain existing health care systems, as a larger portion of the population is expected to require treatment over a longer timeframe. Demand for products such as long-term care and critical illness insurance is anticipated to grow as consumers turn to products that help ensure direct access to high-quality health care. Lastly, 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 the emerging markets of Asia, the rising affluence of consumers is stimulating the demand for a wide variety of financial products, including protection, savings and investment vehicles.

Competition

The markets in which Sun Life Financial engages are highly competitive. Sun Life Financial's competitors include not only insurance companies, but also investment managers, mutual fund companies, banks, financial planners and other financial service providers. Frequently, competition is based on pricing, the ability to provide value-added services, and deliver excellence to both distributors and customers.

Increased competition has been a contributing factor to the global trend of consolidation within the financial services industry. As a result of mergers and acquisitions in the Canadian insurance industry, the three largest companies 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. Several major Canadian banks have significant securities, wealth management and insurance operations. Canadian financial services legislation provides a regulatory framework for further convergence of the banking, insurance and investment industries.

In the emerging markets of Asia, the regulatory environments are moving towards market liberalization, expanding the opportunities for foreign participants and aligning their regulatory environments more closely with standards prevalent in more mature markets. The insurance market is expected to be particularly dynamic in China and India, where Sun Life Financial has joint venture operations.

Seasonality

Seasonality factors impact certain components of Sun Life Financial's business. In Canada, Individual Wealth and Group sales are typically higher in the first quarter due to the RRSP season. In the United States, about half of the Employee Benefits Group annual sales typically come in the fourth quarter. In India, insurance sales tend to be stronger in the first quarter.

Number of Employees

The following table outlines the number of full-time equivalent employees (FTEs) across the Company's operations. It does not include employees in joint venture operations.

Country/Business	Number of FTEs
Canada	7,339
United States	5,096
Philippines	638
Hong Kong	636
Ireland	406
Indonesia	276
India	256
United Kingdom	51
Bermuda	49
China	12
Total	14,759

Additional Information

Additional information about the Company's business and its operating segments, including an overview of the financial services industry, its products and methods of distribution, competitive environment, risk management policies and investment activities, is described in SLF Inc.'s 2007 MD&A which is incorporated by reference in this AIF and should be read in conjunction with SLF Inc.'s 2007 Consolidated Financial Statements.

Capital Structure

General

SLF Inc.'s authorized capital consists of unlimited numbers of common shares (the 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 of Directors 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. Five series of Class A Preferred Shares have been created, designated the Class A Non-Cumulative Preferred Share Series 1, Series 2, Series 3, Series 4 and Series 5. The following table outlines the issued share capital of SLF Inc., as at February 8, 2008, including stock exchange listings.

Issued Share Capital

Security	Number of Shares	Exchanges[1]		
		TSX	NYSE	PSE
Common Shares	564,181,535	n	n	n
Class A Preferred Shares				
Series 1	16,000,000	n		
Series 2	13,000,000	n		
Series 3	10,000,000	n		
Series 4	12,000,000	n		
Series 5	10,000,000	n		

1 Toronto Stock Exchange (TSX), New York Stock Exchange (NYSE) and Philippines Stock Exchange (PSE)

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.

Common Shares are entitled to receive dividends if and when declared by the Board of Directors. 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 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.

Class A Preferred Shares

Series	Quarterly Dividend ($)	Early Redemption Date	Prospectus Date
Series 1	0.296875	March 31, 2010	February 17, 2005
Series 2	0.300000	September 30, 2010	July 8, 2005
Series 3	0.278125	March 31, 2011	January 6, 2006
Series 4	0.278125	December 31, 2011	October 2, 2006
Series 5	0.281250	March 31, 2012	January 25, 2007

The shares in each series of the Class A Preferred Shares Series were issued for $25 per share and holders are entitled to receive non-cumulative quarterly dividends outlined in the preceding table. Subject to regulatory approval, on or after the early redemption date noted, SLF Inc. may redeem these shares in whole or in part at a declining premium. Additional information concerning these preferred shares is contained in the prospectus issued for each issue, 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 contains 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 — Restrictions on Ownership"*.

Market for Securities

The following tables set out the price range and trading volumes of SLF Inc.'s Common Shares and Class A Preferred Shares on the TSX during 2007:

Common Shares

	Price ($)			Trading Volume (thousands)
	High	Low	Close	
January	50.91	47.45	50.56	21,672
February	53.30	50.35	50.45	24,694
March	53.29	49.63	52.52	24,080
April	54.14	52.10	52.60	17,325
May	52.48	49.52	50.51	34,200
June	51.37	47.80	50.76	31,118
July	52.26	48.60	50.39	24,950
August	52.58	47.68	50.79	31,381
September	52.99	50.53	52.20	26,498
October	56.50	50.85	54.89	23,318
November	54.48	50.85	52.68	30,001
December	55.99	52.65	55.71	24,572

Class A Preferred Shares

	Series 1				Series 2			
	Price ($)			Trading Volume	Price ($)			Trading Volume
	High	Low	Close	(thousands)	High	Low	Close	(thousands)
January	26.00	25.50	25.72	715	26.01	25.60	25.71	298
February	25.99	25.55	25.85	280	26.00	25.46	25.91	216
March	26.50	25.57	25.85	234	26.07	25.51	26.05	159
April	26.04	25.65	25.80	274	26.09	25.68	25.79	246
May	25.94	24.00	24.50	748	25.84	24.29	24.55	390
June	24.65	22.21	24.00	333	24.60	22.75	24.10	415
July	24.34	23.95	24.10	251	24.42	24.01	24.15	337
August	24.29	23.50	23.77	163	24.43	23.55	23.76	161
September	24.10	22.60	23.20	172	24.10	22.50	23.14	244
October	23.24	21.70	22.29	272	23.28	22.00	22.64	332
November	22.52	20.99	21.20	553	22.91	20.76	21.39	598
December	22.50	21.00	22.05	565	22.99	21.05	22.54	465

	Series 3				Series 4			
	Price ($)			Trading Volume	Price ($)			Trading Volume
	High	Low	Close	(thousands)	High	Low	Close	(thousands)
January	25.09	24.70	24.76	297	24.95	24.66	24.75	412
February	25.21	24.66	24.90	508	24.99	24.60	24.75	533
March	25.09	24.71	24.92	231	24.98	24.70	24.92	342
April	24.90	24.26	24.47	215	24.90	24.25	24.25	372
May	24.55	22.62	22.80	245	24.64	22.55	22.65	306
June	22.81	21.32	22.26	508	22.72	21.35	22.22	903
July	22.80	22.00	22.46	182	22.47	22.00	22.15	283
August	22.73	22.15	22.39	138	22.63	22.10	22.40	270
September	22.99	21.51	21.74	333	22.95	21.40	21.89	140
October	21.75	20.50	20.58	1,336	21.99	20.50	20.64	1,605
November	20.99	20.00	20.20	358	21.00	19.81	20.10	944
December	21.55	20.10	20.99	802	21.35	20.10	20.81	586

	Series 5			
	Price ($)			Trading Volume
	High	Low	Close	(thousands)
January	—	—	—	—
February	24.99	24.63	24.88	1,555
March	25.07	24.80	24.93	879
April	24.99	24.85	24.85	550
May	24.97	22.76	23.00	358
June	23.00	21.60	22.45	468
July	22.99	22.20	22.37	250
August	23.24	22.11	22.60	277
September	23.03	22.01	22.38	284
October	22.38	19.80	20.15	466
November	20.90	20.05	20.30	660
December	21.75	2025	21.29	591

Sales of Unlisted Securities

On February 26, 2007, SLF Inc. issued an additional $250 million of Series B Senior Unsecured 4.95% Fixed/Floating Debentures due in 2036. On May 29, 2007, SLF Inc. issued $400 million of Series 2007-1 Subordinated Unsecured 5.40% Fixed/Floating Debentures (Series 2007-1 Debentures) due in 2042. These debentures are not listed or quoted on a public market.

On January 30, 2008, SLF Inc. issued $400 million of Series 2008-1 Subordinated Unsecured 5.59% Fixed/Floating debentures (Series 2008-1) due in 2023.

Dividends

The declaration, amount and payment of dividends by SLF Inc. is subject to the approval of its Board of Directors and is dependent on the Company's results of operations, financial condition, cash requirements, regulatory and contractual restrictions and other factors considered by the Board of Directors. SLF Inc.'s dividend target payout ratio objective (common share dividends as a percentage of net income after preferred share dividends) is in the range of 30%-

40%. The 2007 ratio of 33% met this objective. The Board of Directors reviews this objective on a periodic basis.

Dividends Declared

	2007	2006	2005
Common Shares	$ 1.32	$ 1.15	$ 0.99
Class A Preferred Shares			
Series 1	$1.187500	$1.187500	$1.000
Series 2	$1.200000	$1.200000	$0.553
Series 3	$1.112500	$1.069067	—
Series 4	$1.112500	$0.249932	—
Series 5	$1.019435	—	—

SLF Inc. is prohibited under the Insurance Act from declaring or paying a dividend on any of its issued shares 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. 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.

As a holding company, SLF Inc. depends primarily on the receipt of funds from its subsidiaries to pay shareholder dividends, interest 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 (SLEECS) issued by Sun Life Capital Trust, Sun Life Assurance will not pay dividends on its "Public Preferred Shares", if any are outstanding. If Sun Life Assurance does not have any Public Preferred Shares then 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 qualify as "Public Preferred Shares" as at the date of this AIF.

SLF Inc. may not declare or pay dividends on its Class A Preferred Shares Series 1, Series 2, Series 3, Series 4 and Series 5 if Sun Life Assurance's Minimum Continuing Capital and Surplus Requirements ratio, determined in accordance with OSFI requirements, is less than 120%.

Security Ratings

The ratings assigned by rating agencies to SLF Inc.'s Class A Preferred Shares, Series 1, 2, 3, 4 and 5, its Senior Unsecured Debentures, Series A, B and C, and its Subordinated Unsecured Debentures, Series 2007-1 and Series 2008-1 are shown in the adjacent table. Security ratings assigned 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.

Security Ratings

	DBRS[1]		S&P[2]	
	Rating	**Rank**	**Rating**	**Rank**
Class A Preferred Shares				
Series 1-5	Pfd-1 (low)	1 of 6	P-1 (low)/A	1 of 5[3]
Senior Unsecured Debentures				
Series A-C	AA (low)	2 of 10	AA-	2 of 10
Subordinated Unsecured Debentures				
Series 2007-1	A(High)	3 of 10	A+	3 of 10
Series 2008-1	A(High)	3 of 10	A+	3 of 10

1 DBRS Limited

2 Standard & Poor's, a division of The McGraw-Hill Companies, Inc.

3 Reflects Canadian scale, corresponds to 4 of 20 on Global scale

DBRS Limited (DBRS)

The DBRS rating scale for long-term debt is meant to provide an indication of the risk that a borrower will not fulfill its obligations in a timely manner with respect to both principal and interest. Under the DBRS system, debt securities that are rated AA are of superior credit quality and the protection of interest and principal is considered high, while those that are rated A are of satisfactory credit quality and the protection of interest and principal is considered substantial. An AA rated entity is considered to be a strong credit and typically exemplifies above average strength in key areas of consideration and is unlikely to be significantly affected by reasonably foreseeable events. An A rated entity is considered to be respectable, but more susceptible to adverse economic conditions and has greater cyclical tendencies than a higher-rated security. A reference to "high" or "low" reflects the relative strength within the rating category, while the absence of either a "high" or "low" designation indicates the rating is placed in the middle of the category.

The DBRS preferred share rating scale is used in the Canadian securities market and is meant to provide an indication of the risk that a borrower will not fulfill its full obligations in a timely manner with respect to both principal and dividend commitments. The Pfd-1 rating indicates that the shares are of superior credit quality and have been issued by an entity with strong earnings and balance sheet characteristics. A reference to "high" or "low" again reflects the relative strength within the rating category, while the absence of either a "high" or "low" designation indicates the rating is placed in the middle of the category.

Standard & Poor's (S&P)

The S&P rating scale for long-term debt is based on the likelihood of payment-capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation; and the protection afforded by, and the relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditor's rights. An AA rating indicates that the obligor's capacity to meet its financial commitment is very strong. An A rating indicates that the obligor's capacity to meet its financial commitment is strong. S&P uses "+" or "—" designations to indicate the relative standing of securities within a particular rating category.

S&P has Canadian and global rating scales for preferred shares. S&P's Canadian scale is a current assessment of the creditworthiness of an obligor with respect to a specific share obligation issued in the Canadian market, relative to preferred shares issued by other issuers in the Canadian market. SLF Inc.'s Class A Preferred Shares, Series 1, 2, 3, 4 and 5 have been assigned A ratings using S&P's global scale for preferred shares and have been assigned P-1 (low) ratings using S&P's Canadian scale for preferred shares. The A rating category is the highest of the nine categories used by S&P on its global preferred share scale. The P-1 rating category is the highest of the eight categories used by S&P on its Canadian preferred share scale. A reference to "high", "medium" or "low" reflects the relative strength within the rating category.

Asset-backed Securities

Sun Life Financial issues asset-backed securities from time to time as part of its normal course of business. Details of Sun Life Financial's asset securitization program are presented in SLF Inc.'s 2007 MD&A under the heading Financial Position and liquidity — Off-Balance Sheet Arrangements —Asset Securitization and in Note 5 to SLF Inc.'s 2007 Consolidated Financial Statements.

Transfer Agents and Registrars

Common Shares

Country	Transfer Agent and Location of Registers
Canada	CIBC Mellon Trust Company P.O. Box 7010 Adelaide Street Postal Station Toronto, Ontario, Canada, M5C 2W9
United States	BNY Mellon Shareowner Services 480 Washington Boulevard Jersey City, NJ 07310 United States
United Kingdom	Capita Registrars Ltd. 34 Beckenham Road Beckenham, Kent United Kingdom BR3 4TU
Philippines	The Hongkong and Shanghai Banking Corporation Limited 12/F Tower 1 The Enterprise Centre 6766 Ayala Avenue cor Paseo de Roxas Makati City 1200 Metro Manila, Philippines
Hong Kong	Computershare Hong Kong Investor Services Limited 18th Floor, Rooms 1806 - 1807 Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong

Preferred Shares and Debentures

CIBC Mellon Trust Company is the transfer agent for SLF Inc.'s Class A Preferred Shares, Series 1, 2, 3, 4 and 5 and the trustee and registrar for SLF Inc.'s Series A, B and C senior unsecured debentures and its subordinated debentures — Series 2007-1, and Series 2008-1 Debentures. The registers for those securities are maintained in Toronto, Ontario, Canada.

Directors and Executive Officers

Board of Directors

At December 31, 2007, the Board of Directors of SLF Inc. had four standing committees: Audit and Conduct Review Committee, Governance Committee, Management Resources Committee, and Risk Review Committee.

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 2008. Each director of SLF Inc. is an independent director as defined in the Company's Director Independence Policy, except Mr. Stewart, the Chief Executive Officer 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	Corporate Director	2006	Audit and Conduct Review Risk Review
David A. Ganong New Brunswick, Canada	President, Ganong Bros. Limited	2002	Management Resources Risk Review
Germaine Gibara Quebec, Canada	President, Avvio Management Inc.	2002	Audit and Conduct Review Governance
Krystyna T. Hoeg Ontario, Canada	Corporate Director	2002	Audit and Conduct Review Risk Review
David W. Kerr Ontario, Canada	Managing Partner, Edper Financial Group	2004	Audit and Conduct Review Management Resources
Idalene F. Kesner Indiana, USA	Chairperson, Department of Management and Frank P. Popoff Chair of Strategic Management, Kelley School of Business, Indiana University	2002	Governance Risk Review
Mitchell M. Merin New Jersey, USA	Corporate Director	2007	Management Resources Risk Review
Bertin F. Nadeau Quebec, Canada	Chairman and Chief Executive Officer, 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]
Donald A. Stewart Ontario, Canada	Chief Executive Officer, SLF Inc. and Sun Life Assurance	1999	(none)
W. Vickery Stoughton California, USA	Corporate Director	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. Clappison, who prior to December 2005, was the Managing Partner of the Greater Toronto Area office of PricewaterhouseCoopers LLP; Ms. Hoeg, who prior to February 2007, was President and Chief Executive Officer of Corby Distilleries Limited; Mr. Kerr, who prior to August 2006, was Chairman of Falconbridge Limited; Mr. Merin, who prior to September 2005, was President and Chief Operating Officer of Morgan Stanley Investment Management; Mr. Osborne, who prior to December 2003, was President and Chief Executive Officer of Ontario Power Generation Inc.; and Mr. Stoughton, who prior to September 2007 was President and Chief Executive Officer of MagneVu Inc. and prior to February 2003, was Chairman and Chief Executive Officer of Careside, Inc.

Except as disclosed below, no director of SLF Inc. is or has been, in the last 10 years, a director, chief executive officer or chief financial officer of a company that, while that person was acting in that capacity, (a) was the subject of a cease trade or similar order or an order that denied the company access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days, or (b) was subject to an event that resulted, after that person ceased to be a director, chief executive officer or chief financial officer, in the company being the subject of a cease trade or similar order or an order that denied the company access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days. No director of SLF Inc. is or has been, in the last 10 years, a director or executive officer of a company that, while that person was acting in that capacity 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. Professor 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;

(iii) Mr. Stoughton was a director and President and Chief Executive Officer of MagneVu Inc., which filed a voluntary petition under Chapter 7 of the Bankruptcy Code in the United States in September 2007. Mr Stoughton 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., and is no longer a director or the President and Chief Executive Officer of MagneVu Inc.; and

(iv) Mr. Osborne was a director of Nortel Networks Corporation and Nortel Networks Limited (collectively, Nortel) when on April 10, 2006 the Ontario Securities Commission (OSC) issued a management cease trade order prohibiting all directors, officers and certain other current and former employees of Nortel from trading in securities of Nortel until two business days following receipt by the OSC of all filings required to be made by Nortel pursuant to Ontario securities laws. This order resulted from Nortel's need to restate certain previously reported financial results and related delays in filing certain of its 2005 financial results. This order was revoked effective June 8, 2006. Mr. Osborne is no longer a director of Nortel.

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 A.

The Board of Directors has determined that each member of its Audit and Conduct Review Committee is independent as defined in the Company's Director Independence Policy and is 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, a position she held until February 1, 2007. Ms. Hoeg joined the board of directors and audit committee of Clarica Life Insurance Company (Clarica) in 1999 and was appointed Chair of the Clarica audit committee in 2000. She joined the Board of Directors and the Audit and Conduct Review Committee of SLF Inc. and Sun Life Assurance in 2002 and became a member of the Risk Review Committee in 2004. In 2005, she was appointed Chair of the Audit and Conduct Review Committee. Ms. Hoeg is a director and a member of the audit committee of Ganong Bros. Limited, Samuel, Son & Co., Limited, Shoppers Drug Mart Corporation, Canadian Pacific Railway Limited and Canadian Pacific Railway Company, a trustee and member of the audit committee of Cineplex Galaxy Income Fund, and a member of the Canadian Audit Committee Network.

James C. Baillie is of Counsel at Torys LLP, a law firm. He was called to the Ontario 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 Board of Directors of SLF Inc. and Sun Life Assurance in 2000. He joined the Audit and Conduct Review Committee of SLF Inc. and Sun Life Assurance in 2001 and became a member of the Risk Review Committee in 2003. He was appointed the Chairman of the Risk Review Committee in 2004. He has also served on the board of directors of three of SLF Inc.'s subsidiaries in the United States and was Chairman of their audit committees. Mr. Baillie is the Chair of the Auditing and Assurance Standards Oversight Council, which oversees the Audit and 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 and chairman of the audit committee of Decision Dynamics Technology Ltd., a trustee and a member of the audit committee of Royal Utilities Income Fund and a director of Bridgepoint Health Canada and several other not-for-profit corporations.

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 to form PricewaterhouseCoopers 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 Board of Directors, the Audit and Conduct Review Committee and the Risk Review Committee of SLF Inc. and Sun Life Assurance in 2006. He is a director and member of the audit committee of Cameco Corporation and Rogers Communications Inc. He is also a director of Summit Energy Holdings LLP and a Trustee of the Shaw Festival Theatre Endowment Foundation and St. Michael's Hospital 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 dépôt et placement du Québec. She is President of Avvio Management Inc. Ms. Gibara joined the Clarica board of directors in 1997. She joined the Board of Directors and Risk Review Committee of SLF Inc. and Sun Life Assurance in 2002 and joined the Audit and Conduct Review Committee in 2004. Prior to March 2006, she served as a director of the Auditing and Assurance Standards Oversight Council. Ms. Gibara is a director of the CPP Investment Board, Agrium Inc., Technip, Cogeco Cable Inc. (and was a member of the audit committee until December 2007), Cogeco Inc., and St. Lawrence Cement Inc. (where she also serves on the audit committee).

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 has become Brookfield Asset Management Inc. group in 1972, serving in various senior financial positions. He is currently Managing Partner, Edper Financial Group. He was President and Chief Executive Officer of Falconbridge Limited (formerly Noranda Inc.) from 1990 to 2002. From 2002 until 2006, he was Chairman of Falconbridge Limited. From 2003 until 2007, he was a director and a member of the audit committee of Shell Canada Limited. Mr. Kerr joined the Board of Directors and Audit and Conduct Review Committee of SLF Inc. and Sun Life Assurance in 2004. He is a director of Brookfield Asset Management Inc., a director and member of the Audit Committee of CanWest Global Communications Corp. and Research in Motion Limited, and a director 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. 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

Name and Province/State and Country of Residence	Position
Donald A. Stewart Ontario, Canada	Chief Executive Officer
James M.A. Anderson Ontario, Canada	Executive Vice-President and Chief Investment Officer
Thomas A. Bogart Ontario, Canada	Executive Vice-President and General Counsel
Dean A. Connor Ontario, Canada	President, SLF Canada
Kevin P. Dougherty Ontario, Canada	President, Sun Life Global Investments Inc.
Robert W. Mansbridge Ontario, Canada	Executive Vice-President and Chief Information Officer
Richard P. McKenney Ontario, Canada	Executive Vice-President and Chief Financial Officer
Stephan Rajotte Hong Kong	President, SLF Asia
Robert C. Salipante Massachusetts, USA	President, SLF U.S.
Michael P. Stramaglia Ontario, Canada	Executive Vice-President and Chief Risk Officer

Each executive officer of SLF Inc. has held his current position or other senior positions with the Company during the past five years with the following exceptions: Prior to September 2006, Mr. Connor was President, Americas, Mercer Human Resource Consulting (Mercer). Prior to May 2005, he was President, US, Mercer and prior to November 2004 was Chairman and Chief Executive Officer, Canada, Mercer. Prior to April 2005, Mr. Mansbridge was Vice-President, Information Technology, ATI Technologies Inc. Prior to January 2004, he was Senior Vice-President and Chief Information Officer, Celestica Incorporated. Prior to September 2006, Mr. McKenney was Senior Vice-President and Chief Financial Officer, Genworth Financial, Inc. Prior to October 2003, he was Senior Vice-President and Chief Financial Officer, GEI Inc. Prior to September 2006, Mr. Rajotte was Senior Vice-President and General Manager of Asia Pacific Region for the International Division of MetLife, Inc. and prior to July 2005, Vice-President, Sales and Marketing for the International Division of MetLife, Inc. 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.

Code of Ethics

Sun Life Financial's approach to business conduct is based on ethical behaviour, adhering to high business standards, integrity and respect. The Board of Directors sets the "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, Executive Vice-President and Chief Financial Officer, and Senior Vice-President, Finance. The Sun Life Financial Code of Business Conduct may be accessed on the Sun Life Financial website at www.sunlife.com. It has been filed with securities regulators in Canada and with the SEC and may be accessed at www.sedar.com and www.sec.gov, respectively.

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.

Shareholdings of Directors and Executive Officers

As at December 31, 2007, SLF Inc.'s directors and executive officers, as a group, owned, directly or indirectly, or had voting control or direction over 215,917 Common Shares of SLF Inc., or less than 1% of the total Common Shares outstanding.

Principal Accountant Fees and Services

Audit fees were paid for professional services rendered by the auditors for the audit of Sun Life Financial's annual consolidated financial statements and segregated funds as well as services provided in connection with statutory and regulatory filings.

The following table displays the fees paid by the Company to its external auditors in the past three years.

Audit Fees

($ millions)	Year Ended December 31 2007	2006	2005
Audit Services	20.8	21.1	13.6
Audit-Related Services	2.0	2.5	3.6
Tax Services	—	0.1	0.6
Other Services	0.2	0.6	0.7

Fees for audit-related services were paid for assurance and related services that are reasonably related to the performance of the audit or review of the annual consolidated financial statements and are not reported under the audit services fees category above. These services consisted primarily of reviews of the Company's internal control reporting preparedness, CFA verifications, employee benefit plan audits and consultations concerning financial accounting and reporting not arising as part of the audit.

Fees for tax services 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 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 B. 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 provided by the Company's external auditors described above were approved pursuant to the waiver of pre-approval provisions under SEC rules (paragraph (c)(7)(i)(C) of 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 2007 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, 2007 and 2006 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. OSFI administers the Insurance Act and supervises the activities of Sun Life Financial. SLF Inc. has all the powers and restrictions applicable to life insurance companies governed by the Insurance Act, which permits insurance companies to offer, directly or through subsidiaries or through networking arrangements, a broad range of financial services, including:

- banking services,
- investment counselling 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

OSFI has established guidelines which set out the framework within which the Superintendent of OSFI 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 qualified foreign life insurance company subsidiaries (significant foreign life subsidiaries), are not subject to the Minimum Continuing Capital Surplus Requirements (MCCSR) that apply to Canadian life insurance companies. OSFI's capital requirements do not establish minimum or targeted capital requirements for Insurance Holding Companies. Rather, Insurance Holding Companies, such as SLF Inc., are expected to manage their capital in a manner commensurate with their risk profile and control environments. Significant foreign life subsidiaries are not 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's principal operating life insurance company in the United States, Sun Life Assurance Company of Canada (U.S.), is qualified as a significant foreign life subsidiary.

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 guarantee risk, and (vi) off-balance sheet activity 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, 2007 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 does not have, or the payment of the dividend would cause the company not to have, adequate capital or liquidity.

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 does not have, 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 of OSFI.

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.

- 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 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, 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 approval of the Minister of Finance, Canada). 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 must 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 the selection of appropriate assumptions and methods,
- 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 must 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, could 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.

Anti-Money Laundering Legislation

The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act,* Canada, contains measures to assist in detecting, deterring, and facilitating the investigation of money laundering and terrorist financing offences. This legislation and the associated regulations impose reporting, record keeping and "know your customer" obligations on SLF Inc. and certain of its subsidiaries.

Securities Laws

Certain of SLF Inc.'s subsidiaries, including McLean Budden Limited and Sun Life Financial Investment Services (Canada) 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 regulators 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 several U.S. insurance subsidiaries that are regulated as insurance companies in the United States, and which are therefore subject to the insurance holding company laws and regulations in the states in which they are domiciled (or deemed to be commercially domiciled), except for SLF Inc.'s Vermont domestic insurance company. 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.'s U.S. insurance subsidiaries are domiciled in Connecticut, Delaware, New York, Rhode Island, Texas and Vermont. 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 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. 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, and SLF Inc.'s Vermont domestic insurance company is permitted to pay dividends only to the extent that its surplus and capital exceeds specified risk-based capital levels.

NAIC IRIS Ratios

The NAIC has developed a set of financial relationships or "tests" known as the 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 the 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, 2006, 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 primarily 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 affect the ability of a U.S. insurance subsidiary to pay dividends or other distributions to its parent and also may affect 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. The appointed actuary for each of the U.S. life insurance subsidiaries is required to submit a similar annual opinion. If such opinion cannot be provided, the affected insurer must set up additional reserves by moving funds from surplus.

In 1998, 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 issued after January 1, 2000. 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. The NAIC has recently adopted revisions to certain actuarial guidance related to this model regulation that reduced its impact with respect to new policies issued after January 1, 2007.

Risk-based Capital Requirements

The NAIC adopted a model law to implement risk-based capital (RBC) 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 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, 2007, 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, 2007, Sun Life Assurance's U.S. branch had assets in trust in excess of Michigan's requirements for branches of alien insurers.

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 its U.S. premium taxes.

General Regulation of Insurance at the Federal Level

Although the U.S. federal government does not directly regulate the insurance business, federal legislation and administrative policies in several areas affect the insurance business, including pension regulation, age and sex discrimination, investment company regulation, financial services regulation and federal taxation. 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 2007, legislation entitled the *National Insurance Act of 2007* was introduced in the U.S. House of Representatives and the U.S. Senate. This legislation is pending and, like similar legislation introduced in 2006, would allow insurers to choose between being regulated by a single federal regulator or to remain regulated by the states.

During 2007, legislation entitled the *Retirement Security for Life Act of 2007* was introduced in the U.S. House of Representatives and the U.S. Senate. This legislation is pending and, like similar legislation introduced in prior years, would provide an income tax incentive that would encourage retirees to choose annuities that provide for lifetime income.

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 institutions, 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 required insurance companies issuing “covered products” to implement anti-money laundering programs and file suspicious activity reports with the U.S. Treasury Department. Sun Life Assurance and SLF Inc.’s U.S. insurance subsidiaries issue covered products and have taken 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 2008.

On September 25, 2007, the Internal Revenue Service (IRS) announced its intention to issue regulations with respect to certain computational aspects of the dividends-received deduction (DRD) on separate account assets held in connection with variable annuity contracts. Revenue Ruling 2007-61 suspended Revenue Ruling 2007-54, issued on August 16, 2007, that purported to change accepted industry and IRS interpretations of the statutes governing computational questions impacting the DRD. New DRD regulations that the IRS proposes for issuance on this matter will be subject to public comment, at which time the insurance industry and other interested parties will have the opportunity to raise comments and questions about the content, scope and application of new regulations. The timing, substance and effective date of the new regulations are unknown, but they could result in the elimination of some or all of the separate account DRD tax benefit that the Company ultimately receives. For the year ended December 31, 2007, the Company recorded a benefit of $13 million related to the separate account DRD.

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 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.) files 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 Financial Industry Regulatory Authority, Inc. (FINRA), formerly known as 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 fixed index annuities which are not required to be registered under the Securities Act. However, the SEC has been considering whether fixed index 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 maintain systems, procedures and controls appropriate to the nature, scale and complexity of their business, 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 General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Insurers ('INSPRU') (which are 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 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 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 INSPRU 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 INSPRU. The INSPRU 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. the amount of any additional capital the FSA believes the company should hold), 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, however, although the two organizations operate closely together, they are operationally independent. 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 financial services customers in the United Kingdom who may be affected by the inability of financial services companies, including insurance companies, who carry on regulated business in the United Kingdom to meet their liabilities. The FSCS is funded by statutory levies on authorized and regulated 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. In addition, the FSA operates its Approved Persons regime wherein named individuals are approved by the FSA to perform certain defined functions. They are required to adhere to specific principles of behaviour and may be subject to a range of censures for breaches of these principles.

Regulatory Methodology

The FSA has adopted a risk and principles based regulatory methodology. Where possible its focus is towards the outcomes achieved by firms and individuals, rather than primarily applying a prescriptive, rules-based regime to regulate processes. A notable example of this emphasis is the FSA's 'Treating Customer's Fairly' initiative. During 2008 the FSA will assess directly supervised firms to determine their progress at embedding this principle within their operations and culture. The FSA has begun to integrate existing principles and rules into its supervisory framework through its reform of the *Conduct of Business Sourcebook*. This also implements the requirements of the *Markets in Financial Instruments Directive* within the United Kingdom. This principles-based regulatory framework may result in some additional uncertainty for regulated firms, and the FSA is working with the industry to ensure that guidance is available to assist regulated firms to comply with its principles.

The current major future reform proposal is the European Union's Solvency II Directive. This would implement a far-reaching change to insurance companies' regulatory framework. The intention is to implement firm-specific and risk-based solvency requirements to better reflect the risks that companies face. There is potential for reduced capital requirements where firms can demonstrate appropriate risk management systems and sound internal controls. This would also amend the current supervisory system so that it is consistently implemented across all member states. The preliminary work for this reform has commenced although it is expected that Solvency II will not be implemented until 2012.

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 2007 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. These risk factors should be considered in conjunction with the other information in this AIF and the documents incorporated by reference in this AIF.

Equity Market Risk

Declines and volatility in equity markets could have an adverse effect on Sun Life Financial's business and profitability in several ways. Equity market declines or volatility could occur as a result of general market volatility or as a result of specific social, political or general economic events.

Significant declines or volatility in equity markets could have a negative impact on sales of variable insurance and annuity products, and increase surrenders of existing policies.

Sun Life Financial derives a portion of its revenue from fee income generated by its wealth management business and through fee income levied on account balances on certain insurance and annuity contracts, 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 and net income.

Certain of Sun Life Financial's variable annuity products contain guarantees which may be triggered upon death, maturity, withdrawal or annuitization, depending on the market performance of the underlying funds. 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. The cost of providing these guarantees increases under adverse market conditions. Sun Life Financial has implemented various measures aimed at reducing the impact of these potential adverse market developments. These include certain economic hedging programs, the establishment of reserve provisions and entering into reinsurance arrangements whereby a portion of this risk is ceded to third-party reinsurers. However, as exposures are not fully hedged and other factors (such as basis risk, model risk, operational risk, counterparty risks and market conditions) may impact the cost, effectiveness or availability of these programs, the net increased cost of providing these guarantees under unfavourable market scenarios could have an adverse effect on Sun Life Financial's financial position and results of operations.

Sun Life Financial also has direct exposure to equity markets as a result of the investments supporting surplus and employee benefit plans. Fluctuations in the market value of those assets could result in fluctuations in profitability.

Sun Life Financial is exposed to certain equity market-related risks associated with its fixed index 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 fixed index annuities to surrender their policies prior to maturity. While fixed index annuity policies typically provide for early surrender charges and restrictions, nevertheless an increase in surrenders in such annuities could have an adverse effect on Sun Life Financial.

Interest Rate Risk

Movements in interest rates could have an adverse effect on Sun Life Financial's business and profitability in several ways. Interest rate volatility could occur as a result of the general market volatility or as a result of specific social, political or general economic events.

Significant changes or volatility in interest rates could have a negative impact on sales of certain insurance and annuity products, and adversely impact the expected pattern of surrenders on existing policies.

Many of Sun Life Financial's products contain explicit or implicit guarantees and, if long-term interest rates fall below those guaranteed rates, Sun Life Financial may be required to increase reserves against losses, thereby adversely affecting earnings. Interest rate changes can also cause compression of net spread between interest earned on investments and interest credited to policyholders, thereby adversely affecting Sun Life Financial's earnings. Rapid declines in interest rates may result in, among other things, increased asset calls, mortgage prepayments and reinvestment at significantly lower yields; which could adversely affect earnings. Rapid increases in interest rates may result in, among other things, increased surrenders which may force Sun Life Financial to sell investment assets at a loss in order to fund such surrenders and accelerate recognition of certain acquisition expenses. In addition, an interest rate sensitivity mismatch between assets and the liabilities they are designated to support could result in adverse exposure to interest rate changes. While Sun Life Financial has established hedging programs and its annuity and protection products often contain surrender mitigation features, interest rate movements could have a net adverse effect on Sun Life Financial's financial position and results of operation.

Sun Life Financial also has direct exposure to interest rates as a result of the investments supporting surplus and

employee benefit plans. Fluctuations in the market value of those assets could result in fluctuations in profitability.

Credit Risk

Sun Life Financial is subject to credit risk arising from the uncertainty associated with the continued ability of debtors or counterparties to make timely payments pursuant to the contractual terms underlying debt or derivative 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 or downgrades, including downgrades of guarantors and monoline insurers, potentially leading to increased provisions for losses and capital requirements.

Movements in credit spreads could have an adverse impact on Sun Life Financial in the asset liability portfolios where the spread durations of the assets and liabilities are not matched. When credit spreads widen, some portfolios will incur liquidation risk; when credit spreads narrow, some portfolios will incur reinvestment risk.

Liquidity Risk

Liquidity risk is the risk that an institution is unable to generate the cash required to fund its obligations in a timely and cost effective manner. Sun Life Financial's funding obligations arise in connection with the payment of policyholder benefits, expenses, asset purchases and investment commitments. Sources of available cash flow include general fund premiums and deposits, investment-related inflows (maturities, investment income and proceeds of asset sales) and proceeds generated from financing activities.

Under stress conditions, significant increases in funding obligations can occur in conjunction with material reductions in cost effective sources of available cash inflow. In particular, adverse stress scenarios would involve significant increases in policyholder cash surrenders and terminations and decreases in the amounts of premiums and deposits being generated by existing and new customers. Adverse capital market conditions may be associated with a material reduction in available market liquidity and clearing prices for expected asset sales and reductions in the level of cash inflows (dividends, interest payments and expected maturities) on continuing portfolio investments. These developments could have an adverse effect on the Company's financial position and results of operations.

The Company's risk management polices and procedures set out a wide range of strategies for mitigating this risk. These include close monitoring of asset and liability liquidity and maturity profiles, the establishment of minimum portfolio limits for net liquidity ratios under prescribed stress scenarios, the maintenance of formal liquidity contingency plans and committed financing facilities. At a structural level, liquidity risk is further lessened through a balance sheet profile that reflects a high quality, diversified asset portfolio and a global, well-diversified customer base.

Changes in Legislation and Regulations

Most of Sun Life Financial's businesses are subject to extensive regulation and supervision. Changes in laws, regulations, or government policies, or in the manner in which those laws, regulations or policies are interpreted or enforced, could have an adverse effect on Sun Life Financial's business and operations.

For example, under NAIC rules, U.S. insurance companies are entitled to credit for statutory reserves for universal life policies that are reinsured by unaccredited reinsurers to the extent that those obligations are secured by letters of credit, assets held in trust or other acceptable security. Sun Life Financial provides letters of credit and assets in trust as security to support certain affiliated reinsurance transactions related to universal life policies issued by Sun Life Financial in the U.S. Changes in the NAIC rules or in Sun Life Financial's ability to purchase or renew letters of credit could require Sun Life Financial's U.S. operations to increase its NAIC statutory reserves, incur higher operating costs or reduce sales of affected products.

Sun Life Financial currently has an effective income tax rate that is lower than the Canadian statutory income tax rate for corporations. This lower effective income tax rate is predominantly the result of lower tax rates on income in foreign jurisdictions and tax exempt investment income. Changes in tax legislation, regulations, tax treaties, jurisprudence, or tax authority interpretations could have an adverse effect on Sun Life Financial's profitability.

Legal, Regulatory and Market Conduct Matters

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. Insurance and securities regulatory authorities in certain jurisdictions regularly make inquiries, conduct 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 initiatives regarding market conduct. In recent years, financial services regulators in many of the countries in which Sun Life Financial operates have raised issues and commenced regulatory inquiries, investigations and proceedings with respect to current and past business practices in 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. Current and future investigations, examinations and regulatory settlements and civil actions arising out of such matters could adversely affect Sun Life Financial's reputation and its profitability and future financial results. In addition, there is heightened litigation risk generally arising from the conduct of business in certain jurisdictions.

Product Design and Pricing

Sun Life Financial is subject to various risks arising from the design and pricing of its insurance products, including adverse deviations from assumptions used in the pricing of products as a result of uncertainty concerning future investment yields, mortality and morbidity experience, policyholder behaviour, sales levels, expenses and taxes. Although some of Sun Life Financial's products permit it to increase premiums or adjust other charges and credits during the life of the policy or contract, the adjustments permitted under the terms of the policies or contracts may not be sufficient to maintain profitability, and therefore could have an adverse effect on Sun Life Financial's results of operations.

Insurance Risk — Mortality, Morbidity and Longevity and Policyholder Behaviour

Sun Life Financial is exposed to the catastrophic risk of natural or man-made disasters such as earthquakes or acts of terrorism, as well as pandemics such as those which could arise from the avian flu. These could result in a significant increase in mortality and morbidity experience above the assumptions used in pricing of products, which could have a material adverse effect on Sun Life Financial's operations and profitability.

Many of Sun Life Financial's wealth management products provide benefits over the policyholder's continued lifetime. Higher than expected ongoing improvements in policyholder life expectancy could therefore increase the ultimate cost of providing these benefits, with a resulting adverse effect on Sun Life Financial's results of operations.

Most of Sun Life Financial's products include some form of embedded policyholder option. These could range from simple options relating to surrender or termination to more complex options relating to various embedded benefit and coverage provisions. As the cost associated with providing these benefits can increase under various economic scenarios, this could have an impact on Sun Life Financial's profitability.

Operations in 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. Competition for talented and skilled employees and executives with local experience may limit Sun Life Financial's potential to grow its business in Asia as quickly as planned. In addition, regulations are evolving in many markets in Asia and the risk associated with changing regulations is consequently higher.

Sun Life Financial's joint venture operations in India and China have risks generally associated with joint venture relationships. In particular, the allocation of control among, and continued co-operation between, the joint venture participants may be adversely affected by new or existing regulations in the markets in which the joint ventures operate. A temporary or permanent disruption to these arrangements could have an adverse effect on Sun Life Financial's results of operations.

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 country in which it operates, Sun Life Financial generally maintains the currency profile of its assets so as to match the currency of aggregate liabilities and minimum surplus requirements in that country. 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.

Competition

The businesses in which Sun Life Financial engages are highly competitive, with several factors affecting Sun Life Financial's ability to sell its products, including price and yields offered, financial strength ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical dividend levels and the ability to provide value-added services to distributors and customers. 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. 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 reported earnings between different accounting bases, the Company may be at a disadvantage compared to some of its competitors in certain of its businesses.

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.

Model Risk

Sun Life Financial utilizes assumptions and complex financial models in various aspects of our business. If the assumptions are erroneous, or data or calculation errors occur in the models, this could result in a negative impact on Sun Life Financial's results of operations and profitability.

Business Continuity

Sun Life Financial's businesses are dependent on operational processes and computer and Internet-enabled technology. Although Sun Life Financial has implemented and periodically tests its business continuity, crisis management and disaster recovery plans, a sustained failure of one or more of Sun Life Financial's key business processes or systems could materially and adversely impact Sun Life Financial's business and operations, and its employees. In addition, because some of Sun Life Financial's business processes are performed by third parties and 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 operations or systems fail or experience interruptions.

Information System Security and Privacy

A serious security breach of Sun Life Financial's systems or the information stored, processed or transmitted on these systems could damage the Company's reputation or result in liability. Sun Life Financial retains data used for financial reporting, as well as private and personal information about its customers and employees in its computer and other record retention systems, and also enables customer on-line access to certain products and services. Although Sun Life Financial has implemented extensive security measures to safeguard the confidentiality, integrity and availability of information, it is not possible to fully eliminate security risk. Sun Life Financial may be vulnerable to physical break-ins, computer viruses, system break-ins by hackers, programming and/or human errors, fraud or similar disruptive problems. Such events could have an adverse effect on Sun Life Financial's results of operations and reputation.

Reinsurance Markets

As part of its overall risk management strategy, Sun Life Financial purchases reinsurance for certain risks underwritten by its various insurance businesses. Market conditions beyond Sun Life Financial's control determine the availability and cost of this reinsurance protection. Accordingly, Sun Life Financial's insurance businesses may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms which could adversely affect the Company's ability to write future business.

Reinsurance does not relieve Sun Life Financial's insurance businesses of their direct liability to policyholders and accordingly, Sun Life Financial bears credit risk with respect to its reinsurers. Although Sun Life Financial deals primarily with highly rated reinsurers, a reinsurer's insolvency, inability or unwillingness to make payments under the terms of its reinsurance agreement could have an adverse effect on Sun Life Financial's business.

Distribution Channels

Sun Life Financial distributes its products through a variety of distribution channels, including direct sales agents, managing general agents, independent general agents, financial intermediaries, broker-dealers, banks, pension and benefits consultants and other third-party marketing organizations. Sun Life Financial competes with other financial institutions to attract and retain these intermediaries and agents on the basis of products, compensation, support services and financial position. Sun Life Financial's sales and results of operations could be materially adversely affected if it is unsuccessful in attracting and retaining these intermediaries and agents. In addition, rapid growth in the distribution channels may heighten the risks of market conduct issues referred to in

this AIF under the heading *"Legal, Regulatory and Market Conduct Matters"* and channel conflicts or overlaps.

Dependence on Third Party Relationships

Sun Life Financial has outsourced certain business functions and information technology services to third parties in certain jurisdictions, including Canada and the United Kingdom. An interruption in Sun Life Financial's continuing relationship with certain of these third parties, the impairment of their reputation or creditworthiness, or failure to provide contracted services 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 outsourcing arrangements in a timely manner.

Financial Strength and Credit Ratings

Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under insurance policies. The financial strength ratings of SLF Inc.'s insurance company subsidiaries are a key competitive factor in marketing products and in attracting and retaining agents and distributors. Should the financial strength rating of one or more of those subsidiaries decline, Sun Life Financial's competitive position could be negatively impacted.

In addition, rating agencies also publish credit ratings for certain of the Sun Life Financial companies, which have an impact on the interest rates paid by those companies on borrowed funds. A downgrade in credit ratings could increase Sun Life Financial's cost of borrowing and have an adverse effect on its financial condition and results of operations. Further, Sun Life Financial has established financing arrangements that support medium term note programs and the NAIC statutory reserves required for universal life policies issued by Sun Life Assurance in the United States. These financings are treated as operating leverage by the rating agencies. If the rating agencies cease to treat these financings as operating leverage, there may be an adverse impact on Sun Life Financial's ratings.

Mergers and Acquisitions

Sun Life Financial regularly explores opportunities to acquire other financial services companies or parts of their businesses. The success of these acquisitions depends on a number of factors and there is no assurance that Sun Life Financial will achieve its financial or strategic objectives or anticipated cost savings following an acquisition. In particular, Sun Life Financial could experience client losses, surrenders or withdrawals materially different from those it anticipated, as well as experience difficulties in integration or realization of anticipated benefits.

Attracting and Retaining Talent

Competition for qualified employees, including executives, is intense both in the financial services industry and non-financial industries. If Sun Life Financial is unable to retain and attract qualified employees and executives, the results of its operations and financial condition, including its competitive position, could be adversely affected.

Investment Performance

The performance of Sun Life Financial's investment portfolios depends, in part, upon the level of and changes in interest rates, equity prices, real estate values, the performance of the economy in general, the performance of the specific obligors included in these portfolios and other factors that are beyond Sun Life Financial's control. Changes in these factors can affect Sun Life Financial's net investment income in any period, and such changes could be substantial.

In addition, poor investment performance by Sun Life Financial's wealth management operations could adversely affect net sales or reduce the level of assets under management, potentially negatively impacting Sun Life Financial's revenues and income. Investment performance, along with achieving and maintaining superior distribution and client services, is critical to the success of Sun Life Financial's wealth management businesses.

Legal and Regulatory Proceedings

SLF Inc. and its subsidiaries are regularly involved in legal actions, both as a defendant and as a plaintiff. In addition, government and regulatory bodies in Canada, the United States, the United Kingdom and Asia, including provincial and state regulatory bodies, state attorneys general, the SEC, FINRA and Canadian securities commissions, from time to time make inquiries and require the production of information or conduct examinations concerning compliance by SLF Inc. and its subsidiaries with insurance, securities and other laws. Management does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition or results of operations.

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) SLF Inc.'s comparative consolidated financial statements for its most recently completed financial year with the accompanying auditor's report,

(iii) SLF Inc.'s interim consolidated financial statements 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 — 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.

Each member of the Committee shall be independent as defined in the Director Independence Policy and financially literate. In the Board of Director's judgment, a member of the Audit and Conduct Committee is financially literate if, after seeking and receiving any explanations or information from senior financial management of the Corporation or the auditors of the Corporation that the member requires, the member is able to read and understand the consolidated financial statements of the Corporation 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.

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 independent advice, 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.

Duties and Responsibilities of the Audit and Conduct Review Committee

1. Reviews with 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 management's reports on the effectiveness of Sun Life Financial's disclosure controls and procedures and its internal control over financial reporting
16. Reviews the attestation by the External Auditor on management's assessment of the effectiveness of Sun Life Financial's internal control over financial reporting.
17. 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.

18. 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.
19. 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.
20. Reviews matters within its mandate that are addressed in the regular examination and similar reports received from regulatory agencies.
21. 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.
22. Approves procedures established to handle complaints, and anonymous employee submissions, with respect to matters and concerns regarding accounting, internal control and auditing.

23. Requires management to establish procedures for complying with the related party rules contained in the Insurance Companies Act (Canada) and reviews their effectiveness.
24. 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.
25. Reports to the Superintendent of Financial Institutions on the procedures for complying with the related party rules.
26. Performs such other duties and exercises such other powers as may, from time to time, be assigned to 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 B — Policy Restricting the Use of External Auditors

Introduction and Purpose

This policy governs all proposals by the Corporation or any of its subsidiaries to engage, as a service provider, the Corporation's 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).

Scope and Application

This Policy applies to SLF Canada, SLF U.S., SLF Asia, MFS, SLF U.K., Enterprise Services and the Corporate Office, including each of the operating subsidiaries, Business Units or other divisions within those Business Groups or Units. This Policy does not currently apply to the Corporation's joint ventures.

Policy

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. Prohibitions are set out in Appendix A.

Each engagement of the External Auditor to provide services will require the approval in advance of the Audit and Conduct Review Committees of Sun Life Financial Inc. and/or Sun Life Assurance Company of Canada, as applicable, and the audit committee of any affected subsidiary that is itself directly subject to the S-O Act. The Audit and Conduct Review Committee may establish procedures regarding the approval process, which will be co-ordinated by the Corporation's Senior Vice-President and Controller.

The Corporation and its subsidiaries will not employ or appoint as chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer, appointed actuary or any equivalent position within the Corporation or subsidiary, any person who was, at any time during the previous two years, employed by the External Auditor and who provided any services to the Corporation or any subsidiary.

Personnel of the Corporation and its subsidiaries employed in the key financial reporting oversight roles described in Appendix B shall not use the External Auditor to prepare either their personal tax returns or those of their dependents.

The Corporation's Senior Vice-President and 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. He/she will revise the Appendices as required, from time to time, to reflect changes in applicable laws, regulations, rules or management roles.

Appendix A — Prohibition on Services

The External Auditor is prohibited from providing the following services:

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;
i) any service for which no fee is payable unless a specific result is obtained (contingent fees or commissions);
j) any non-audit tax services that recommend the Corporation engage in confidential transactions or aggressive tax position transactions, as defined by the U.S. Public Company Accountability Oversight Board; and
k) any other service that governing regulators or professional bodies determine to be impermissible.

Appendix B — Key Financial Reporting Oversight Roles

The incumbents in the following financial reporting oversight roles are not permitted to use the Corporation's external auditors to prepare either their personal tax returns or those of their dependents:

- Chief Executive Officer
- Chief Operating Officer
- President
- Executive Vice-President and Chief Financial Officer
- Executive Vice-President and General Counsel
- Senior Vice-President and Controller
- Senior Vice-President and Chief Actuary
- Vice-President and Chief Accountant
- Senior Vice-President and Chief Auditor
- Vice-President, Treasurer
- Senior Vice-President, Tax
- Assistant Vice-President, Financial Reporting Standards

The comparable positions in subsidiaries are similarly prohibited from using the Corporation's external auditors for either their own or their dependents' personal tax returns.

Exhibit 4

SUN LIFE FINANCIAL

Code of Business Conduct

Acting Ethically



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Mission, Vision and Values

Mission

To help customers achieve lifetime financial security

Vision

To be an international leader in protection and wealth management

Values

Integrity

We are committed to the highest standards of business ethics and good governance.

Engagement

We value our diverse, talented workforce and encourage, support and reward them in contributing to the full extent of their potential.

Customer Focus

We provide sound financial solutions for our customers and always work with their interests in mind.

Excellence

We pursue operational excellence through our dedicated people, our quality products and services, and our value-based risk management.

Value

We deliver value to the customers and shareholders we serve and to the communities in which we operate.

Application of the Code of Business Conduct

Does the Code apply to me?

The Sun Life Financial Code of Business Conduct sets out minimum standards of business conduct that apply to all employees (full time, part time, temporary or contract, if on payroll), officers and directors of Sun Life Financial Inc., its subsidiaries and joint venture companies, other than those Sun Life Financial subsidiaries or joint venture companies that have adopted a code of business conduct that is consistent with the spirit of this Code. Compliance with the Code is mandatory and is a condition of your employment.

It is your responsibility to read, understand and comply with the Code and any supplementary codes of business conduct that may apply to you, to ask for guidance when necessary, and to report violations.

Annual Code 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, by completing the Annual Code Acknowledgement. You will also be asked to report any breaches of the Code of which you are aware (even if you previously reported them to management). You must comply with the Code whether or not you have completed the Annual Code Acknowledgement. You will be provided with training to refresh your understanding of the Code.

You must read, understand and comply with the Code.

Q. I have been hired by Sun Life Financial as a temporary employee. Am I required to complete the Annual Code Acknowledgment?

A. Yes. All employees, including temporary employees and contract employees, on Sun Life Financial's payroll system are required to complete the Annual Code Acknowledgement. This process confirms that you have complied with the Code while you have been employed by Sun Life Financial and reaffirms your commitment to do so for the remainder of your contract.

Q. Where can I find a copy of the Annual Code Acknowledgement form and how do I complete it?

A. You will receive the Annual Code Acknowledgement form in early December, and it must be completed by early January. Most employees will complete the form online but if you do not have computer access, a hard copy will be provided. Employees on leave will be asked to complete the Annual Code Acknowledgement when they return to work. Every employee must complete the Annual Code Acknowledgement.

How do I apply the Code in my business dealings?

If you encounter a situation for which the Code does not provide specific guidance, ask yourself the following questions:

- 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" in each case. Use your best judgment and common sense, keeping in mind that you are required to comply with both the content and spirit of the Code.

Apply the Code to situations you encounter at work.

Managers

If you are a manager you should:

- Act ethically and foster a work environment that reflects the content and the spirit of the Code;
- Train employees to act ethically in all dealings;
- Understand the Code and champion it with your team members;
- Answer employee questions about the Code or direct them to where they can find the information they need;
- Take steps to prevent breaches of the Code and to report and respond to any violations;
- Support and protect those who report breaches; and
- Report any breaches or potential breaches of the Code to your local compliance officer.

Managers, by virtue of their positions of authority, must act as ethical role models for others.

Q. Where can I obtain more information about the Code and how to apply it?

A. If you are unsure how to apply the Code in any situation:

1. Discuss the matter with your manager or a representative in Compliance, Human Resources, Law or Public and Corporate Affairs identified in the Contact Lists.
2. Review additional information about the Sun Life Financial Code of Business Conduct site on The Source (if you have access to the Company intranet).
3. E-mail: SLF_Code_of_Business_Conduct@sunlife.com.

Q. My manager asked me to do something that I think may violate the Code. I'm not comfortable talking to him about it. How should I go about reporting this?

A. Contact your local compliance officer who can discuss the Code with you and address your concerns about the possible breach. If this does not resolve the situation contact the person in the Law Department primarily responsible for advising your business unit or function, or make a report using the Employee Ethics Hotline.

Other obligations

As a result of your specific position within Sun Life Financial or your professional background, you may be required to comply with other obligations, such as:

- Supplementary codes of business conduct or guidelines 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.

Other codes/policies

At the end of the Code is a listing of supplementary codes and policies that pertain to the various sections of the Code. This list is subject to change from time to time.

If you have any questions about whether a supplementary code of business conduct or policy applies to you, please talk to your manager.

Complying with the law

At a minimum, behaving ethically requires you to take all reasonable steps to understand and comply with all laws, rules and regulations applicable to your job. It also requires you to work to the spirit of the law.

You should always comply with the most restrictive policy or law in situations where a supplemental policy and/or law appears to conflict with the Code. Please advise your manager, local compliance officer, or the person in the Law Department primarily responsible for advising your business unit or function of the conflict.

Acting ethically requires you to comply with the laws, rules, and regulations applicable to your job and to work to the spirit of the law.

Q. I work in an area of Sun Life Financial where many different laws apply to the work I do. How can I be sure that I won't violate some technical aspect of one of these laws?

A. Use your common sense and always ask questions when you are unsure. You need to make every effort to understand and follow the laws governing your job. The person in the Law Department primarily responsible for advising your business unit or function will be familiar with the laws applicable to your work. Do not hesitate to contact him or her or your manager if you need clarification.

Fraudulent activities

You may not participate in any type of dishonest or fraudulent scheme or conduct that directly or indirectly may impact Sun Life Financial.

Sun Life Financial has internal controls for reporting and investigating fraud (or suspected fraud) committed by employees and by outsiders against Sun Life Financial, its employees, customers or agents.

You must report any suspected fraudulent acts or omissions immediately to the Fraud Reporting Officer in your Business Group. Ask your manager or refer to the Contact Lists on The Source for the name of the Fraud Reporting Officer in your area.

Report any suspected fraud immediately.

A fraudulent act is any dishonest act intended to deprive or mislead for personal or corporate gain. Examples of fraudulent acts and omissions include, but are not limited to:

- Forging or altering any document including a cheque, bank draft, or other financial instrument, or account belonging to Sun Life Financial or its customers;
- Improperly handling or reporting money or financial transactions;
- Deliberately misleading customers with the intention of depriving them of money or other assets;
- Intentionally misrepresenting financial accounts or reports, or failing to disclose such misrepresentations;
- Identity theft-deliberately misusing (directly or indirectly) a customers or employee's personal information for any purpose including depriving him or her of money or other assets; and
- Any fraud, material or not, that involves management or other employees who have significant roles in Sun Life Financial's internal controls.

Q. I am concerned that my colleague may be committing fraud against Sun Life Financial, but I am not really sure. What should I do?

A. Call your local Fraud Reporting Officer as required by the Sun Life Financial Fraud Reporting and Investigation Policy to report your concern. All information will be handled discreetly during the investigation to the extent permitted by policy or law. If we can find no independent corroboration of your concern, no action will be taker against your colleague. No action will be taken against you for your report. Even if your colleague suspects that you have reported him o her, Sun Life Financial strictly prohibits any form of retaliation against you for reporting your concern in good faith.

Anti-money laundering/Anti-terrorist financing

Sun Life Financial is committed to complying with laws designed to deter and detect money laundering and terrorist financing. Money laundering is the act of turning “dirty money” into “clean money” through a series of financial transactions so that the criminal origin of the funds becomes difficult to trace. Terrorist financing focuses on the destination and use of funds that may come from legitimate or criminal sources. Under no circumstances should you participate in any money laundering or terrorist financing activity.

You must actively protect Sun Life Financial’s products and services from being used for money laundering or for financing terrorist or other criminal activity.

Detecting money laundering and terrorist financing activity requires us to properly identify and authenticate our customers. You should report any suspicious customer deposits, withdrawals or other activity to your manager and your Money Laundering Reporting Officer (MLRO). Failure to do so may expose Sun Life Financial to the risk of legal sanctions, financial penalties and lasting damage to our reputation. Ask your manager or refer to the Contact Lists for the name of the MLRO in your area.

Each Sun Life Financial business entity has developed procedures and controls in compliance with the Sun Life Financial enterprise-wide Anti-Money Laundering and Suppression of Terrorism policies as well as local laws, regulations and guidelines in the countries in which it operates. Speak to your manager or your MLRO to ensure you understand your obligations.

Q. What are some signs of money laundering?

A. Pay close attention to customer transaction requests or behaviour that seems out of the ordinary, such as:

- admissions or statements about involvement in criminal activities;
- reluctance to have information sent to a home address;
- repeatedly using an address but frequently changing the name attached to it;
- keen interest in internal systems, controls and policies;
- providing inconsistent information about a transaction;
- greater interest in liquidity than other features of a product;
- giving an incorrect telephone number or disconnecting their telephone service just after a transaction;
- the use of aliases and a variety of similar but different addresses;
- reluctance to present proper ID for identity verification;
- refusing to disclose beneficial owners; and
- offers of money for providing services that appear unusual or suspicious.

Consult the Anti-Money Laundering Policy and Suppression of Terrorism Policy for more information.

Fairness in the workplace

Sun Life Financial is committed to fairness in the workplace. We recognize that a diverse workforce allows us to serve our customers most effectively, and 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 status, family status, disability, or other grounds included in human rights legislation. 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, or unnecessary physical contact, are also prohibited.

You must treat your co-workers, customers and others with respect and dignity.

Q. I'm looking to fill a senior position on my team from a pool of qualified candidates. May I offer the job to a man instead of a woman if I believe the woman is likely to start a family soon?

A. No, this would be a violation of Sun Life Financial's policy. All employment-related decisions must be based on job-related criteria, skills, and performance. Contact your local Human Resources Department for more information, or check local human resources policies.

Q. My teammates sometimes tease me about my national origin. I don't think they mean any harm by it. Should I report them?

A. Yes. This behaviour violates the Code. You can advise the employees that their comments are not acceptable if you feel comfortable doing so. You should also promptly report this to your manager, to your local Human Resources Department or to the Law Department. A report can also be made using the Sun Life Financial Employee Ethics Hotline.

Q. I witnessed my teammate being threatened by another Sun Life Financial employee. They were scared and did not want to report the incident. Do I need to report this?

A. Yes. Report the situation to your manager. If you are uncomfortable doing this, call your local Human Resources Department or submit a report to the Employee Ethics Hotline. Sun Life Financial investigates all reported acts of threats or violence.

Avoiding conflicts of interest

Many situations could give rise to a potential conflict of interest, or to the appearance of a conflict. 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.

This section of the Code sets out some of the more common conflicts, but it is not exhaustive. If you have questions, speak to your manager or local compliance officer.

You must avoid any conflict or appearance of conflict between your personal interests and those of Sun Life Financial.

Q. May I hire my brother to do some contract work for Sun Life Financial if his rates are the best rates available?

A. No. Sun Life Financial generally prohibits business dealings with employees' family members. Regardless of your brother's rates, Sun Life Financial will not hire him to perform services under a contract if he will be working under your supervision or if you have any influence over the decision to employ him.

Q. My husband has just become an executive sales manager for a company that services the computers in my department. Do I need to tell anyone about this?

A. Yes. One of your husband's competitors or a fellow Sun Life Financial employee could claim that your husband is getting Sun Life Financial's business because you are a Sun Life Financial employee. 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. You should notify your manager and make sure you are not involved in any decisions regarding your husband's company.

Trading in securities

When you invest your own money in the market you must ensure that the decisions you make are not based on non-public 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, no matter how small or large the trade, if this decision is based on material information that is not generally available to the public. You also may not pass this information on to others.

"Material information" is any undisclosed information that a reasonable investor would consider important in deciding whether to buy, hold or sell the securities of Sun Life Financial. There are also certain types of information that may become material over time (e.g., a proposed business transaction). You should speak to the person in the Law Department responsible for advising your business unit or function if you have any questions.

You may be subject to additional requirements depending on your specific employment at Sun Life Financial. These may include pre-clearing your personal investments, trading public company securities only during specified periods and filing insider-trading reports.

You must not buy or sell securities of Sun Life Financial or another publicly traded company if you possess "material" non-public information. In many countries, trading or tipping someone else who trades based on this information also violates securities laws.

Q. I overheard in the elevator that Sun Life Financial is planning to acquire XYZ, a large public company. May I trade in the securities of the other company?

A. No, and you also must not trade in the securities of Sun Life Financial. The prohibition on trading is not affected by the manner in which you obtained details. Please refer to the Insider Trading Policy for information.

Q. I am part of a team that supports the release of our quarterly financia results. In the days leading up to the release of the results, I see draf documents discussing the results before they are approved for release. Is it okay for me to discuss this information in general with people outside of Sun Life Financial if I don't refer to specific financia numbers?

A. No. This information is not yet public and should be treated as confidential proprietary Sun Life Financial information. In addition, if you disclose any material information you may be breaking securities laws.

Gifts, favours, benefits or entertainment

It is possible that you may be offered, or may provide, gifts, favours, benefits or entertainment in the course of your work.

You should not accept gifts, favours, benefits or entertainment that could in any way influence, or appear to influence, your ability to make objective business decisions. You should not offer gifts, favours, benefits or entertainment that might be perceived as inappropriately influencing another company's business dealings with Sun Life Financial. Consider the following criteria when accepting or offering gifts, favours, benefits or entertainment:

- the value involved is nominal (check for local policies or speak to your manager for guidance on what constitutes nominal in your Business Group as this can vary);
- it occurs infrequently;
- the exchange creates no sense of obligation on either party; and
- it would not embarrass Sun Life Financial or the recipient, if publicly disclosed.

Talk to your manager if you are unsure about accepting or giving gifts, favours, benefits or entertainment.

These considerations apply equally if gifts, favours, benefits or entertainment are provided to immediate family members of employees, where the motive could be perceived as attempting to influence the employee.

Depending on your job you may also have an obligation to report gifts, favours, benefits and entertainment over prescribed thresholds. For certain types of gifts, favours, benefits and entertainment there may also be a pre-approval requirement.

You may not give gifts, favours, benefits or entertainment of any value to government officials without specific approval from the senior compliance officer in your Business Group.

Conduct that directly or indirectly involves receiving or providing a bribe, payoff or kickback is prohibited.

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 Sun Life Financial.

Q. I work in strategic sourcing at Sun Life Financial. I recently received a call from a potential supplier offering me the use of his luxury condominium. He indicated that it would not be in use at the time and that it would be a shame to have it empty. Should I accept the invitation?

A. No. The supplier's offer is too generous. You should decline the offer because it may influence your decision as to whether to grant an order to the supplier or, at the very least, it could appear to influence your decision.

Q. I'm a communications consultant in a business unit and I've been hiring outside graphic design firms to assist me with projects. These firms usually send me a bottle of wine when a big project wraps up. I believe it's a fairly common practice. Am I allowed to accept it?

A. Yes. The gift is provided infrequently and the value is nominal. If however there were several gifts from the same firm you would need to consider if a conflict of interest exists. Speak to your manager if you have any questions.

Engaging in outside activities or employment

We encourage you to participate in your community by being involved with outside organizations. 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. However, your activity or other job should not interfere with your responsibilities with Sun Life Financial or your commitment and attention to those responsibilities.

You may not engage in any work of any type for any organization that competes with or has a business relationship with Sun Life Financial, without your manager's approval. This includes serving as a director, trustee, partner, employee, consultant or agent.

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. Consult your local Human Resources Department or the person in the Law Department primarily responsible for advising your business unit or function, who will arrange to seek the appropriate approval.

You must not serve another organization if there is or appears to be a conflict of interest with Sun Life Financial or if the demands interfere with your responsibilities at Sun Life Financial.

Q. May I work for another company if the hours don't conflict with when I'm required to work at Sun Life Financial?

A. That depends. You may not take on another job that creates a conflict of interest with your position at Sun Life Financial. A second job must be kept completely separate from your position at Sun Life Financial and must not interfere with your responsibilities and performance as a Sun Life Financial employee.

Q. May I accept an appointment to the board of directors of a company that occasionally supplies services to Sun Life Financial business units?

A. You must consult the person in the Law Department primarily responsible for advising your business unit or function to determine whether a conflict of interest exists. If you do join the other company's board, you are obligated to protect Sun Life Financial's confidential information and must not vote on any board issues related to doing business with Sun Life Financial.

Service on boards

You should consult with the Law Department before you join the board of directors of another company. Consultation is not required for positions with charities, non-profit organizations, condominiums or family businesses.

Before you accept an appointment to the board or a committee of any organization whose interests may conflict with Sun Life Financial's interests, or to the board of any publicly traded company, you must receive written approval from the General Counsel in your Business Group.

Serving as a director for other companies, government agencies, and organizations may create a conflict of interest.

You do not need Sun Life Financial's approval to serve on boards of charitable organizations, condominiums or non-profit organizations, or in family businesses that have no relation to Sun Life Financial or its businesses, unless there is an actual or possible conflict of interest. If you hold a position with a charitable or non-profit organization and you speak publicly for it, you should ensure that you are seen as speaking on behalf of the organization or as an individual, and not on behalf of Sun Life Financial.

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 and where legally permitted. Please direct this type of request to Public and Corporate Affairs, which will arrange to seek appropriate approval. Sun Life Financial's facilities may not be used by political candidates, or by their campaigns.

Sun Life Financial has a process for dealing with charitable and philanthropic spending. Please direct these requests to those responsible for overseeing charitable donations in your jurisdiction or to Public and Corporate Affairs.

You need to consult with Public and Corporate Affairs before using Sun Life Financial assets for political or charitable purposes.

Q. A friend of mine is running for office. May I take time off to assist her political campaign?

A. Yes, as long as arrangements are made to meet business needs in your absence. You may use vacation time or unpaid absence days to support political activities. Assisting in a political campaign does not qualify as a paid absence. For more information speak with your manager or your local Human Resources Department.

Q. I volunteer for a local charity. May I use my Sun Life Financial computer to send out a monthly e-newsletter to supporters of the charity?

A. It's great that you are getting involved in community activities but you need to consult with Public and Corporate Affairs before using Sun Life Financial assets for political or charitable purposes.

Personal relationships

Sun Life Financial's policy is to employ the most qualified individuals in all positions.

Relatives of Sun Life Financial employees are considered on the same basis as other candidates subject to specific restrictions intended to prevent conflicts of interest, perceptions of conflict of interest, or favouritism.

A relative is defined as:

- parent (natural or in-law);
- spouse (legal, common-law or other domestic partner);
- son or daughter (natural, step children or in-laws);
- brother or sister (natural, step or in-law); or
- other close personal relationship if it is deemed that the relationship may impede proper business practices and objective decision making.

There must not be a direct or indirect reporting relationship between relatives, regardless of the number of intervening management layers. Relatives must not be employed in any working arrangement, whether within the same department or otherwise, in which a reasonable potential for a conflict of interest exists.

Talk to your manager before you hire or engage a family member or their business to provide goods or services to Sun Life Financial to ensure there is no conflict.

Q. I work in one of the accounting departments of Sun Life Financial. I have an accounting project that my son, who has just completed his accounting certificate, could easily complete. May I hire him under my supervision?

A. No. Although your son may be qualified for the position, hiring him would be a conflict of interest if he will be working under your supervision or if you have any influence over the decision to employ him. Consult the Employment of Relatives Policy or contact your local Human Resources Department for more information.

Dealing with information and assets

Keeping information confidential

All information about Sun Life Financial and its businesses is confidential and must not be disclosed to anyone outside Sun Life Financial, including family and friends, or to Sun Life Financial employees unless they need to know the information to carry out their employment.

You must not publish in external journals/publications or make presentations at industry/trade conferences unless your manager approves and, if applicable, your article or presentation has been approved for external release in accordance with your local publications review process.

You must not make personal comments or share information or opinions about Sun Life Financial or its businesses on your personal Internet home page or web log ("blog"), any Internet chat room, or other similar public forum.

You are responsible for protecting confidential information against theft, loss, unauthorized access, disclosure, destruction or misuse.

Q. Sun Life Financial recently hired an executive from another financial services company. In his role at our competitor he had access to important confidential and proprietary information that would be quite helpful. May we ask him to share this information?

A. No. The new employee has an obligation to protect his former company's confidential and proprietary information just as you would be expected to protect the confidential information of Sun Life Financial if you were to leave the Company.

Q. Are there certain issues I need to be careful about discussing in trade association and industry meetings?

A. Trade association members are also our competitors. If you are appointed to represent Sun Life Financial in a trade association or other organization, your contributions must respect the confidentiality of Sun Life Financial's information. Consult with the person in the Law Department primarily responsible for advising your business unit or function, or Public and Corporate Affairs for more information.

Using technology appropriately

The Internet, our intranets and e-mail are increasingly important business resources and provide unprecedented access to information. Unfortunately this technology can be used inappropriately.

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.

You should use the Internet, intranets, and telephones primarily for business purposes while you are at work. Incidental appropriate personal use is allowed as long as it does not interfere with your business responsibilities.

Q. I occasionally receive humorous e-mails at my Sun Life Financial address. They are sent to me by people outside the Company without my consent. Some of them could be offensive and I worry I may have I breached the Code simply by reading the e-mail?

A. No, but you should ask these people not to send you any more of these e-mails. It is not appropriate for you to receive or send jokes that are potentially offensive to others. You need to be aware that e-mail is not private and may be monitored. E-mail is stored on Sun Life Financial servers and networks. You are responsible for taking reasonable steps to ensure that the e-mails you send and receive do not violate the Internet/E-communication Access and Use Policy.

Q. My friend gave me software that would be very helpful to me in preparing a presentation for an upcoming sales conference. Am I allowed to install it on my Sun Life Financial computer?

A. No. It is inappropriate to download or exchange any type of software on Sun Life Financial's equipment. Consult the Internet/E-communication Access and Use Policy for more information.

Using technology appropriately (cont'd)

When using Sun Life Financial electronic communications systems:

- Be careful when using e-mail and avoid careless, exaggerated or inaccurate e-mail statements that could be misunderstood or used against you or Sun Life Financial in a legal proceeding. Remember – if Sun Life Financial becomes involved in litigation or an investigation, your e-mails may have to be turned over to third parties. E-mail can be retrieved even after you have deleted it from your in-box. Before you hit "send", reread.
- You must have the permission of your IT department or manager to use Instant Messaging (IM) at work.
- Accessing, downloading and distributing obscene and offensive material of any kind is prohibited.
- Do not compromise our network security by either installing or using peer-to-peer (P2P) or other similar types of file sharing applications that allow you to download music, video clips and/or image files.
- Do not share your computer user IDs and passwords. You will be responsible for inappropriate activity taken on accounts or equipment where confidential password access is required.

Q. Is it okay for me to download music from the Internet to my Sun Life Financial computer.

A. No, this is not appropriate for many reasons. Copyrightable material must not be downloaded without the consent of the material's owner or publisher. Also, this could expose our network to viruses.

Q. In addition to my job at Sun Life Financial I've been running my own web-based business. Is it okay for me to use my Sun Life Financial laptop and Internet access to check on my business from home when I'm not required to be working for Sun Life Financial?

A. No. You must not use Sun Life Financial's equipment and resources for your own business. The Internet/ E-communication Access and Use Policy permits only incidental personal use provided it does not interfere with your business responsibilities, and provided it complies with all rules set out in this Code and other applicable Sun Life Financial policies.

Using and safeguarding Company assets

You must take reasonable steps to protect assets owned by or entrusted to Sun Life Financial against loss, theft, damage and misuse.

Do not remove furnishings, equipment, supplies, files or other information from Sun Life Financial's premises without authorization. If you are authorized to work at home or off-site, and have Company assets in your custody, you are expected to keep those assets safe.

You must be careful not to:

- breach any copyright laws or regulations when making copies of documents or software;
- reveal Sun Life Financial confidential information; and
- permit others to use Sun Life Financial's assets, such as its trademarks, without appropriate consent.

You may only use Sun Life Financial's assets for legitimate business purposes, and are required to use good judgment in spending Company funds.

Expenses

You may only ask to be reimbursed for legitimate and reasonable expenses related to Sun Life Financial business activities. You must ensure expenses are documented and approved in keeping with applicable expense reimbursement policies.

Personal communications

Do not use Sun Life Financial letterhead, envelopes, fax cover sheets, or other communication materials containing Sun Life Financial's name, logo or trademark for your personal communications. You may not suggest in any way that you are speaking on behalf of Sun Life Financial or in your position as a Sun Life Financial employee in your personal communications.

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.

You must ensure that your accounting and financial records meet the highest standards.

Q. The records retention procedure in my area provides that certain types of documents need to be retained only for a set number of years. How do these procedures apply if a document might be relevant to a suspected violation of law or an investigation?

A. If a violation of law is suspected or an investigation is imminent, you must retain all documents relating to the suspected violation or investigation. For more information consult the records retention procedure adopted by your business unit or consult the person in the Law Department primarily responsible for advising your business unit or function.

Q. I regularly clean out my e-mail inbox. Are there any rules as to what messages should be kept and which ones should be deleted?

A. The E-mail Retention Policy provides retention information for e-mail and attachments. You can also check your local records retention procedure for more information.

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Maintaining privacy

Respecting our customers' and employees' privacy is critical to building strong business relationships. We accumulate a considerable amount of information about customers and employees. We have an obligation to limit the collection, access, use and disclosure of this information as outlined in the Sun Life Financial Global Privacy Commitment.

Familiarize yourself with the Global Privacy Commitment and any local privacy policies and laws so you understand your obligations whenever you come in contact with employee and customer information. You should collect, use or disclose personal information only with the knowledge and permission of the person to whom it relates unless otherwise permitted by local laws. In certain jurisdictions, 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.

You must respect and maintain the confidentiality of our employees' personal information such as salaries, performance reviews or disabilities. You must not share this information with anyone unless it is directly related to performing your job.

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.

You must protect personal information about Sun Life Financial customers and employees.

Q. You are a call centre employee and receive a call from someone asking whether their former spouse (our client) has removed him or her as the beneficiary of their former spouse's policy. Should you answer his or her questions?

A. No. All policyholder, customer and employee information is to be kept confidential. Our client is the policyholder not the beneficiary, and it is only the policyholder who can grant permission to share his or her confidential information.

Dealing with other people and organizations

Acting fairly and professionally

Our reputation is built on our daily interaction with our customers, our shareholders and the public. You can build the value of Sun Life Financial by meeting the highest standards of professional conduct.

Act fairly and professionally when dealing with our customers, suppliers and competitors.

Competing fairly

Sun Life Financial is committed to conducting its business in compliance with all competition laws, which are also sometimes referred to as antitrust laws.

Antitrust or competition laws prohibit a wide range of illegal activities, including sharing information and entering into agreements with customers or competitors in a way that limits competition. You must refrain from discussing with outsiders strategic information on topics such as:

- pricing;
- product and service development; or
- customer lists.

You may compare our products and services with those of our competitors, but do it fairly. Sun Life Financial does not tolerate unfair business tactics such as bribery and espionage.

Q. What are acceptable methods to obtain information about our competitors?

A. Information obtained about competitors must be publicly available information such as annual reports, expert analyses, press releases, the Internet, trade journals, and so on.

Q. At a recent meeting of industry professionals an attendee representing another company asked me if there would be any interest on the part of Sun Life Financial in entering into a secret agreement not to compete against each other in certain markets. He explained this would put a lot of pressure on a mutual competitor of ours. I told him it didn't sound ethical to me and avoided conversations with him for the rest of the event. Do I need to report this to someone?

A. Yes. The proposal was in violation of competition law and you must report it to the person in the Law Department primarily responsible for advising your business unit or function.

Communicating with others

General

Sun Life Financial aims to achieve complete, accurate, fair, understandable and timely communications with all of its shareholders, policyholders, investors, analysts, and the public. Provided you are authorized to respond, a prompt, courteous and accurate response should be made to all proper requests for information.

You should not speak for Sun Life Financial unless you have been expressly authorized to do so.

Continuous disclosure

As a company listed on various worldwide stock exchanges, 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. Refer to the Disclosure Policy for more information.

If someone asks you for information about Sun Life Financial that is not generally available to the public, you must direct that inquiry to Public and Corporate Affairs or an authorized local representative.

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, Investor Relations, Public and Corporate Affairs and local communications departments will work together to respond to questions about Sun Life Financial's positions on public policy or industry issues. You should immediately contact the media relations representative in your area if the media approaches you.

Publications and presentations

External communications such as advertising, articles for publication, presentations and remarks being made on behalf of Sun Life Financial may require review prior to release. Consult the Media Guidelines and your local publications review processes for more information.

Refer media questions to the media relations representative in your area. Consult the Disclosure Policy and Media Guidelines for more information.

Q. What should I do if I get a call from the media asking me for information about a proposed acquisition that Sun Life Financial announced through a press release? Is it okay for me to comment since the news is public?

A. No. You should refer the call to the media relations representative in your area. Even though Sun Life Financial has made a public announcement about a development or transaction, you should not comment If you have any other questions refer to the Disclosure Policy and Media Guidelines.

Regulatory and other investigations

As a publicly traded company and a financial institution, Sun Life Financial is regulated by various agencies.

Sun Life Financial co-operates with lawful investigations by regulators, law enforcement agencies and internal investigators. Requests that are outside the normal course of day-to-day business such as special audits, a request to complete a questionnaire or an inquiry related to an industry-wide investigation, as well as any regulatory or government complaint, fine or disciplinary action, must be reported to the compliance officer and senior management in your Business Group. Refer to the Disclosure Policy for more information.

You must provide accurate and factual information to regulators and other investigators. Do not tamper with documents, make misleading statements or ask anyone else to do so. If you suspect information is not being provided as required, then you must report your concerns to your local compliance officer or the person in the Law Department primarily responsible for advising your business unit or function.

Audits

You must not attempt to improperly influence any auditor (internal or external) during his or her review of any financial statements, internal controls or other matters under review.

When you are being audited, you must not:

- directly or indirectly provide misleading information to the auditor;
- withhold any relevant information;
- bribe the auditor in any way; or
- provide an inaccurate legal analysis or business rationale.

Contravention of the Code

Violations of the Code will be taken seriously and could result in disciplinary action, which may include termination of employment. In addition, any breach of the Code that violates the law may result in civil or criminal proceedings.

What to do if you have contravened the Code

If you believe you may have contravened the Code, you are required to advise your local Human Resources Department, your manager, your local compliance officer, or the Chief Compliance Officer.

What to do if you know or suspect that someone else has contravened the Code

Sun Life Financial has procedures to help you report:

- any breach or suspected breach of the Code, supplemental code of business conduct or any Sun Life Financial policy;
- 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 suspect a breach has taken place, you must report it and be willing to co-operate with any investigation; otherwise you may face disciplinary action. Do not attempt to deal with the situation yourself. 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 a 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 you feel that someone has not responded appropriately to your report, use the Employee Ethics Hotline. 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 week, 24 hours a day.

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 an employee for reporting, in good faith, an alleged breach of the Code is prohibited.

Q. Can my employment really be terminated for violating the Code?

A. Yes. Your employment may be terminated regardless of your position. Disciplinary action, up to and including termination of employment, may occur for any deviation from this Code or from any of Sun Life Financial's other policies.

Q. What happens when I use the Employee Ethics Hotline?

A. If you use the Employee Ethics Hotline:

- Specially trained employees from an external service provider will create a report based on your call or website submission and create a confidential report. You do not need to give your name if you'd rather be anonymous.
- You will be asked to identify what country you're reporting from so the report can be forwarded to your local compliance officer for investigation. (There's no direct contact between you and the compliance officer as the Employee Ethics Hotline acts as an intermediary.)
- A senior compliance officer will complete a follow-up report. You will be provided with a report number by the service provider so that you can call or check back online for a status update or to add more details to your report at a later date.

Note: for technical reasons Sun Life Financial employees in the United Kingdom who wish to remain anonymous should use the Employee Ethics Hotline telephone service.

Questions / Policies

If you are uncertain about any situation, it is important that you ask for guidance. You may:

- talk to your manager;
- contact anybody identified in the Contact Lists; or
- send an e-mail to SLF_Code_of_Business_Conduct@sunlife.com.

For detailed information on specific Sun Life Financial policies, access the following links or talk to any of the contacts listed below. Links to additional policies are available on The Source.

If you do not have access to The Source you may talk to your manager or any of the contacts listed below.

Issue	Page	Relevant Policy/Contacts
Anti-money laundering/Anti-terrorist financing	8	Global Anti-Money Laundering Policy and Global Suppression of Terrorism Policy, local anti-money laundering policies and your local Money Laundering Reporting Officer
Books and records	21	Sun Life Financial Fraud Reporting and Investigation Policy and local retention of records policies
Communications	24	Media Guidelines and Disclosure Policy
Company assets	20	Information Security Policy
Competing fairly	23	Market Conduct Policy
Complying with the law	6	The person in the Law Department primarily responsible for advising your business unit or function and the Sun Life Financial Legislative Compliance Management Policy
Confidential information	17	Information Security Policy and Disclosure Policy
Contravention of the Code	26	Local Compliance Officer, Chief Compliance Officer, Employee Ethics Hotline, SLF_Code_of_Business Conduct@sunlife.com
Board of Directorships	14	The person in the Law Department primarily responsible for advising your business unit or function
Disclosure	24/25	Disclosure Policy, Sun Life Financial Insider Trading Policy, and the Internet/ E-communication Access and Use Policy
Expenses	20/21	Employee Reimbursement Policy, the North American Travel and Conference Policy or your local travel policy
Fairness in the workplace	9	Local human resources policies
Fraud	7	Sun Life Financial Fraud Reporting and Investigation Policy and your local Fraud Reporting Officer

Issue	Page	Relevant Policy/Contacts
Gifts	12	Local human resources policies
Media communications	24	Media Guidelines and Disclosure Policy
Outside activities or employment	13	A Human Resources Director or the person in the Law Department primarily responsible for advising your business unit or function
Personal Relationships	16	Employment of Relatives Policy and local human resources policies
Privacy	22	The Global Privacy Commitment, local privacy policies, Disclosure Policy, Internet/E-communication Access and Use Policy and Information Security Policy or your local Privacy Officer
Regulatory investigations	25	Local compliance officer or the person in the Law Department primarily responsible for advising your business unit or function
Securities trading	11	Sun Life Financial Insider Trading Policy and contact the person in the Law Department primarily responsible for advising your business unit or function
Technology	18/19	Information Security Policy and the Internet/E-communication Access and Use Policy

There may also be local policies and standards that correspond to the above enterprise-wide policies. Please check your local intranet or ask your manager.

EXHIBIT 5

Deloitte & Touche LLP
BCE Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

Tel: (416) 601-6150
Fax: (416) 601-6590
www.deloitte.ca

Consent of Independent Registered Chartered Accountants

We consent to the use of our reports dated February 13, 2008 relating to the financial statements of Sun Life Financial Inc. and the Internal Control over Financial Reporting (including the Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Difference) appearing in this Annual Report on Form 40-F of Sun Life Financial Inc. for the year ended December 31, 2007.

Independent Registered Chartered Accountants

/S/ “Deloitte & Touche LLP”

Toronto, Ontario
February 13, 2008

EXHIBIT 6

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.:

My report dated February 13, 2008 on the valuation of the policy liabilities of Sun Life Financial Inc. and its consolidated subsidiaries for its consolidated balance sheet at December 31, 2007 and 2006 and their change in the consolidated statements of operations for the years then ended.

Dated February 13, 2008

/S/ “Robert Wilson”

Robert W. Wilson
Senior Vice-President and Appointed Actuary
Fellow, Canadian Institute of Actuaries
Toronto, Canada

EXHIBIT 7

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, 2007 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 14, 2008

/S/ "Donald A. Stewart"
Donald A. Stewart
Chief Executive Officer

Date: February 14, 2008

/S/ "Richard P. McKenney"
Richard P. McKenney
Executive Vice-President and
Chief Financial Officer

EXHIBIT 8

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 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 internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (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 14, 2008

/S/ "Donald A. Stewart"
Donald A. Stewart
Chief Executive Officer

CERTIFICATION

I, Richard P. McKenney, 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 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 internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (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 14, 2008

/S/ "Richard P. McKenney"
Richard P. McKenney
Chief Financial Officer