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, 2008** 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	**559,698,331**
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, 2008, which is attached hereto as Exhibit 1, (the "**2008 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 2008 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, 2008 (the "**2008 Annual Financial Statements"**). Copies of the "Management's Report on Internal Control over Financial Reporting" and the Company's 2008 Annual Financial Statements are 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 2008 Annual Financial Statements is included in the Company's 2008 Annual Financial Statements.

Changes in Internal Control Over Financial Reporting

The information under the heading "Controls and Procedures" in the Company's 2008 Annual MD&A.

Identification of Audit Committee

The information under the heading “Directors and Executive Officers - Audit Committee” in the Company’s annual information form dated February 11, 2009, which is attached hereto as Exhibit 3 (the “**2008 AIF**”).

Audit Committee Financial Expert

The information under the heading “Directors and Executive Officers - Audit Committee” in the Company’s 2008 AIF .

Code of Ethics

The information under the heading “Directors and Executive Officers - Code of Ethics” in the Company’s 2008 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 Approval of Auditor Services” in the Company’s 2008 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 2008 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 2008 MD&A.

Tabular Disclosure of Contractual Obligations

The information under the heading “Financial Position and Liquidity - Contractual Obligations” in the Company’s 2008 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 13, 2009

EXHIBITS:

1. Annual Management's Discussion and Analysis
2. Consolidated Financial Statement
3. Annual Information Form
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, 2008

February 11, 2009

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, 2008, and amounts are expressed in Canadian dollars. Where information at and for the year ended December 31, 2008 is not available, information available for the latest period before December 31, 2008 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, 2008, 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. The Company also reviews adjusted revenue which excludes the impact of currency and fair value changes in held-for-trading assets and derivative instruments from total revenue and a reconciliation to revenue is included in this MD&A under the heading Revenue on page 23. 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 Investment Management (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 page 18 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, Business Segment Overview, Outlook, Critical Accounting Estimates, 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 shareholder 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 12 and Risk Management on page 48 of this MD&A 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, investment losses and defaults and changes to investment valuations; the performance of equity markets; interest rate fluctuations; other market risks including movement in credit spreads; possible sustained economic downturn; risks related to market liquidity; market conditions that adversely affect the company's capital position or its ability to raise capital; downgrades in financial strength or credit ratings; the impact of mergers and acquisitions; the performance of the Company's

investments and investment portfolios managed for clients such as segregated and mutual funds; insurance risks including mortality, morbidity, longevity and policyholder behaviour including the occurrence of natural or man-made disasters, pandemic diseases and acts of terrorism; 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; the availability, cost and effectiveness of reinsurance; the inability to maintain strong distribution channels and risks relating to market conduct by intermediaries and agents; currency exchange rate fluctuations; the cost, effectiveness and availability of risk-mitigating hedging programs; the creditworthiness of guarantors and counterparties to derivatives; risks relating to operations in Asia including risks relating to joint ventures; the impact of competition; risks relating to financial modelling errors; business continuity risks; failure of information systems and Internet-enabled technology; breaches of computer security and privacy; dependence on third-party relationships including outsourcing arrangements; the ability to attract and retain employees; the impact of adverse results in the closed block of business; the ineffectiveness of risk management policies and procedures and the potential for financial loss related to changes in the environment. 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 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 that are grounded in consumer insight.
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

The Company's 2008 medium-term objectives were established for a three-to-five year period, with an operating EPS growth objective of 10% per annum on average and a medium-term operating ROE goal of 15% on a sustainable basis(1).

The 2008 medium-term objectives were based on the assumptions described below relating to equity market performance, interest rates and credit markets and the Company's economic and business outlook at the time. During 2008, equity markets experienced significant volatility and steep declines, interest rates fell throughout the year as central banks around the globe took action to stimulate the economy and credit conditions deteriorated leading to asset impairments, significant credit spread widening and credit-related write-downs. This volatile economic environment created significant headwinds in 2008 and impeded the Company's progress in attaining its medium-term objectives.

The following table summarizes the differences between the assumptions used in establishing Sun Life Financial's medium-term objectives and the actual experience in 2008.

Factor	Assumption	2008 Experience
Equity Markets	A rise in the annual level of equity market indices, primarily the S&P 500, by approximately 7%-8%	The S&P 500 fell by 38%, while the S&P/TSX Composite Index fell by 36%. Steep declines in equity markets resulted in charges of $1,051 million to net income
Interest Rates	Near-term stability in North American interest rates across the yield curve and over the longer term, interest rates that are generally higher than statutory or contractual minimums required on certain guaranteed products offered by the Company	Interest rates on government treasuries in Canada and the U.S. fell by a range of 67 basis points (bps) to 316 bps. Declining interest rates resulted in charges of $43 million to net income
Credit	A credit environment within historical norms	Asset impairments, credit-related losses and the impact of wider credit spreads resulted in charges of $1,264 million to net income
Currency	Stability in exchange rates between the Canadian dollar and foreign currencies, primarily the U.S. dollar and the British pound sterling	The change in the Canadian dollar relative to foreign currencies reduced the Company's net income by $214 million

It is evident that severe economic challenges will extend well into 2009 and the economic volatility and uncertainty reflected in the Company's 2008 results will continue to impact the Company's financial performance.

In light of the volatile economic conditions that continue to persist into 2009, the Company has revised its medium-term objectives. The medium-term objectives will be to achieve an operating ROE in the 13-15% range over a three-to-five year period and maintain a strong capital position and effective capital deployment. The Company's medium-term objectives remain based on the assumptions with respect to equity markets, interest rates, credit and currency described in more detail in the table above. In addition, they are based on current levels.

Additional discussion on the impact of market volatility on the Company's financial results can be found under the heading Outlook on page 11.

(1) Operating EPS and operating ROE are non-GAAP financial measures. For additional information, see the section under the heading Non-GAAP Financial Measures on page 18.

The Company expects to maintain the current level of dividends, which are subject to the approval of the Board of Directors each quarter, provided that economic conditions and the Company's results allow it to do so while maintaining a strong capital position. The information concerning future dividends is a forward-looking statement and is based on the assumptions set out and subject to the risk factors described under Forward-looking Statements on page 2. Additional information is provided under the heading Shareholders' Dividends on page 57.

The Company currently has no intention of repurchasing common shares.

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 unit (SLF U.K.) and Corporate Support operations, which include the Company's reinsurance businesses as well as investment income, expenses, capital and other items not allocated to Sun Life Financial's other business segments. Beginning in the fourth quarter of 2008, the Company began consolidating the results of SLF Reinsurance into Corporate Support as the Company is de-emphasizing certain aspects of the reinsurance business.

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 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	
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 and telemarketing)	n			n

Business Segment Overview

SLF Canada

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

2008 Achievements

- SunWise Elite Plus was enhanced to include guaranteed income for life to help meet the needs of Canadians who are focused on the income phase of their retirement planning. This new product contributed to an overall increase of 44% in Individual segregated fund sales over 2007
- The Sun Life Financial Advisor Sales Force grew in 2008, with a net gain of 91 advisors
- Group Retirement Services (GRS) grew its sales by 18% compared to 2007 as a result of the increased placement of large plans. 2008 sales also included $736 million of retained assets from members leaving their employers' defined contribution plans, representing a record retention rate of 42%
- Sales in the small and medium-sized group business segments were maintained at 2007 levels despite the challenging competitive environment, reflecting SLF Canada's solid position in these markets
- Overall operating expenses decreased 3% from 2007 levels, demonstrating productivity improvements while achieving client satisfaction targets

2009 Priorities

- Increase Individual Insurance and Investment sales through the Sun Life Financial Advisor Sales Force and Wholesale distribution partners, including CI Financial, with a focus on lifetime relationships, holistic advice and product development
- Build sales by leveraging product and service capabilities and the relationship with group plan members through voluntary benefit offerings, expanding the retirement rollover business with new life and health products
- Continue to emphasize risk management including de-risking the segregated fund products where appropriate to better align fees, benefits and hedging strategies
- Continue to focus on improving productivity through disciplined expense management, while maintaining a high level of customer satisfaction

SLF U.S.

2008 Priorities

- Grow sales by maintaining and increasing product competitiveness across all lines of business through innovation and quality service
- Integrate the Genworth Employee Business Group (EBG) business, leveraging the expanded distribution force
- Deepen distribution relationships through improved service and enhanced marketing
- Leverage product and innovation skills to expand in global markets

2008 Achievements

- SLF U.S. delivered innovative products to the marketplace, introducing additional proprietary life products and new annuity living benefits. Although gross sales were down in the face of a challenging economic environment, redemption experience improved
- The Genworth EBG business was successfully integrated during the year, resulting in overall growth in the Employee Benefits Group business, with common shareholders' net income up 6% and overall sales increased by 22% in 2008 over 2007
- Bermuda International operations launched its next generation investment product, Sun Secured Advantage, offering high net worth clients in Latin America, Asia and the Middle East a wide range of investment options from around the world to help build, preserve and transfer their wealth

2009 Priorities

- Implement recommendations from a strategic review initiated in the fourth quarter of 2008, including rationalizing Individual Insurance and Annuity product lines to focus on core products
- De-risk the variable annuity products through redesign to better align fees, benefits and hedging strategies and to simplify the product suite
- Implement a new, industry-leading customer acquisition and policy administration system in the Employee Benefits Group business
- Continue to enhance risk and capital management activities to preserve financial strength amidst ongoing economic uncertainty
- Create a centralized distribution platform and work to better align the distribution strategy with the target markets and channels of each product
- Invest in strengthening marketing capabilities and creating stronger brand awareness
- Monitor and respond to the economic environment, including continued focus on managing expenses and improving efficiency to better align with pricing allowances
- Continue value-building growth both organically and through the pursuit of merger and acquisition opportunities

MFS

2008 Priorities

- Sustain long-term investment performance
- Improve U.S. domestic mutual fund net sales
- Continue expansion of institutional distribution footprint

2008 Achievements

- U.S. retail investment performance improved during 2008, with 86% of MFS's fund assets ranking in the top half of their respective three-year Lipper categories as at December 31, 2008, compared with 75% as at December 31, 2007. MFS domestic retail funds with Class A share assets that rated 4 or 5 stars according to Morningstar more than doubled at December 31, 2008 compared with December 31, 2007
- MFS ranked fourth overall out of 59 firms for one-year asset-weighted returns in the 2008 Lipper/Barron's Best Fund Family Survey. MFS also had overall rankings of fourth for five years and fifth for ten years in the survey. MFS was the only fund family mentioned as having a top five or better finish for one, five and ten years in the 2008 rankings
- MFS improved U.S. domestic net redemptions by approximately US$100 million in a year when the U.S. mutual fund industry experienced US$180 billion in net outflows compared with US$216 billion in net inflows during 2007
- MFS continued its non-U.S. distribution expansion, opening new offices in Australia and Hong Kong, and expanding the institutional sales force coverage in Western Europe, Taiwan and Japan

2009 Priorities

- Sustain long-term investment performance
- Expand institutional product offerings and sales
- Improve U.S. domestic mutual fund net sales
- Maintain competitive profit margins by managing discretionary expenses

SLF Asia

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

2008 Achievements

- Established the Regional Office centre of excellence to roll out best practices in operational processes. In India, the centre of excellence provides professional support (such as underwriting) to the India joint venture
- Launched a series of innovative products in response to lowering demand for investment-linked products, including health products and riders
- Launched principal protect products in India and in the Philippines, leveraging Sun Life's global wealth management expertise
- Established several new telemarketing relationships with large banks in Indonesia, expanded the telemarketing channel in China with the opening of a second call centre in Tianjin
- Expanded the India life insurance joint venture's reach with the opening of 261 branches, bringing the total to 600 branches, and the asset management joint venture opened 42 branches to expand its distribution reach to 116 branches

2009 Priorities

- Leverage consumer insights to launch innovative products reflecting each market's specific needs
- Make it easier for customers to do business with the Company by providing Internet services, enabling the Company to create better customer experiences
- Deliver products to customers through direct channels, such as telemarketing, and leverage call centre capabilities for cross-selling opportunities
- Enhance distribution management, implementing best practices in such areas as agency recruitment and training
- Enhance operational efficiencies and productivity by sharing best practices and leveraging regional technology

Outlook

After several years of relatively stable markets, 2008 was characterized by unprecedented levels of economic volatility and market turmoil. The governments and central banks around the world have taken steps aimed at restoring capital markets however, it will take time before any meaningful confidence is restored, and the economic difficulties will continue into 2009.

The extent to which economic conditions will impact the financial results of the Company will largely be a function of the state of equity markets and the credit environment in 2009. The manner in which economic factors impact the earnings of the Company is summarized below.

Scenario	Equity	Credit
Recovery to pre-crisis levels	• Release reserves for fees and guarantees • Asset management fees improve	• Lower levels of defaults • Release reserves on narrower credit spreads
Reset growth from current levels	• Stable reserve levels • Lower fee income on stable asset base	• Defaults in line with historical averages • Credit spreads narrowing to historical levels
Further deterioration of the macro environment	• Increased reserves for guarantee benefits, net of hedging and lower fee income • Lower fee income on a reduced asset base	• More defaults/impairments • Increased reserves for defaults • Impact of wider credit spreads continues

Sun Life Financial's mission to help customers achieve lifetime financial security requires that the Company be well capitalized. During these unprecedented disruptions in capital markets, Sun Life Financial will leverage its strong capitalization and enterprise-wide risk management programs, well-diversified balance sheet and expense management focus to capitalize on growth opportunities.

Corporate Developments

The following developments occurred in 2008.

CI Financial Disposal

On December 12, 2008, SLF Inc. sold its 37% interest in CI Financial Income Fund (CI Financial) to The Bank of Nova Scotia (Scotiabank) for $2.2 billion. The proceeds included $1.55 billion in cash and the balance in common and preferred shares of Scotiabank. An after-tax gain of $825 million was included in the 2008 financial results.

Share Repurchase Program

In 2008, SLF Inc. purchased and cancelled 4.8 million common shares at a cost of $217 million under its share repurchase program.

Quarterly Shareholders' Dividends

In 2008, SLF Inc. increased its quarterly common share dividend by 6%. The quarterly dividend payout per common share was increased from $0.34 to $0.36 in the first quarter of 2008. Common shareholder dividends paid in 2008 were $1.44 per common share compared to $1.32 in 2007, an increase of 9%.

Financing Arrangements

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.

On June 26, 2008, SLF Inc. issued $350 million of Series 2008-2 Subordinated Unsecured 5.12% Fixed/Floating Debentures (Series 2008-2) due in 2018.

Additional details of these financing arrangements can be found on page 55 in this MD&A in the Capital section under the heading Financial Position and Liquidity and in Note 13 to SLF Inc.'s 2008 Consolidated Financial Statements.

Critical Accounting Estimates

SLF Inc.'s significant accounting and actuarial policies are described in Notes 1, 2, 5 and 9 to its 2008 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 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 are estimated over the life of its annuity and insurance products based on internal valuation models and are recorded in its financial statements, primarily in the form of acturial libilities. The determination of these obligation 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 volatility 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 the 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.

Significant factors affecting the determination of policyholders' benefits, the methodology by which they are determined, and their significance to the Company's financial conditions and results of operations are described on the following page.

The sensitivities presented measure the estimated impact on net income and capital based on a starting point of December 31, 2008 and immediate changes in interest rates and equity market prices noted below as well as business mix on that date. Changes to the starting point, interest rates, equity market prices and business mix will result in different estimated sensitivities. Further changes to interest rates and equity market prices in excess of the ranges illustrated will result in greater than proportional impacts.

Critical Accounting Estimate	Determination Methodology and Assumptions	Financial Significance (measured as at December 31, 2008)
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 hedging programs are in place • An immediate 10% increase across all equity and real estate markets would result in an estimated increase in net income of $250 million to $300 million • An immediate 10% decrease across all equity and real estate markets would result in an estimated decrease in net income of $275 million to $350 million • A 100 basis point reduction in assumed future equity and real estate returns would result in an estimated decrease in net income of $500 million to $600 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 in net income of $100 million to $150 million • An immediate 1% parallel decrease in interest rates would result in an estimated decrease in net income of $150 million to $200 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 • The underlying assumptions for bonds and mortgages are derived from long-term studies. For bonds they are based on total U.S. market experience and for mortgages on company experience	• Asset default provisions included in actuarial liabilities amounted to $2.3 billion on a pre-tax basis as at December 31, 2008. The amount excludes defaults that can be passed through to participating policyholders and the projected reductions in the value of equity and real estate assets supporting actuarial liabilities.

Critical Accounting Estimate	Determination Methodology and Assumptions	Financial Significance (measured as at December 31, 2008)
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 life insurance products for which higher mortality would be financially adverse to the Company, a 2% increase in the best estimate assumption would decrease net income by about $120 million • For life insurance products for which lower mortality would be financially adverse to the Company, a 2% decrease in the mortality assumption would decrease net income by about $10 million • For annuities for which lower mortality would be financially adverse to the Company, a 2% decrease in the mortality assumption would decrease net income by about $80 million
Morbidity — both the rates of accident or sickness and the rates of subsequent recovery for defined groups of people	• Generally based on the Company's average five-year experience • Industry experience considered where the Company's experience is not sufficient • Long-term care and critical illness insurance assumptions developed in collaboration with reinsurers and largely based on their experience • For those benefits where the Company or industry experience is limited, larger provisions for adverse deviation are included	• For products for which the morbidity is a significant assumption, a 5% adverse change in that assumption would reduce net income by about $120 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 products for which fewer terminations would be financially adverse to the Company, net income would decrease by about $190 million if the termination rate assumption were reduced by 10% • For products for which more terminations would be financially adverse to the Company, net income would decrease by about $180 million if the termination rate assumption were increased by 10%
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 5% increase in unit expenses Company-wide would result in a decrease in net income of about $140 million

Fair Value of Investments

As described in Notes 1 and 2 to SLF Inc.'s 2008 Consolidated Financial Statements, the majority of the Company's financial assets are recorded at fair value in accordance with the changes in the Canadian investment accounting rules adopted in 2007.

Held-for-trading and available-for-sale bonds and stocks are recorded at fair value. Changes in fair value of held-for-trading assets are recorded in income while changes in fair value of available-for-sale assets are recorded in other comprehensive income (OCI), a component of equity. The fair value of publicly traded fixed maturity and equity securities is determined using quoted market bid prices in active markets that are readily and regularly obtainable, when available. When quoted prices in active markets are not available, management judgment is required to estimate the fair value using market standard valuation methodologies, which include matrix pricing, consensus pricing from various broker dealers that are typically the market makers, discounted cash flows, or other similar techniques. The assumptions and valuation inputs in applying these market standard valuation methodologies are primarily using observable market inputs, which include, but are not limited to, benchmark yields, issuer spreads, reported trades of identical or similar instruments and prepayment speeds. Prices obtained from independent pricing services are validated through back-testing to trade data, comparisons to observable market inputs or other economic indicators, and other qualitative analysis to ensure that the fair value is reasonable. For fair value that is based solely on non-binding broker quotes that cannot be validated to observable market data, the Company typically considers the fair value to be based on unobservable inputs, due to a general lack of transparency in the process that the brokers use to develop the prices. The changes in fair value of assets with unobservable market inputs backing actuarial liabilities are expected to be largely offset by changes in those liabilities.

The fair value of non-publicly traded bonds is determined using a discounted cash flow approach that includes provisions for credit risk, liquidity premium, and the expected maturities of the securities. Since quoted market prices are not readily and regularly obtainable, management judgment is required to estimate the fair value of these bonds. The valuation techniques used are based primarily on observable market prices or rates.

Derivative financial instruments are recorded at fair value with changes in fair value recorded to income unless the derivative is part of a qualifying hedging relationship. The fair value of derivative financial instruments depends upon the type of derivative and is determined primarily using observable market inputs. Fair values of exchange-traded futures are based on the quoted market prices. When quoted market prices are not readily available, management estimates fair value using valuation models dependent on the type of the derivative. The fair value of interest rate and cross-currency swaps and forward contracts is determined by discounting expected future cash flows using current market interest and exchange rates for similar instruments. Fair value of common stock index swaps and options is determined using the value of underlying securities or indices and option pricing models using index prices, projected dividends and volatility surfaces.

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 by external appraisals, using expected future net cash flows discounted at current market interest rates.

Mortgages and corporate loans are recorded at amortized cost. 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.

Due to their nature, the fair values of policy loans and cash are assumed to be equal to their carrying values, the amounts that these items are recorded at on the balance sheet. Cash equivalents and short-term securities are recorded at fair value, which is determined based on market yields.

Other invested assets designated as held-for-trading and available-for-sale are primarily investments in segregated funds and mutual funds. These are reported on the consolidated balance sheets at fair value**.** The fair values of other invested assets are determined by reference to quoted market prices. Other invested assets designated as available-for-sale also include investments in limited partnerships, which are accounted for at cost.

Other-than-Temporary Impairment of Financial Assets and Allowance for Investment Losses

Changes in the fair value of available-for-sale bonds and stocks are recorded to unrealized gains and (losses) in OCI.

Available-for-sale bonds are tested for impairment 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. Where 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 net gains (losses) on available-for-sale assets. 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.

Available-for-sale stocks are tested for impairment 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.

During the year ended December 31, 2008, the Company wrote down $318 million of impaired available-for-sale assets as compared to $35 million during the year ended December 31, 2007. Approximately $28 million of the write-down during 2008 related to impaired available-for-sale bonds that were part of fair value hedging relationships. These assets were written down since the length of time that the fair value was less than the cost and the extent and nature of the loss indicated that the fair value would not recover, or due to issuer bankruptcy. These write-downs are included in net gains (losses) on available-for-sale assets in the consolidated statements of operations.

During 2008, the net charge to the income statement attributable to impairments of held-for-trading assets backing actuarial liabilities amounted to $608 million, while it was nil
in 2007.

Mortgages and corporate loans are carried at amortized cost, net of allowances for losses. A mortgage or loan is classified as impaired when there is no longer assurance of the timely collection of the full amount of principal and interest. 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. The use of different methodologies and assumptions may have a material effect on the estimates of net recoverable amount. 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. Increases in the allowances 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.

Goodwill and Other Intangibles

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net identifiable tangible and intangible assets. Goodwill is not amortized, but is assessed for impairment by comparing the carrying values of the appropriate reporting units to their respective fair values. Goodwill is assessed for impairment annually. Goodwill assessment may occur in between annual periods if events or circumstances occur that may result in the fair value of a business segment falling below its carrying amount. If any potential impairment is identified, it is quantified by comparing the carrying value of the respective goodwill to its fair value. The fair value of the business and subsidiary segments is determined using various valuation models which require management to make certain judgments and assumptions that could affect the fair value estimates and result in impairment write-downs. During 2008, none of the goodwill was written down due to impairment.

The Company had a carrying value of $6.6 billion in goodwill as at December 31, 2008. The goodwill consisted primarily of $3.7 billion arising from the 2002 Clarica acquisition, $1.5 billion arising from the acquisition of Keyport Life Insurance Company in the United States in 2001, $535 million arising from the acquisition of CMG Asia Limited (CMG Asia) in Hong Kong in 2005 and $368 million arising from the acquisition of the Genworth EBG business in 2007. Goodwill of $377 million related to the Company's equity holdings in CI Financial was disposed of with the sale of the Company's investment in CI Financial in the fourth quarter of 2008.

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 or more frequently if events or changes in circumstances indicate that the asset may be impaired. Impairment is assessed by comparing the indefinite life intangible assets' carrying values to their fair values. If the carrying values of the assets exceed their fair values, these assets are considered impaired and a charge for impairment is recognized. 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 result in impairment write-downs. During 2008, none of the indefinite life intangible assets were written down due to impairment.

The Company's indefinite-life intangible assets had a carrying value of $275 million as at December 31, 2008. These indefinite-life intangible assets reflected fund management contracts and state licenses. Indefinite-life intangibles of $757 million related to the investment in CI Financial and included in Other Invested Assets were divested with the sale of the Company's investment in CI Financial in the fourth quarter of 2008.

As at December 31, 2008, the Company's finite-life intangible assets had a carrying value of $603 million that reflected the value of the field force and asset administration contracts acquired as part of the Clarica Life Insurance Company, CMG Asia and Genworth EBG business acquisitions. Finite-life intangibles of $9 million related to the investment in CI Financial and included in Other Invested Assets were divested with the sale of the Company's investment in CI Financial in the fourth quarter of 2008.

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 increase or decrease cannot be reasonably estimated.

Pension Plans and Other Post-Retirement Benefits

The Company sponsors non-contributory defined benefit pension plans and defined contribution plans for eligible qualifying employees. 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. The defined benefit pension plans offer benefits based on length of service and final average earnings and certain plans offer some indexation of benefits.

Due to the long-term nature of these plans, the calculation of benefit expenses and accrued benefit obligations depends on various assumptions, including discount rates, expected long-term rates of return on assets, rates of compensation increases, medical cost rates, retirement ages, mortality rates and termination rates. Based upon consultation with external pension actuaries, management determines the assumptions used for these plans on an annual basis. Actual experience may differ from the assumed rates, which would impact the pension benefit expenses and accrued benefit obligations in future years. Details of the Company's pension and post-retirement benefit plans and the key assumptions used for these plans are included in Note 22 to SLF Inc.'s 2008 Consolidated Financial Statements.

The following table provides the potential sensitivity of the benefit obligation and expense for pension and post-retirement benefits to changes in certain key assumptions based on pension and post-retirement obligations as at December 31, 2008. The sensitivities provided are hypothetical only, and should be used with caution. The impact of changes in each key assumption may result in greater than proportional changes in sensitivities. The sensitivities are forward-looking statements and are based on the assumptions set out and subject to the risk factors described under Forward-looking Statements on page 2.

Sensitivity of Key Assumptions

($ millions)	Pension		Other post-retirement	
	Obligation	Expense	Obligation	Expense
Impact of a 1% change in key assumptions				
Discount rate				
Decrease in assumption	$ 383	$ 39	$ 30	$ 3
Increase in assumption	(328)	(38)	(26)	(2)
Expected long-term rate of return on plan assets				
Decrease in assumption	—	(20)	—	—
Increase in assumption	—	20	—	—
Rate of compensation increase				
Decrease in assumption	(64)	(13)	—	—
Increase in assumption	69	14	—	—

Accounting Policies

Changes in Accounting Policies in 2008

In 2008, SLF Inc. adopted the following accounting standards and policies. Additional information is provided in Note 2 to SLF Inc.'s 2008 Consolidated Financial Statements.

Capital Disclosures and Financial Instruments — Disclosure and Presentation

On January 1, 2008, the Company adopted three new Canadian Institute of Chartered Accountants (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. Section 3862 requires enhanced financial instrument disclosures focusing on the nature and extent of risks arising from financial instruments and how the entity manages those risks. The required new disclosures are included in Notes 6 and 10 to SLF Inc.'s 2008 Consolidated Financial Statements.

Future Adoption

Goodwill and Intangible Assets

The CICA issued Section 3064, Goodwill and Intangible Assets, replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Provisions concerning goodwill are unchanged from the standards included in the previous Section 3062. The provisions relating to intangible assets, including internally generated intangible assets, are incorporated from international financial reporting standards. The Company adopted this new standard on January 1, 2009, and does not expect the adoption of this Section to have a material impact on the consolidated financial statements.

International Financial Reporting Standards (IFRS):

The Canadian Accounting Standards Board confirmed January 1, 2011 as the date IFRS will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises. In order to prepare for the conversion to IFRS, Sun Life Financial has developed an IFRS changeover plan. This plan addresses key elements of the Company's conversion to IFRS including:

- Education and training requirements
- Accounting policy changes
- Information technology and data systems impacts
- Impacts on business activities
- Financial reporting requirements
- Internal control over financial reporting

The IFRS changeover plan is well underway, with key IFRS standards analyzed and compared against Sun Life Financial's current Canadian GAAP policies. As an insurer, one of the key steps in the accounting policy change analysis is the classification of insurance contracts for IFRS reporting purposes; this exercise is now substantially complete. Work is on-going on assessing other accounting policy changes, including a review of the IFRS 1 options for first-time adoption.

A focused education and training plan for employees throughout the organization has been established and will continue to evolve throughout the implementation period and beyond.

As implications of the adoption are identified, information technology and data systems impacts are also being addressed. Impacts on business activities, both on a qualitative and quantitative basis, will be assessed as differences are identified between Sun Life Financial's current accounting policies and IFRS.

As the implementation process develops, the Company expects to continue to revisit its changeover plan. Accordingly, changes to the plan may be required as more information on the adoption of IFRS becomes known.

Non-GAAP Financial Measures

Management evaluates the Company's performance based on financial measures prepared in accordance with GAAP, including earnings, EPS, 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. The company also reviews adjusted revenue which excludes the impact of currency and fair value changes in held-for-trading assets and derivative instruments from total revenue. 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.

Non-GAAP Items

The following amounts were not included in the Company's operating earnings in the prior 3 years.

In the fourth quarter of 2008, the Company sold its 37% interest in CI Financial to Scotiabank for $2.2 billion. The after-tax gain of $825 million was not included in the 2008 operating earnings.

In 2007, the Company recorded after-tax charges to earnings of $10 million for re-branding expenses in Canada, $4 million for integration costs related to the acquisition of the Genworth EBG business, $43 million in relation 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 issued by Sun Life of Canada (U.S.) Capital Trust I.

In 2006, the Company recorded after-tax charges to income of $2 million for Hong Kong integration costs related to the acquisition of CMG Asia Limited and Commserve Financial Limited.

Reconciliation of Operating Earnings

($ millions)	2008					2007					2006
	Q4	**Q3**	**Q2**	**Q1**	**Total**	Q4	Q3	Q2	Q1	Total	Total
Reported earnings (loss) (GAAP)	**129**	**(396)**	**519**	**533**	**785**	555	577	590	497	2,219	2,089
After-tax gains (losses) on special items											
Gain on sale of interest in CI Financial	**825**	**—**	**—**	**—**	**825**	—	—	—	—	—	—
Intangible asset write-down for Clarica brand	**—**	**—**	**—**	**—**	**—**	—	—	—	(43)	(43)	—
Premium 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)
Total special items	**825**	**—**	**—**	**—**	**825**	(5)	(6)	(3)	(61)	(75)	(2)
Operating earnings (loss)	**(696)**	**(396)**	**519**	**533**	**(40)**	560	583	593	558	2,294	2,091

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)	**2008**	2007	2006
EPS(1) — Reported (GAAP)	**1.37**	3.85	3.58
Net gains (losses) on special items	**1.47**	(0.13)	—
EPS(1) — Operating	**(0.10)**	3.98	3.58

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

Financial Highlights

($ millions, unless otherwise noted)	2008	2007	2006
Common shareholders' net income (loss)			
Operating(1)	**(40)**	2,294	2,091
Reported	**785**	2,219	2,089
Basic reported EPS ($)	**1.40**	3.90	3.62
Fully diluted EPS ($)			
Operating(1)	**(0.10)**	3.98	3.58
Reported	**1.37**	3.85	3.58
ROE (%)			
Operating(1)	**-0.3%**	14.3%	13.8%
Reported	**5.1%**	13.8%	13.8%
Dividends per common share ($)	**1.44**	1.32	1.15
Dividend payout ratio(1) (%)	**103%**	34%	32%
Dividend yield(2) **(%)**	**3.8%**	2.5%	2.5%
Total revenue	**15,563**	21,188	24,287
Premiums, deposits and fund sales			
Premium revenue, including administration services only premium equivalents	**16,799**	16,124	17,327
Segregated fund deposits	**10,919**	13,320	8,753
Mutual fund sales	**20,352**	22,586	20,412
Managed fund sales	**20,944**	27,613	26,116
Total premiums, deposits and fund sales	**69,014**	79,643	72,608
Assets under management (AUM) *(as at December 31)*			
General fund assets	**119,833**	114,291	117,831
Segregated fund net assets	**65,762**	73,205	70,789
Mutual fund assets	**83,602**	101,858	110,186
Managed fund assets	**110,405**	134,297	140,551
Other AUM	**1,490**	1,613	2,075
Total AUM	**381,092**	425,264	441,432
Capital *(as at December 31)*			
Subordinated debt and other capital (3)	**3,726**	2,946	3,305
Participating policyholders' equity	**106**	95	92
Total shareholders' equity	**17,303**	17,122	17,092
Total capital	**21,135**	20,163	20,489

(1) Operating earnings, fully diluted operating EPS, operating ROE and dividend payout ratio are non-GAAP measures and exclude certain items described on page 19 under the heading Non-GAAP Financial Measures. The dividend payout ratio represents the ratio of common shareholders' dividends to common shareholders' net income.

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

(3) Other capital refers to Partnership Capital Securities and Sun Life ExchangEable Capital Securities (SLEECS). These securities qualify as capital for Canadian regulatory purposes. The Partnership Capital Securities were redeemed in May 2007. Additional information is available on page 54 under the heading Liquidity and on page 55 under the heading Capital.

Consolidated Results of Operations

Common Shareholders' Net Income

Common shareholders' net income of $785 million in 2008 decreased by $1,434 million from $2,219 million in 2007 and operating earnings, which excluded certain items outlined on page 19, fell by $2,334 million from 2007 to an operating loss of $40 million. These results reflected the capital market impacts of asset impairments and credit-related losses and equity markets to the Company's businesses.

Earnings and EPS

($ millions, unless otherwise noted)	**2008**	2007	2006
Total net income	**857**	2,290	2,144
Less:			
Participating policyholders' net income	**2**	2	7
Dividends paid to preferred shareholders	**70**	69	48
Common shareholders' net income	**785**	2,219	2,089
Adjusted for special items[1]	**(825)**	75	2
Operating earnings (loss)	**(40)**	2,294	2,091
Basic EPS ($) from:			
Common shareholders' net income	**1.40**	3.90	3.62
Operating earnings (loss) [1]	**(0.07)**	4.03	3.62
Diluted EPS ($) from:			
Common shareholders' net income	**1.37**	3.85	3.58
Operating earnings (loss) [1]	**(0.10)**	3.98	3.58
Common shareholders' net income (loss) by segment			
SLF Canada	**645**	1,050	995
SLF U.S.	**(1,016)**	581	448
MFS	**194**	281	234
SLF Asia	**33**	123	101
Corporate	**929**	184	311
Total	**785**	2,219	2,089

(1) The impact of items not included in operating earnings is described on page 19 under the heading Non-GAAP Financial Measures.

Impact of Economic Environment

During the fourth quarter of 2008, the United States government officially pronounced that it was in a recession. The U.S. Treasury, Federal Reserve and central banks around the world took action throughout the year to counter a loss of confidence in financial markets as the economy continued to falter. The S&P 500 hit an eleven-year low in 2008, credit spreads across all fixed income products reached historically wide levels and market volatility skyrocketed. For the full year, the S&P/TSX Composite Index was down 36%, while the S&P 500 dropped 38%, marking the worst annual percentage decline in the index since the Great Depression. At year-end 2008, the 2-year U.S. Treasury rate of 0.76% was the lowest since regular sales began in 1975 and the 10-year declined by 181 bps.

Weak economic conditions, which persisted throughout 2008, had a significant impact on the financial results of the Company. The Company incurred charges to net income of $1.3 billion related to asset impairments and credit-related losses, including write-downs related to holdings in Lehman Brothers and Washington Mutual, as well as $1.1 billion related to equity market impacts as shown below.

Capital Market Impact on Earnings	Net Income ($ millions)	EPS ($)
Asset impairments & credit-related losses	(1,264)	(2.26)
Equity markets (net of hedging)	(1,051)	(1.88)
Interest Rates (net of hedging)	(43)	(0.08)
Total	(2,358)	(4.22)

Fully diluted EPS decreased to $1.37 in 2008 from $3.85 in 2007. The strengthening of the Canadian dollar against foreign currencies during the year decreased 2008 earnings by $214 million or $0.38 per common share when compared to 2007 foreign exchange rates.

Fully diluted operating EPS, which excluded the gain of $825 million on the sale of the Company's interest in CI Financial as summarized on page 19, represented an operating loss per share of $0.10 in 2008 as compared to $3.98 fully diluted operating EPS in 2007. Without the impact of a change in the Canadian dollar relative to other currencies, the 2008 fully diluted EPS would have been $0.29.

Performance by Business Group

Common shareholders' net income for SLF Canada was $645 million in 2008 compared to $1,050 million for 2007. The decrease was due to lower Individual Insurance & Investments earnings of $398 million mainly attributable to the impact of declining equity markets, decreased interest rates and changes to asset default assumptions partially offset by favourable asset reinvestment gains from wider credit spreads in 2008. Group Benefits earnings improved by $29 million, primarily reflecting more favourable morbidity experience and a focus on expense management. Group Wealth earnings decreased by $36 million primarily from changes to asset default assumptions and the unfavourable impact of declining equity markets on fee income.

SLF U.S. had a loss of $1,016 million in 2008 compared with 2007 earnings of $581 million, including a $152 million unfavourable currency impact due to changes in currency exchange rates. In U.S. dollars, SLF U.S. reported a loss of US$883 million compared to earnings of US$553 million in 2007. The decrease in earnings was largely due to an increase in annuity reserves required by the impact of declining equity markets of US$510 million, credit-related losses including impairments of US$500 million, the negative impact of wider credit spreads and credit-related allowances on actuarial reserves of US$200 million and changes to asset default assumptions in anticipation of higher future credit-related losses of US$80 million. The variable annuity reserve increase was driven by a decline in variable annuity account values, which, although partially offset by the benefits of hedges, increased the value of guaranteed benefits and lowered the expected stream of future fee income.

Common shareholders' net income for MFS in 2008 was US$186 million compared to US$262 million in 2007. The decrease in earnings was primarily due to lower average net assets as a result of the decline in global financial markets.

SLF Asia reported common shareholders' earnings of $33 million in 2008 compared to $123 million in 2007. The decrease in earnings was primarily due to lower earnings in Hong Kong from investment-related losses and increased investment in growth in India.

Corporate had common shareholders' net income of $929 million in 2008 compared to $184 million in 2007 due to the after-tax gain of $825 million as a result of the Company's sale of its 37% interest in CI Financial and realized tax benefits associated with unrecognized tax losses from impairments taken in prior years. These increases were partially offset by losses in the Company's life retrocession reinsurance business from the unfavourable impact of claims in 2008 as well as the strengthening of actuarial reserves to reflect more comprehensive information on potential future premiums and claims. Results for the full year 2007 included $61 million after-tax charges to earnings related to the intangible asset write-down for the retirement of the Clarica brand and for the premium paid to redeem Partnership Capital Securities in Corporate Support.

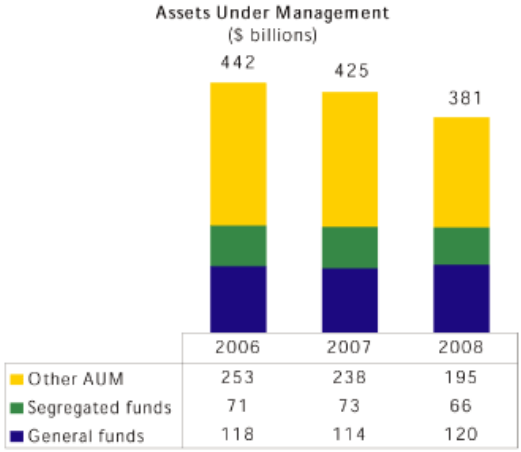
Return on Equity

ROE based on common shareholders' net income was 5.1% in 2008, down from 13.8% in 2007 due to lower earnings. Operating ROE, which does not include the amount outlined on page 19, was negative 0.3% in 2008, compared with 14.3% in 2007. The negative operating ROE resulted from the 2008 fully diluted operating loss per share of $0.10. Excluding the impact of the change in the Canadian dollar against foreign currencies, ROE based on reported and operating earnings were 6.7% and 1.2%, respectively.

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.

Total AUM were $381.1 billion as at December 31, 2008, a decrease of $44.2 billion compared to $425.3 billion as at December 31, 2007. The increase of $50.3 billion from currency fluctuations was more than offset by equity market performance that reduced AUM by $87.6 billion in 2008, a decrease of $7.4 billion from the change in value of held-for-trading assets and net redemptions of mutual, managed and segregated funds of $3.2 billion.



The Company's general fund assets increased to $119.8 billion, up $5.5 billion, or 5%, from the December 31, 2007 level. An increase of $9.2 billion from the weakening of the Canadian dollar against foreign currencies and a gain from business growth were partly offset by a reduction of $7.4 billion from the change in value of held-for-trading assets.

Segregated fund assets were $65.8 billion as at December 31, 2008, compared to $73.2 billion as at December 31, 2007. The decrease in asset values of $16.3 billion due to declining markets was partially compensated by a favourable currency impact of $5.3 billion and net sales of $3.6 billion.

Other AUM, which includes MFS assets under management of $163.6 billion, decreased to $195 billion, $42.3 billion less than as at December 31, 2007. Volatile market conditions reduced values by $71.3 billion and net redemptions for the year further reduced the AUM by $6.8 billion. These decreases were partly moderated by the favourable effect of $35.8 billion related to currency fluctuations.

Revenue

Under Canadian GAAP, revenues include; (i) regular premiums received on life and health insurance policies and fixed annuity products, (ii) fee income received for services provided and (iii) net investment income (comprised of income earned on general fund assets and changes in the value of held-for-trading assets and derivative instruments). Segregated fund deposits, mutual fund deposits and managed fund deposits are not included in revenues.

Net investment income can experience volatility arising from quarterly fluctuation in the value of held-for-trading assets. The bonds and stocks that support actuarial liabilities are designated as held-for-trading, and consequently changes in fair values of these assets are recorded in net investment income in the consolidated statement of operations. Changes in the fair values of these assets are largely offset by changes in the fair value of the actuarial liabilities, where there is an effective matching of assets and liabilities. The Company performs cash flow testing whereby asset and liability cash flows are projected under various scenarios. When an asset backing liabilities is written down in value to reflect impairment or default, the actuarial assumptions about the cash flows required to support the liabilities will change, resulting in an increase in actuarial liabilities charged through the consolidated statement of operations. Additional detail on the Company's accounting policies can be found on page 12 of this MD&A under the heading Critical Accounting Estimates.

Total Revenue

($ millions)	**2008**	2007	2006
Premiums			
Annuities	**3,592**	3,530	5,380
Life insurance	**5,928**	6,010	6,168
Health insurance	**4,067**	3,584	3,061
Total premiums	**13,587**	13,124	14,609
Gain (loss) on sale of available-for-sale assets	**(241)**	101	—
Net investment income (loss)	**(526)**	4,751	6,664
Fee income	**2,743**	3,212	3,014
Total	**15,563**	21,188	24,287

The Company's total revenue for the year ended December 31, 2008 decreased to $15.6 billion, down $5.6 billion from 2007 primarily from lower net investment income. Net investment losses were $526 million for the twelve months ended December 31,

2008, compared to net investment income of $4.8 billion for the same period in 2007. The decrease was primarily due to the volatile market conditions and the tight credit environment that resulted in fair value losses on held-for-trading assets and non-hedging derivatives during 2008 of $7.6 billion compared to $1.5 billion in 2007. The reduction was partly offset by the pre-tax gain of $1.0 billion on the sale of the Company's interest in CI Financial included in the 2008 investment income.

Adjusted Revenue

($ millions)	**2008**	**2007**
SLF Canada	**7,927**	9,285
SLF U.S.	**3,817**	7,830
MFS	**1,381**	1,687
SLF Asia	**498**	977
Corporate	**1,940**	1,409
Total as reported	**15,563**	21,188
Impact of currency and changes in the fair value of held-for-trading assets and derivative instruments	**(6,696)**	(1,483)
Total adjusted revenue (1)	**22,259**	22,671

(1) Total adjusted revenue is a non-GAAP financial measure. See non-GAAP financial measures on page 18

After adjusting for the impact of currency and fair value changes in held-for-trading assets, 2008 revenue of $22.3 billion was $412 million lower than in 2007. The decrease was mainly due to lower fee income and higher realized losses and write-downs on available-for-sale assets that were partly reduced by higher health insurance premiums as compared to 2007.

Annuity premiums of $3.6 billion in 2008 were virtually the same as 2007, with an increase of $144 million in SLF U.S., mostly from higher fixed annuity sales, offset by lower premiums from annuity vestings in SLF U.K. and a reduction of $55 million from the strengthening of the Canadian dollar against foreign currencies between 2007 and 2008.

Life insurance premiums of $5.9 billion declined by $82 million in 2008 compared to 2007. Increases of $66 million in SLF Canada from growth in individual life and higher life insurance premiums of $100 million in SLF Asia on business growth were more than offset by reduced SLF U.S. individual life premiums on decreased single premiums and an unfavourable change of $19 million from currency fluctuations.

Health insurance premiums rose $483 million, or 13%, to $4.1 billion in 2008, mainly attributable to the acquisition of Genworth EBG business in SLF U.S. in May 2007, and growth in group health in SLF Canada.

Net investment losses in 2008 were $526 million compared to net investment income of $4.8 billion in 2007. The reduction of $5.3 billion was mainly from a decrease of $5.8 billion in the value of held-for-trading assets and lower fair value of non-hedging derivatives of $229 million. The items were largely offset by a corresponding decrease in actuarial liabilities. The reductions were partially offset by a pre-tax gain of $1.0 billion on the sale of the Company's interest in CI Financial included in the 2008 investment income.

Fee income of $2.7 billion earned during 2008 was lower by $469 million than 2007. The reduction was mostly a result of lower fee income of $277 million in MFS from the impact of a decline in asset values and a reduction of $190 million in SLF U.S. mostly related to the divestitures of Independent Financial Marketing Group (IFMG) in the fourth quarter of 2007 and Sun Life Retirement Services (U.S.) Inc. (RSI) in the first quarter of 2008.

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 2008 were $13.8 billion, down $469 million from 2007. The main reason for the reduction was lower maturities in SLF U.S. Annuities that had a large maturity of a medium-term note in 2007, which did not reoccur in 2008. This decrease was partly offset by an increase of $86 million in SLF Canada payments primarily due to business growth in group health.

Policy Benefits

($ millions)	**2008**	2007	2006
Payments to policyholders, beneficiaries and depositors	**13,775**	14,244	12,895
Net transfers to segregated funds	**539**	952	835
Increase (decrease) in actuarial liabilities	**(4,429)**	(2,515)	2,525
Total	**9,885**	12,681	16,255

Changes in actuarial liabilities reflected a decrease of $4.4 billion in 2008 compared to a decrease of $2.5 billion in 2007. The fluctuation of $1.9 billion included

a reduction of $5.8 billion related to the corresponding change in market values of held-for-trading assets and lower releases from related policyholder payments. These decreases were partly offset by increases from business growth, actuarial valuation changes and growth from the acquisition of Genworth's EBG business that occurred in the second quarter of 2007.

Expenses and Other

Commission expenses decreased by $266 million, or 15%, in 2008 from the 2007 amount of $1.8 billion with a decrease of $205 million in SLF U.S. from lower variable annuity sales and the divestiture of both IFMG and RSI in late 2007 and early 2008, respectively. MFS was also lower by $83 million on lower asset based expenses.

Expenses and Other

($ millions)	**2008**	2007	2006
Commissions	**1,545**	1,811	1,916
Operating expenses	**2,979**	3,183	3,003
Intangibles amortization	**24**	77	25
Premium taxes	**227**	240	205
Interest expenses	**366**	349	323
Income taxes	**(343)**	522	389
Non-controlling interests in net income of subsidiaries	**23**	35	27
Participating policyholders' net income (loss)	**2**	2	7
Dividends to preferred shareholders	**70**	69	48
Total	**4,893**	6,288	5,943

Operating expenses of $3.0 billion in 2008 were $204 million lower than 2007. SLF U.S. was down $86 million, with a reduction of $119 million from the sale of both IFMG and RSI and lower Genworth EBG integration costs of $12 million, partly offset by higher ongoing costs in EBG due to the acquisition of the former Genworth EBG business in May 2007. MFS expenses were lower by $77 million in 2008 than 2007 mostly from a decrease in incentive-based compensation costs. Corporate expenses were also down by $66 million mostly from a lower level of incentive-based compensation costs.

Intangibles amortization of $24 million in 2008 was down $53 million compared to 2007 mostly due to the intangible asset write-down for the retirement of the Clarica brand in 2007.

Interest expenses increased by $17 million over 2007 to $366 million in 2008, reflecting the additional debentures issued in 2008 and a full year's worth of interest charged for the debentures issued during 2007.

The Company had income tax recoveries of $343 million in 2008 compared to income tax expenses of $522 million in 2007. The change was due to a lower level of earnings, realized tax benefits from unrecognized losses on asset impairments of prior years and a non-taxable portion of the gain on the disposal of the Company's interest in CI Financial.

Quarterly Information

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

($ millions, unless otherwise noted)	2008				2007			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Common shareholders' net income (loss)								
Operating(1)	**(696)**	**(396)**	**519**	**533**	560	583	593	558
Reported	**129**	**(396)**	**519**	**533**	555	577	590	497
Fully diluted EPS (in dollars)								
Operating(1)	**(1.25)**	**(0.71)**	**0.91**	**0.93**	0.98	1.01	1.03	0.96
Reported	**0.23**	**(0.71)**	**0.91**	**0.93**	0.97	1.00	1.02	0.86
Basic reported EPS (in dollars)	**0.23**	**(0.71)**	**0.92**	**0.95**	0.98	1.02	1.03	0.87
Return on Shareholders' Equity (ROE) (annualized)								
Operating(1)	**-17.9%**	**-10.2%**	**12.9%**	**13.4%**	14.3%	14.8%	14.6%	13.5%
Reported	**3.3%**	**-10.2%**	**12.9%**	**13.4%**	14.2%	14.7%	14.5%	12.0%
Business Groups common shareholders' net income (loss)								
SLF Canada	**(55)**	**157**	**296**	**247**	263	257	280	250
SLF U.S.	**(679)**	**(533)**	**83**	**113**	157	170	156	98
MFS	**30**	**49**	**56**	**59**	73	68	68	72
SLF Asia	**16**	**(8)**	**12**	**13**	38	30	17	38
Corporate	**817**	**(61)**	**72**	**101**	24	52	69	39
Total	**129**	**(396)**	**519**	**533**	555	577	590	497
Total revenue	**4,706**	**2,560**	**4,411**	**3,886**	5,405	5,699	4,500	5,584
Total AUM ($ billions)	**381**	**389**	**413**	**415**	425	427	440	451

(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 19.

Fourth Quarter 2008 Performance

Sun Life Financial Inc. reported net income attributable to common shareholders of $129 million for the quarter ended December 31, 2008, compared with net income of $555 million in the fourth quarter of 2007. Excluding the after-tax gain of $825 million related to the sale of the Company's 37% interest in CI Financial, the Company reported an operating loss of $696 million or $1.25 per share on a fully diluted basis in the fourth quarter of 2008 compared to net operating income of $560 million or fully diluted EPS of $0.98 in the fourth quarter of 2007.

Fourth quarter results were most significantly impacted by a continued deterioration in global capital markets. Results in the fourth quarter 2008 included $682 million in charges related to equity markets, $365 million from asset impairments, credit-related write-downs and spread widening, as well as $164 million from changes to asset default assumptions in anticipation of higher future credit-related losses. The Company's hedging program helped offset some of the losses related to the volatility in capital markets during the quarter.

ROE for the fourth quarter of 2008 was 3.3% compared with 14.2% for the fourth quarter of 2007. The decline in ROE resulted from fully diluted EPS of $0.23, which was lower than the fully diluted EPS of $0.97 reported for the same period in 2007. The Company had a fully diluted operating loss per share of $1.25 in the fourth quarter of 2008, compared with fully diluted operating EPS of $0.98 in the fourth quarter of 2007, a decline of $2.23 per share. Operating ROE for the quarter was negative 17.9%, compared with operating ROE of 14.3% in the fourth quarter of 2007.

Impact of Currency

During the fourth quarter of 2008, the Canadian dollar depreciated markedly relative to the U.S. dollar. In general, the Company's net income benefits from a weakening Canadian dollar as net income from the Company's international operations is translated back to Canadian dollars. However, in the fourth quarter of 2008, due to losses incurred in some of the Company's businesses which operate in U.S. dollars, the Company's overall net income was reduced by $153 million from the weakening of the Canadian dollar relative to the fourth quarter of 2007.

Like net income, AUM were also affected by changes in the value of the Canadian dollar. The weakening of the Canadian dollar resulted in an increase in reported AUM as assets from the Company's international operations are translated back to Canadian dollars. AUM of $381.1 billion as at December 31, 2008 was down from $388.7 billion from September 30, 2008 and $425.3 billion from December 31, 2007. Despite the decline in AUM, the weakening of the Canadian dollar had a positive impact on AUM of $35.4 billion in the fourth quarter of 2008 compared with AUM as at September 30, 2008, and $50.3 billion compared with AUM as at December 31, 2007.

Performance by Business Group

SLF Canada had a loss of $55 million in the fourth quarter of 2008 compared to earnings of $263 million in the fourth quarter of 2007, a decrease of $318 million. This decrease was mainly attributable to charges of $211 million from the impact of declining equity markets, $75 million from declining interest rates, and $48 million related to asset default assumptions in anticipation of higher future credit-related losses. This decrease was partly offset by the favourable impact of trading gains arising from asset/liability management activities as well as the impact of more favourable morbidity experience.

SLF U.S had a loss of $679 million in the fourth quarter of 2008 compared to earnings of $157 million in the fourth quarter of 2007. The depreciation of the Canadian dollar against the U.S. dollar increased the reported loss in SLF U.S. by $129 million in the fourth quarter of 2008 compared to the same period in 2007. In U.S. dollars, earnings decreased by US$741 million compared to the fourth quarter of 2007 primarily as a result of a US$340 million increase in reserves required by the impact of declining equity markets, the negative impact of credit spreads and credit-related allowances of US$140 million, credit-related losses including impairments of US$90 million and changes to asset default assumptions in anticipation of higher future credit-related losses of US$80 million. The variable annuity reserve increase was driven by a decline in variable annuity account values, which, although partially offset by the benefits of hedges, increased the value of guaranteed benefits and lowered the expected stream of future fee income.

Earnings for MFS decreased $43 million compared to the fourth quarter of 2007. The depreciation of the Canadian dollar against the U.S. dollar increased earnings for MFS by $6 million in the fourth quarter of 2008 compared to the same period in 2007. In U.S. dollars, fourth quarter earnings were US$25 million compared to US$74 million in the fourth quarter of 2007. The decrease in earnings was primarily due to lower fee income on lower average net assets as a result of the decline in global financial markets. Average net assets of US$133 billion in the fourth quarter of 2008 decreased 34% compared to the fourth quarter of 2007.

Fourth quarter 2008 earnings for SLF Asia were $16 million compared to earnings of $38 million in the fourth quarter of 2007. The decrease in earnings was primarily due to lower earnings in the Philippines where reserve releases had a favourable impact on the fourth quarter 2007 earnings, as well as impairments in Hong Kong, and increased investment in growth in India. These were partially offset by the impact of reserve changes related to asset/liability matching in Hong Kong.

Fourth quarter 2008 earnings for Corporate increased by $793 million compared to the fourth quarter of 2007 due to higher earnings in Corporate Support from an after-tax gain of $825 million related to the sale of the Company's 37% interest in CI Financial, as well as realized tax benefits associated with unrecognized tax losses from impairments taken in prior years. This was partially offset by losses in the Company's life retrocession reinsurance business of $129 million in the fourth quarter of 2008. The losses in the reinsurance business were primarily the result of the strengthening of actuarial reserves to reflect more comprehensive information on potential future premiums and claims.

Revenues for the fourth quarter of 2008 were $4.7 billion, down $699 million from the comparable period in 2007. The primary reason for the decrease was the unfavourable impact on market values of $1.8 billion for held-for-trading assets and non-hedging derivatives compared to the fourth quarter of 2007. After adjusting for the impact of currency and fair value changes in held-for-trading assets, the fourth quarter 2008 revenue of $6.0 billion was $569 million higher than the same period in 2007. This increase included a $1.0 billion pre-tax gain related to the sale of the Company's interest in CI Financial, partially offset by lower fee income from the impact of declining equity markets.

Premium revenue of $3.5 billion in the fourth quarter of 2008 was up $336 million from the fourth quarter of 2007. The strengthening of the U.S currency against the Canadian dollar contributed $339 million to the increase and SLF Asia was up $52 million mostly on sales growth.

Net investment income was $905 million lower in the fourth quarter of 2008 compared to the same period in 2007. The changes in fair market value of held-for-trading assets and non-hedging derivatives in the fourth quarter of 2008 reduced net investment income by $1.8 billion compared to the fourth quarter of 2007. There was also a $184 million decrease due to currency fluctuations primarily as a result of realized and unrealized losses in SLF U.S. These reductions were partly offset by the $1.0 billion pre-tax gain related to the sale of the Company's interest in CI Financial included in investment income.

Fee income of $630 million in the fourth quarter of 2008 was down $130 million compared to the same period in 2007. Declining market values reduced fee income in MFS by $81 million and $16 million in SLF Canada. In addition, SLF U. S. had lower fee income of $32 million as a result of the sale of RSI in the first quarter of 2008.

AUM were $381.1 billion as at December 31, 2008, compared to $388.7 billion as at September 30, 2008, and the decrease of $7.6 billion resulted primarily from:

(i) unfavourable market movements of $40.5 billion,

(ii) a decrease of $2.2 billion from the change in value of held-for-trading assets and

(iii) net redemptions of mutual, managed and segregated funds of $2.5 billion partly offset by

(iv) an increase of $35.4 billion from a weaker Canadian dollar compared to the prior period currency exchange rates and

(v) business growth.

Investments

The Company strives to ensure that all general fund investments are properly aligned with business objectives, meeting policyholder obligations, 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 of the Board of Directors.

Investment Profile

The Company had total general fund invested assets of $106.9 billion as at December 31, 2008. 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 84% of the general funds in cash and fixed income investments. Stocks and real estate comprised 4% and 5% of the portfolio, respectively, as at December 31, 2008. The remaining 7% of the portfolio is comprised of policy loans, other invested assets and derivative assets.

Additional details on the Company's investments are provided in Notes 5 and 6 to SLF Inc.'s 2008 Consolidated Financial Statements.

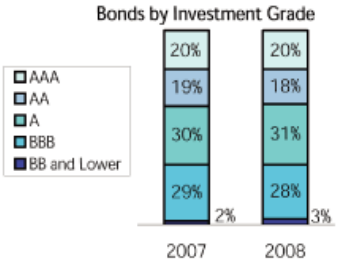
Investments

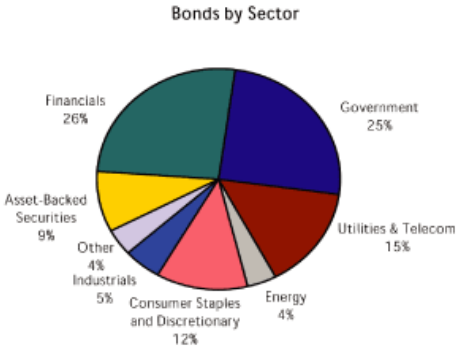
($ millions)	2008			2007		
	Carrying value	**Fair value**	**% of total carrying value**	**Carrying value**	**Fair value**	**% of total carrying value**
Held-for-trading bonds	**48,458**	**48,458**	**45**	50,608	50,608	49
Available-for-sale bonds	**10,616**	**10,616**	**10**	9,148	9,148	9
Mortgages and corporate loans	**22,302**	**22,485**	**21**	20,742	21,046	20
Held-for-trading stocks	**3,440**	**3,440**	**3**	4,438	4,438	4
Available-for-sale stocks	**1,018**	**1,020**	**1**	788	788	1
Real estate	**4,908**	**5,812**	**5**	4,303	5,183	4
Policy loans	**3,401**	**3,401**	**3**	2,959	2,959	3
Cash, cash equivalents and short-term securities	**8,879**	**8,879**	**8**	5,500	5,500	5
Derivative assets	**2,669**	**2,669**	**3**	1,947	1,947	2
Other invested assets including held-for-trading and available-for-sale other invested assets	**1,187**	**1,230**	**1**	2,587	4,295	3
Total invested assets	**106,878**	**108,010**	**100**	103,020	105,912	100

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, 2008, the Company held $59.1 billion of bonds, which constituted 55% 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 97% of the total bond portfolio as at December 31, 2008, down from 98% at December 31, 2007.

As at December 31, 2008, the Company held $12.7 billion of non-public bonds, which constituted 21% of the Company's overall bond portfolio. Corporate bonds that are not issued or guaranteed by sovereign, regional and municipal governments represented 75% of the total bond portfolio as at December 31, 2008, compared to 76% as at December 31, 2007.





The Company's bond portfolio as at December 31, 2008 included $15.5 billion in the financial sector, representing approximately 26% of the Company's bond portfolio, or 15% of the Company's total invested assets. This compares to $16.6 billion as at December 31, 2007. The $1.1 billion decrease in the value of financial sector bond holdings was primarily the result of write-downs in Washington Mutual and Lehman Brothers and the impact of higher credit spreads on asset values partially offset by movements in interest rates and foreign currency.

The Company had total exposure of $708 million to monoline insurers as at December 31, 2008, of which $45 million, or 6%, represented direct exposure to the monoline insurers and $663 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, 86.7% of the underlying bonds have an investment grade credit rating (0.1% AAA, 10.1% AA, 31.1% A and 45.4% BBB) and 13.3% have a rating of BB or lower. At December 31, 2008, no single insurer represented more than 39% of the total monoline exposure and no underlying issuer represented more than 11% of the total exposure in connection with monoline insurers.

The Company's bond portfolio as at December 31, 2008 included $5.1 billion of asset-backed securities reported as bonds, representing approximately 9% of the Company's bond portfolio, or 5% of the Company's total invested assets. This compares to $6.6 billion as at December 31, 2007. The $1.5 billion decrease in the value of asset-backed securities was primarily the result of the impact of higher credit spreads on asset values partially offset by movements in interest rates and foreign currency.

Asset-Backed Securities

($ millions)	2008		2007	
	Fair Value	Investment Grade %	Fair Value	Investment Grade %
Commercial mortgage-backed securities	1,889	99.7	2,523	99.6
Residential mortgage-backed securities: Non-Agency	1,092	98.4	1,486	99.9
Residential mortgage-backed securities: Agency	1,138	100.0	1,112	100.0
Collateralized debt obligations	215	80.8	422	97.5
Other	754	97.3	1,075	99.6
Total	5,088	98.3	6,618	99.6

The Company's asset-backed securities are further broken down in the tables below to reflect ratings and vintages of the assets within this portfolio.

As at December 31, 2008	CMBS	RMBS - Agency	RMBS - Non-Agency	CDOs	Other
Rating					
AAA	**74.5%**	**100.0%**	**33.2%**	**19.1%**	**51.3%**
AA	**7.7%**	**0.0%**	**48.0%**	**46.5%**	**13.9%**
A	**8.3%**	**0.0%**	**11.6%**	**10.5%**	**20.4%**
BBB	**9.2%**	**0.0%**	**5.6%**	**4.7%**	**11.7%**
BB & Below	**0.3%**	**0.0%**	**1.6%**	**19.2%**	**2.7%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Vintage					
2005 & Prior	**85.6%**	**59.2%**	**90.2%**	**75.0%**	**59.3%**
2006	**10.8%**	**11.1%**	**8.2%**	**9.5%**	**18.5%**
2007	**3.5%**	**13.1%**	**1.6%**	**15.5%**	**2.5%**
2008	**0.1%**	**16.6%**	**0.0%**	**0.0%**	**19.7%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

As at December 31, 2007	CMBS	RMBS - Agency	RMBS - Non-Agency	CDOs	Other
Rating					
AAA	63.2%	100.0%	31.8%	43.8%	35.0%
AA	8.3%	0.0%	48.2%	41.4%	22.5%
A	10.5%	0.0%	14.7%	11.7%	28.4%
BBB	17.6%	0.0%	5.2%	0.6%	13.7%
BB & Below	0.4%	0.0%	0.1%	2.5%	0.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Vintage					
2005 & Prior	79.9%	68.6%	84.7%	61.5%	80.4%
2006	15.3%	10.3%	12.6%	21.0%	15.9%
2007	4.8%	21.1%	2.7%	17.5%	3.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

CMBS=Commercial Mortgage Backed Securities; RMBS=Residential Mortgage Backed Securities; CDOs=Collateralized Debt Obligations.

As at December 31, 2008, the Company had indirect exposure to residential sub-prime and Alternative-A (Alt-A) loans of $202 million and $145 million, respectively, together representing approximately 0.3% 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. Of these investments, 92% either were issued before 2006 or have an "AAA" rating.

Mortgages and Corporate Loans

The Company's mortgage portfolio consists almost entirely 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, 2008, the mix of the Company's mortgage portfolio was 82% non-residential and 18% residential, and approximately 34% of mortgage loans will mature by December 31, 2013. 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, 2008, the Company held $6.0 billion in corporate loans as compared to $5.3 billion in 2007.

Mortgages by Type and Location

($ millions)	Residential	Non-residential	Total
2008			
Canada	2,620	5,896	8,516
United States	342	7,338	7,680
United Kingdom		71	71
Total Mortgages	2,962	13,305	16,267
Corporate loans			6,035
Total mortgages and corporate loans			22,302
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

Stocks

The Company's equity portfolio is diversified, and over 50% 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 & Poor's Depositary Receipts and MSCI EAFE Index Funds. As at December 31, 2008, $2.3 billion, or 52%, of the Company's equity portfolio consisted of Canadian issuers; $1.3 billion, or 30%, of U.S. issuers; $440 million, or 10%, of U.K. issuers; and $379 million, or 8%, of issuers from other jurisdictions. Excluding the Company's ETF funds and the equity investment in The Bank of Nova Scotia received as a result of the sale of CI Financial ($729 million, or 16%,), no single issuer exceeded 2% of the portfolio as at December 31, 2008.

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, 2008. Real estate investments are diversified by country, with 63% of the portfolio located in Canada, 31% in the United States and 6% in the United Kingdom as at December 31, 2008.

Gains on the sale of real estate remain 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 $251 million in deferred net realized gains on real estate as at December 31, 2008.

Derivative Financial Instruments and Risk Mitigation

The fair value of derivative assets held by the Company was $2.7 billion, while the fair value of derivative liabilities was $3.2 billion as at December 31, 2008. Derivatives designated as hedges for accounting purposes and those not designated as hedges represented 12% and 88%, respectively, on a total notional basis.

Derivatives designated as hedges for accounting purposes are used to reduce income statement volatility. 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 Company's hedging strategy does not hedge all risks; rather, it is intended to keep the Company within an acceptable range of its risk appetite.

The primary uses of derivatives in 2008 are summarized in the table below.

Products/Application	Uses of Derivative	Derivative Used
U.S. universal life contracts and U.K. unit-linked pension products with guaranteed annuity rate options and U.K. with profit fund	To limit potential financial losses from significant reductions in asset earned rates relative to contract guarantees and to protect the SLF U.K with profit fund from the impact of a significant fall in the U.K equity market below a specified level	Interest rate options and swaps and put and call options on the U.K equity index
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 and call options on equity index; futures on equity indices, government bonds and interest rates; interest rate swaps
U.S. fixed index annuities	To manage the exposure to product guarantees related to equity market performance	Futures and options on equity indices; interest rate swaps; currency swaps
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 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)	**2008**	2007
As at December 31		
Net fair value	**(550)**	1,309
Total notional amount	**50,796**	42,642
Credit equivalent amount	**1,260**	2,351
Risk-weighted credit equivalent amount	**28**	56

The total notional amount increased to $50.8 billion as at December 31, 2008, from $42.6 billion at the end of 2007, primarily due to an increase in interest rate contracts. The net fair value decreased to ($0.6) billion in 2008 from the 2007 year-end amount of $1.3 billion. The change was primarily due to a decrease in the market value of foreign exchange contracts resulting from a weakening in the Canadian dollar relative to other foreign currencies.

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, 2008, the credit equivalent amounts for interest rate contracts, foreign exchange contracts, and equity and other contracts were $420 million, $489 million and $351 million, respectively. The corresponding risk-weighted credit equivalent amounts were $9 million, $12 million and $7 million, respectively.

Additional details in respect of derivatives are included in Notes 5 and 6 to SLF Inc.'s 2008 Consolidated Financial Statements.

Impaired Assets

Financial assets that are classified as held-for-trading, which represented 50% of the 2008 invested assets, do not have allowances for losses since changes in the fair value of these assets are 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 $126 million as at December 31, 2008, $77 million higher than the December 31, 2007 level for these assets.

In addition to allowances reflected in the carrying value of mortgages and corporate loans, the Company had $2.3 billion for possible future asset defaults for financial assets included in its actuarial liabilities as at December 31, 2008. The amount excludes the portion of the provision that can be passed through to participating policyholders and projected reductions in the value of equity and real estate assets supporting actuarial liabilities.

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 temporarily impaired financial assets as at December 31, 2008 represented $7.7 billion and the associated unrealized losses amounted to $2.1 billion as at December 31, 2008. The Company's gross unrealized losses as at December 31, 2008 for available-for-sale bonds and held-for-trading bonds were $1.9 billion and $7.1 billion, respectively, compared with $0.3 billion and $1.2 billion, respectively as at December 31, 2007. The increase in gross unrealized losses was largely due to the widening of credit spreads, primarily in the financial and securitization sectors, partially offset by movements in interest rates.

In the aggregate, the Company recognized impairment-related pre-tax losses of $926 million during the year in connection with held-for-trading and available-for-sale assets. These impairments were mainly due to Lehman Brothers and Washington Mutual bond holdings. Tax recoveries of $109 million and related actuarial reserve adjustments in connection with these impairments resulted in the Company recording an after-tax loss of $710 million on the impairments during the year. The Company has not recognized a tax recovery on $326 million of unrealized capital losses related to these impairments in SLF U.S., which are only available in the U.S. to offset capital gains. In the future, when capital gains are available to offset these capital losses, it is estimated that an additional tax benefit of $114 million, based on current tax rules, will be recorded on these losses.

Additional details concerning impaired assets are found in Note 6 to SLF Inc.'s 2008 Consolidated Financial Statements.

Business Segment Results

Sun Life Financial manages its operations and reports its financial results in five business segments as described on page 6 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

- Individual Wealth segregated fund sales in Canada, including sales of SunWise Elite Plus with the guaranteed minimum withdrawal benefit rider, increased by 44% to $2.5 billion for the full year 2008 over 2007
- Group Retirement Services(GRS) had another outstanding year of market-leading sales results, capturing 53% of the defined contribution (DC) industry's new sales, and 56% of total DC market activity, as reported by LIMRA for the first nine months of 2008. All regions delivered strong results, with overall sales increasing to $3.9 billion, 18% over 2007, including the installation of plans for Imperial Oil Limited and EnCana
- Based on the Fraser Study at December 2007, Group Benefits attained the number two market share position for overall business in-force in Canada through strong sales and outstanding client retention

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 as Group Wealth includes a 67% economic interest in McLean Budden Limited. Sun Life Financial sold its 37% ownership interest in CI Financial on December 12, 2008.

Industry Profile

Three large Canadian insurers account for more than half 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. The key differentiators in today's market include a strong capital position and brand profile, strong distribution capabilities and economies of scale to support investment in technology, product innovation and customer service.

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

- Well-capitalized with market leadership positions in Individual and Group businesses including relationships with 6 million Canadians
- A broad product portfolio across life, health and wealth to meet the lifetime financial needs of customers
- 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 wholesale channel focusing on the affluent market
- The group businesses differentiate themselves from the competition with long-standing customer relationships evidenced by industry-leading retention rates, technology leadership and innovative 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 to maintain the Company's strong financial position

Opportunities

- Leverage SLF Canada's strengths across its businesses to capitalize on increasing retirement needs and the transfer of health care costs to individuals
- Generate profitable growth in the Wholesale channel through innovation in individual insurance and wealth solutions, and through outstanding service
- Build lifelong relationships with Canadians by offering expanded services to plan members, including both in-plan voluntary benefits and transition solutions (such as asset retention for retirement assets and personal life and health benefits)
- Introduce new product extensions to plan sponsors to manage costs and reduce risk while maintaining the value of the benefits for members

Strategy

SLF Canada helps customers achieve lifetime financial security throughout their life stages by providing products and advice on insurance and investments through multiple distribution touch points. It does so by strengthening its sponsor and advisor partnerships with value-added insight, service and advice to offer increased value to these partners. Additional value is created by enhancing productivity and customer service.

Financial and Business Results

Summary Statement of Operations

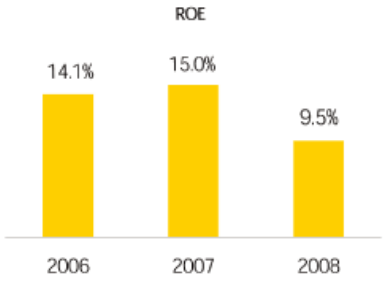
(C$ millions)	**2008**	2007	2006
Premiums	**6,273**	6,004	5,721
Net investment income	**966**	2,586	2,993
Fee income	**688**	695	619
Total revenue	**7,927**	9,285	9,333
Client disbursements and change in actuarial liabilities	**4,986**	6,149	6,277
Commissions and other expenses	**1,846**	1,868	1,774
Income taxes	**435**	200	262
Non-controlling interests in net income of subsidiaries and par policyholders' income	**15**	18	25
Common shareholders' net income	**645**	1,050	995

SLF Canada's common shareholders' net income of $645 million in 2008 decreased by $405 million compared to 2007. The decrease in earnings was mainly attributable to the impact of declining equity markets, decreased interest rates, changes to asset default assumptions and higher asset impairments and other credit-related losses recorded in 2008. This decrease was partially offset by the impact of more favourable morbidity experience and favourable asset reinvestment gains from wider credit spreads in 2008.

Revenue for 2008 was $7.9 billion, 15% down from 2007, with growth of 4% in premiums more than offset by decreases in net investment income and fee income from market value declines.

SLF Canada's total AUM were $112.3 billion at the end of 2008, down 12% from 2007 due to declines in equity markets in 2008.





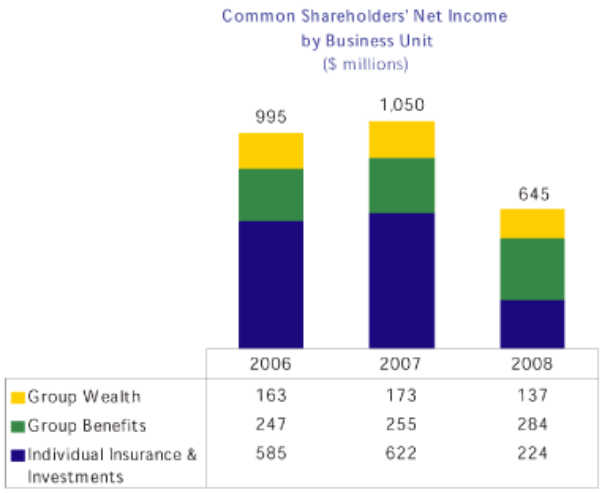
ROE(1) for SLF Canada declined to 9.5% in 2008 compared to 15.0% in 2007, primarily due to decreased earnings.

Results by Business Unit

Individual Insurance & Investments

SLF Canada's Individual Insurance & Investments strategy is to achieve profitable growth by expanding distribution touch points and providing a profitable portfolio of products and services across both insurance and wealth, catering to the needs of customers and distribution partners at all points along the advice continuum.

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 consisting 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 life and health insurance sales decreased by $6 million from 2007 to $174 million for the year ended December 31, 2008. The Sun Life Financial Advisor Sales Force insurance sales were consistent with 2007.

Individual Wealth sales increased by $327 million, or 8%, to $4.2 billion in 2008 from the growth in sales of segregated funds. Segregated fund sales improved by $762 million, or 44%, over 2007. Mutual fund sales decreased by $295 million, or 21%, over 2007.

Individual Insurance & Investments' earnings decreased to $224 million in 2008 from $622 million in 2007 mainly due to the impact of declining equity markets and interest rates.

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 22%(2) (based on in-force premiums and premium equivalents for the year ended December 31, 2007). The business unit provides life, dental, drug, extended health care, 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, the unique Total Benefits offering and its market-leading health assessment, health management, wellness and attendance management support capabilities (Healthy *Returns*™). Group Benefits products are marketed and distributed across Canada by experienced sales representatives in collaboration with independent advisors and benefit consultants.

(1) ROE for the business segments is a non-GAAP measure.

(2) As measured by the Fraser Group Universe Report published July 2008.

Group Benefits achieved record net income of $284 million in 2008, up $29 million over 2007 while at the same time moving up to the second market share position. These earnings reflected more favourable morbidity experience and a focus on expense management and customer service.

Sales, measured by new annualized premiums and premium equivalents declined by $19 million to $256 million in 2008, reflecting reduced market opportunities in the large case market. Client retention remained strong, with cancellation rates at 3% of premium and premium equivalents. This led to business in-force increasing by 6% from December 31, 2007, to $6.5 billion as at December 31, 2008.

Group Wealth

SLF Canada's Group Wealth business unit consists of the GRS operation as well as the Company's 67% economic interest in McLean Budden Limited, a premier institutional provider of investment management services in Canada. With a 34% market share(1), GRS is the largest provider of defined contribution plans in Canada, serving over one million plan participants at the end of 2008. 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 continues to launch innovative solutions to meet the emerging needs of the pension market to further enhance its leadership position. 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 decreased to $137 million in 2008 from $173 million in 2007 primarily from changes to asset default assumptions and the unfavourable impact of declining equity markets on fee income.

GRS sales increased 18% in 2008 and exceeded the $3.9 billion mark in 2008 as a result of consistently strong sales across all product categories. The strong sales growth in 2008 included the GRS Defined Benefit (DB) Solutions area, which had a successful year, with payout annuity sales increasing 22% to $272 million.

GRS sales also continued to benefit from the offering of rollover products to members leaving defined contribution plans as rollover sales reached $736 million in 2008 and the asset retention rate reached a record level of 42%.

GRS AUM of $31.7 billion in 2008 decreased by 10% from 2007 mainly due to the declining equity markets.

(1) As measured by Benefits Canada magazine's 2008 Defined Contribution Plan Survey release in December 2008.

SLF U.S.

Business Highlights

- In January 2009, SLF U.S. completed a comprehensive review of its business lines, organizational structure and expenses. The review analyzed the market potential of each of the businesses and the critical success factors for each of their markets. Core businesses were identified and an operating model was developed that aligns capabilities, including the functions that support the SLF U.S. strategy and growth objectives. The review also created a centralized marketing organization and developed plans to reduce overall expenses to better match current business volumes
- SLF U.S. launched the Sun Life Unretirement SM Index to track the changing attitudes and expectations American workers have regarding retirement and to help Sun Life Financial better understand customer needs
- During the fourth quarter of 2008, Jon A. Boscia joined the Company as President, Sun Life Financial, with overall responsibility for the Company's U.S. business as well as worldwide marketing. Also joining the company were Westley V. Thompson and Terrence J. Mullen who serve as President, SLF U.S. and President, Sun Life Financial Distributors, respectively

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 and investment management services. The Individual Insurance business unit offers protection products to affluent individuals and small business owners, such as single and joint universal life, variable universal life and corporate-owned life insurance (COLI). The Employee Benefits Group (EBG) offers group life insurance, short-term and long-term disability insurance, medical stop-loss insurance, dental insurance 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 continued 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 EBG, are well positioned to attract a larger share of employee dollars allocated to these benefits.

Business Strength

Through strong distribution channels, SLF U.S. is well positioned to compete and achieve profitable growth through a broad portfolio of product focused on wealth protection, accumulation and retirement solutions. SLF U.S. backs its promise to customers with its financial strength and reputation along with strong risk management practices.

Strengths

- Sun Life Financial's financial strength and reputation
- Broad distribution network
- Disciplined risk management
- Award-winning customer service and underwriting

Opportunities

- Implementation of the strategic review recommendations
- Increased focus on market driven customer solutions
- Centralized distribution and relationship management
- Investment in marketing capabilities and brand awareness
- Mergers and acquisitions to complement organic growth

Strategy

SLF U.S. will drive profitable growth through strong distribution relationships, market driven product solutions, enhanced risk and capital management capabilities and focused execution.

To help its customers achieve lifetime financial security, SLF U.S. will offer value-added protection and retirement accumulation and payout products. These products will leverage SLF U.S.'s investment and risk management expertise and consumer driven product development to meet its clients' changing needs.

SLF U.S. will distribute these products through its wholesale distribution force with a newly centralized distribution and relationship model that will support increased sales penetration by channel. SLF U.S. will build strong partnerships with its distributors, providing excellent tools and services to increase productivity and market share.

SLF U.S. will support this strategy with an increased emphasis on marketing, distribution and risk management capabilities, and through ongoing improvements in efficiency. SLF U.S. has aligned its operating model to achieve organic growth and to enhance scale through focused acquisitions. SLF U.S. will continue to monitor and respond to the economic environment and manage expenses while pursuing its priorities.

Financial and Business Results

(C$ millions)	**2008**	2007	2006
Premiums	**5,737**	5,528	7,261
Net investment income	**(2,472)**	1,560	2,512
Fee income	**552**	742	692
Total revenue	**3,817**	7,830	10,465
Client disbursements and change in actuarial liabilities	**3,697**	5,057	8,054
Commissions and other expenses	**1,784**	2,047	1,941
Income taxes	**(648)**	142	21
Non-controlling interests in net income of subsidiaries and par policyholders' income	**—**	3	1
Common shareholders' net income (loss)	**(1,016)**	581	448
Selected financial information (US$ millions)			
Total revenue	**3,638**	7,276	9,248
Common shareholders' net income (loss)	**(883)**	553	395

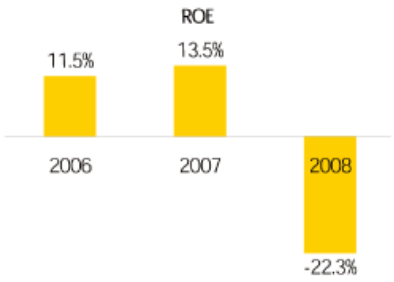
For the year ended December 31, 2008, SLF U.S. reported a net loss of $1,016 million, down $1,597 million from 2007 earnings of $581 million.

On a U.S. dollar basis, SLF U.S. had a loss of US$883 million in 2008 compared to earnings of US$553 million in 2007. The earnings decrease of US$1,436 million was primarily due to an increase in annuity reserves required by the impact of declining equity markets of US$510 million, credit-related losses including impairments of US$500 million, the negative impact of wider credit spreads and credit-related allowances on actuarial reserves of US$200 million, and changes to asset default assumptions in anticipation of higher future credit-related losses of US$80 million. The increase in variable annuity reserves was driven by a decline in variable annuity accounts which, although partially offset by the benefit of hedges, increased the value of guaranteed benefits and lowered the expected stream of future fee income.

Revenue of US$3.6 billion for 2008 was down US$3.6 billion from US$7.3 billion in 2007 primarily due to a US$3.6 billion impact from marking the bond portfolio to market and a decrease in investment income as a result of credit-related losses, including impairments. These decreases were partially offset by an increase in premiums associated with the integration of the former Genworth EBG business.

SLF U.S.'s 2008 sales were US$4.8 billion, down 15% from 2007. Lower variable annuity sales and universal life sales were partially offset by increased EBG sales.

Total AUM were US$61.3 billion as at December 31, 2008, down 11% from 2007 mainly on lower equity markets.



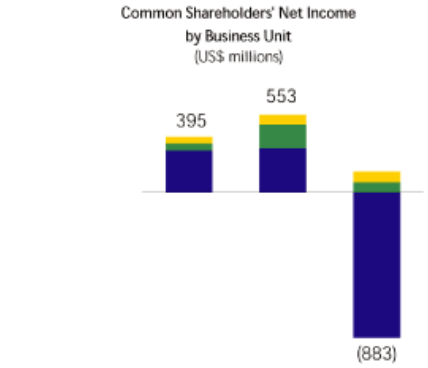


Results by Business Unit

Annuities

The SLF U.S. Annuities business unit provides fixed, variable and fixed index annuity products and investment management services. It is an integral part of the SLF U.S. growth platform. Broad distribution, risk management and industry-leading customer service capabilities support its suite of products.

Annuities loss of US$1,031 million for the year ended December 31, 2008, reflected an earnings decrease of US$1,347 million compared to the same period in 2007. The reduction was largely due to an increase in annuity reserves required by the impact of declining equity markets of US$510 million, credit-related losses including impairments of US$360 million, the negative impact of wider credit spreads and credit-related allowances on actuarial reserves of US$200 million, and changes to asset default assumptions in anticipation of higher future credit-related losses of US$70 million. The impact of capital market movements on the variable annuity block was partially offset by positive hedge experience.



	2006	2007	2008
Employee Benefits Group	47	70	75
Individual Life	50	167	73
Annuities	298	316	(1,031)

Annuity sales were US$3.9 billion during 2008 compared to US$4.7 billion in 2007. Difficult market conditions continued to impact sales activity in this product line with lower variable annuity sales partially offset by increased fixed annuity sales. Income on Demand℠ sales maintained momentum and accounted for over 50% of 2008 variable annuity sales.

Individual Insurance

SLF U.S.'s Individual Insurance business unit offers protection products to affluent individuals and small business owners, including single and joint universal life, variable universal life and COLI. The business unit accesses its target customers through brokerage general agents and third-party intermediaries.

Individual Insurance earnings in 2008 were US$73 million compared to earnings of US$167 million in 2007. The decrease in earnings resulted from credit-related losses including impairments of US$120 million in 2008 and the favourable impact in 2007 from the implementation of a new financing arrangement for AXXX reserves. The decrease in earnings was partially offset by the gain on sale of interest rate derivatives resulting from a decrease in interest rates and swap yields.

Core universal life new premiums and deposits of US$237 million, which excluded COLI, bank-owned life insurance (BOLI), private placement variable universal life and offshore products, fell by 32% from 2007, reflecting the re-pricing of universal life products during 2007 and 2008.

Large case BOLI new premium and deposits were US$605 million in 2008 compared to US$2.2 billion in 2007. Multiple large case sales occurred in 2007.

Employee Benefits Group

SLF U.S.'s Employee Benefits Group business unit leverages its strong underwriting expertise and extensive distribution capabilities to provide group life, long-term and short-term disability, medical stop-loss, 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, including voluntary worksite products. Growth strategies include expanding into the larger case market. The business unit's group insurance products are marketed and distributed by more than 160 sales representatives in 34 regional sales offices across the United States. These representatives maintain close relationships with independent brokers and consultants who deal directly with employers.

EBG earnings in 2008 were US$75 million, an increase of 7% over 2007, primarily due to the full-year impact of the Genworth EBG acquisition and favourable experience. These increases were partially offset by the negative impact of declining interest rates on actuarial reserves and credit-related losses, including impairments.

Revenue for 2008 increased by US$195 million, or 12%, from US$1.7 billion in 2007 primarily as a result of the full-year impact of the Genworth EBG acquisition.

Business in-force as at December 31, 2008 was US$2.1 billion as increases in the business were offset by the decision to exit the fully insured medical business in 2008.

MFS

Business Highlights

- Relative investment performance remained strong with 86% of MFS's fund assets ranked in the top half of their respective three-year Lipper categories as at December 31,2008 compared with 75% as at December 31, 2007
- MFS ranked fourth overall out of 59 firms for one-year asset-weighted returns in the 2008 Lipper/Barron's Best Fund Family Survey. MFS also had overall rankings of fourth for five years and fifth for ten years in the survey. MFS was the only fund family mentioned as having a top five or better finish for one, five and ten years in the 2008 rankings
- The number of MFS domestic retail funds with Class A share assets that rated 4 or 5 stars according to Morningstar more than doubled at December 31, 2008 compared with December 31, 2007

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. Financial intermediaries that provide sales support, product administration and client services distribute these products. 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.

Continuing a multi-year trend, non-mutual fund investment vehicles continued to gain traction and reduce the overall mutual fund market share in 2008. With the proliferation of more focused index and 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.

Until the current financial market conditions improve, the global economic situation that has caused declining prices in nearly every asset class will continue to influence the amount of assets under management and stress fee income earned by investment managers.

Business Strength

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

Strengths

- Strong long-term performance in a number of key investment styles
- 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

Opportunities

- More products with stronger investment performance records should provide additional opportunities in the institutional marketplace globally
- Strong U.S. Equity performance provides an opportunity for improved net sales in U.S. mutual funds
- Investment performance missteps by a number of competitors may result in an increase in new opportunities

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 securities that is becoming more geographically dispersed.

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

(C$ millions)	**2008**	2007	2006
Total revenue	**1,381**	1,687	1,662
Commissions and other expenses	**1,045**	1,206	1,271
Income taxes	**133**	185	150
Non-controlling interests in net income of subsidiaries	**9**	15	7
Common shareholders' net income	**194**	281	234

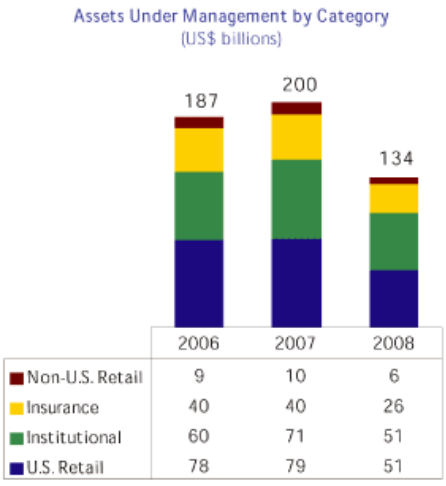
Selected financial information (US$ millions, unless otherwise noted)			
Total revenue	**1,308**	1,573	1,464
Common shareholders' net income	**186**	262	206
Sales (US$ billions)			
Gross	**36.0**	42.7	37.0
Net	**(5.8)**	(4.0)	0.2
Pre-tax operating profit margin ratio	**30%**	36%	29%
Average net assets (US$ billions)	**172**	198	172

MFS common shareholders' net income of $194 million for 2008 declined $87 million, or 31%, from $281 million in 2007. Volatile financial markets continued to have a significant impact on margins as MFS's average net assets (ANA) fell by US$26 billion to US$172 billion during 2008.

On a U.S. dollar basis, earnings fell by US$76 million, or 29%, to US$186 million in 2008 mostly due to lower fee income earned on lower AUM.

Fee income of US$1.3 billion in 2008 fell by US$238 million from 2007 levels on lower average net assets. The advisory revenue portion of fee income fell by 13% to US$855 million, consistent with the percentage drop in ANA during 2008. Other sales and servicing revenues declined, primarily due to the impact of both a lower distribution effective fee rate and lower ANA.

AUM ended 2008 at US$134 billion, a decrease of 33% for the year mainly due to unfavourable market performance of US$59.4 billion. Net redemptions of US$5.8 billion during 2008 also reduced AUM with net redemptions of retail mutual funds of US$5.9 billion for 2008 and net sales in managed funds of US$0.1 billion.



SLF Asia

Business Highlights

- In India, Birla Sun Life Insurance Company Limited (Birla Sun Life) opened 261 branches during 2008, growing the operation to 600 branches, with individual life insurance sales up 68% in local currency driven by the expanded distribution. Birla Sun Life Asset Management Company Limited maintained the overall fifth rank in the industry, with AUM and gross sales growth of 9% and 78%, respectively, over 2007 on a local currency basis
- Sun Life Financial's Philippines operations received six awards from the Investment Company Association of the Philippines in June 2008 for the performance of three of its seven mutual funds and the Philippines asset management operations retained the number two position in terms of AUM and gross sales
- In China, Sun Life Everbright Insurance Company Limited opened the Guangzhou branch in September. The Company's telemarketing sales channel, established at the end of 2007, expanded with the establishment of a call centre in Tianjin. The Company's new critical illness product received three awards, including the "Best Critical Illness" and "Best Innovation" awards in a national insurance product online voting survey

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 throughout the SLF Asia operations, as well as drives the development of markets and new lines of business.

Individual life and health insurance products and services are offered in all five markets, with group life insurance being offered in India. Pensions and retirement products and services are offered in the Philippines, Hong Kong, China and India, and mutual funds are 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 largest channel.

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 markets of Philippines and 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.

As a result of the global financial crisis and the downturn in the equity markets, consumer demand shifted from investment-linked products to protection and guarantee products. Operational efficiency and productivity received increasing attention as companies were negatively impacted by the economic slowdown.

The regulatory environment in the region is evolving. There is increased focus on consumer protection, primarily related to investment-linked products, and to meeting capital adequacy.

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, and expanded distribution reach through multi- channels focus on creating value for Sun Life Financial stakeholders by launching high-margin products 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
- Superior investment performance in the Philippines and India
- Leader in telemarketing in Indonesia
- Ability to leverage the Company's international resources and expertise to develop innovative, value-added products and leading-edge technology to better serve customers and distributors
- Strong capital position and robust risk management practices to support the expansion of its business operations

Opportunities

- Intensive competition for agent recruitment combined with increased public acceptance of alternate distribution channels provide opportunities to leverage SLF Asia's telemarketing expertise
- The financial challenges facing a number of competitors in Asia have created opportunities as distributors look for new strong partners
- Leveraging a more balanced product portfolio as consumer demands shift to protection from investment products
- Expansion of e-services as consumers demand more efficient and convenient services

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, developing alternate distribution channels such as telemarketing 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)	**2008**	2007	2006
Premiums	**726**	629	640
Net investment income (loss)	**(318)**	255	318
Fee income	**90**	93	64
Total revenue	**498**	977	1,022
Client disbursements and change in actuarial liabilities	**64**	501	621
Commissions and other expenses	**379**	330	283
Income taxes	**22**	23	17
Common shareholders' net income	**33**	123	101

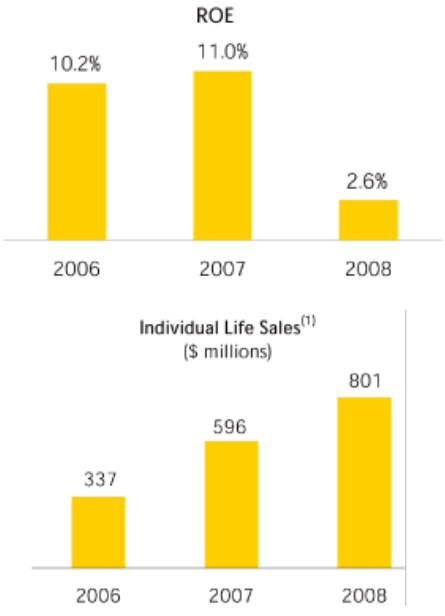
SLF Asia contributed $33 million to common shareholders' net income for the year ended December 31, 2008, a decrease of $90 million, or 73%, from 2007. The decrease was due to lower earnings in Hong Kong from investment-related losses, and to increased investment in growth in India.

ROE(1) for SLF Asia decreased to 2.6% from 11.0% in 2007, primarily due to decreased common shareholders' net income.

SLF Asia's total revenue declined by 49% to $498 million in 2008 compared to $977 million in 2007, including the unfavourable impact of $646 million on fair value changes in held-for-trading assets and non-hedging derivatives compared to $61 million in 2007. After adjusting for the impact of fair value changes in held-for-trading assets and non-hedging derivatives, 2008 revenue of $1,144 million was $106 million higher than 2007, driven by the increase in premiums in Hong Kong and India. In 2008, 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.

Despite challenging market events which affected the global economy, SLF Asia's individual life insurance sales for 2008 grew by 34% over 2007 in Canadian dollars, driven by strong growth in India. Sales in India grew by 68% over 2007 on a local currency basis as a result of continued accelerated expansion in the country. This was partially offset by the impact of the global financial crisis and the downturn of the equity markets, which resulted in a shift of consumer demand to protection and guarantee products from investment-linked products. To capture the opportunities created by the economic challenges, the

(1) ROE for the business segments is a non-GAAP measure.



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

Company continues to build alternate distribution channels, leverage a more balanced product portfolio, and increase efficiency and productivity while maintaining customer focus.

Results by Business Unit

Hong Kong

The Company's Hong Kong operations have been building a strong presence in the region by offering a complete range of products to address protection and savings needs. Individual life and health insurance, mandatory provident funds (the government-legislated pension plan), and pension administration are offered to individuals and businesses through a multi-channel distribution system that includes a career agency force, bancassurance, and independent financial advisors.

Sales of individual traditional insurance products grew by 81% in local currency over 2007. Affected by changes in market conditions, total individual sales were down by 14% in 2008 from 2007. Mandatory provident fund net sales increased by 64% over 2007 in local currency.

Philippines

Sun Life Financial's Philippines operations, established in 1895, distribute a diverse range of protection and savings products largely through their proprietary career agent sales force. The Company offers individual life and health insurance products, savings products as well as mutual funds to individuals and institutions. With 32 branches, 36 sales offices and 5 financial stores nationwide, Sun Life Financial's Philippines operations is considered one of the strongest and most stable insurance companies in the Philippines.

The Company's asset management operations ranked second in the industry in 2008 in terms of AUM and gross sales. Individual insurance sales were down by 30% compared to 2007, on a local currency basis, as a result of reduced demand for single premium investment-linked products.

India

Birla Sun Life, the Company's insurance joint venture with the Aditya Birla Group in India, provides a full range of individual and group protection, savings and retirement products through a multi-channel distribution network, including a career agent sales force, bancassurance arrangements, brokers and worksite marketing.

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 insurance sales in 2008 were up 68% over 2007 with the expansion of branches and consequent career agency growth. Birla Sun Life opened 261 new branches, and the career agents increased to 161,000 advisors from 85,000 at the end of 2007.

Despite the market downturn, Birla Sun Life Asset Management Company Limited grew AUM by $658 million, or 7%, to reach $9.5 billion as at December 31, 2008.

China

Sun Life Everbright Insurance Company Limited, 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.

Sales of traditional insurance products grew by 29% over 2007 on a local currency basis, while total individual sales were down by 5%. Expansion continued with the opening of the Guangzhou branch in the third quarter of 2008 and the development of the telemarketing channel. The Company now operates with 6 branches and 39 sales offices in 17 cities.

Indonesia

SLF Asia's Indonesian operations provide both individual life and health insurance to individuals through a career agent sales force, bancassurance partners and telemarketing. Telemarketing sales grew by 56% in local currency in 2008 over 2007 as a result of several new telemarketing relationships established with some of the largest banks during 2008. Total individual insurance sales were down 6% compared to 2007.

Corporate

The Corporate segment includes the results of SLF U.K and Corporate Support operations that include the Company's reinsurance businesses as well as investment income, expenses, capital and other items not allocated to Sun Life Financial's other business segments. Beginning in the fourth quarter of 2008, Sun Life Financial began consolidating the results of SLF Reinsurance into Corporate Support as the Company is de-emphasizing certain aspects of the reinsurance business. Financial information for prior years has been reclassified to conform to the new presentation.

Financial and Business Results

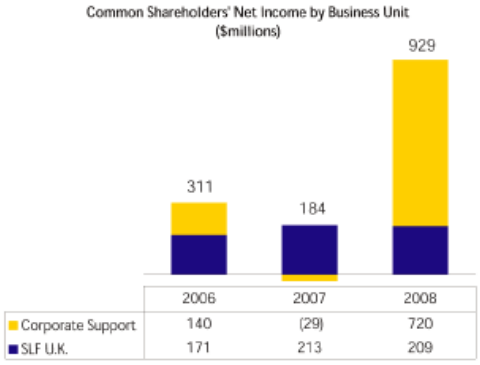
Summary Statement of Operations (1)

(C$ millions)	**2008**	2007	2006
Premiums	**851**	963	987
Net investment income	**1,056**	421	802
Fee income	**33**	25	16
Total revenue	**1,940**	1,409	1,805
Client disbursements and change in actuarial liabilities	**1,138**	974	1,303
Commissions and other expenses	**87**	209	203
Income taxes	**(285)**	(28)	(61)
Non-controlling interests in net income of subsidiaries	**1**	1	1
Dividends paid to preferred shareholders	**70**	69	48
Common shareholders' net income	**929**	184	311
Plus: Special items (2)	**(825)**	61	—
Operating earnings	**104**	245	311

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

(2) The impact of special items on earnings is described on page 19 under the heading Non-GAAP Financial Measures.

For the year ended December 31, 2008, Corporate reported common shareholders' net income of $929 million compared to $184 million in 2007 due to Corporate Support's increased earnings of $749 million as a result of the $825 million after-tax gain from the Company's sale of its 37% interest in CI Financial and realized tax benefits associated with unrecognized tax losses from asset impairments taken in prior years. These increases were partially offset by losses in the Company's life retrocession reinsurance business from the unfavourable impact of claims in 2008 as well as the strengthening of actuarial reserves to reflect more comprehensive information on potential future premiums and claims. Results for 2007 included $61 million of after-tax charges to earnings related to the intangible asset write-down for the retirement of the Clarica brand and for the premium paid to redeem Partnership Capital Securities in Corporate Support.



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, 2008, SLF U.K. earned $209 million compared with $213 million in 2007. The 2008 results reflected an increase in credit default assumptions in 2008 mostly offset by investment gains on certain derivative hedges.

Risk Management

Risk Management Framework

Sun Life Financial has established a comprehensive framework for the management of enterprise risk. This framework identifies five major categories (market risk, credit risk, insurance risk, operational risk and strategic risk) for the categorization of key risks facing the Company and sets out key processes for their management in the areas of risk appetite, risk identification, measurement and assessment, risk response development, monitoring and control, and risk reporting and communication.

The framework recognizes the important role that risk culture plays in the effective management of enterprise risk. Sun Life Financial's risk culture is supported by a strong "tone from the top", which is reinforced and emanates from the Board of Directors and cascades through the Risk Review Committee of the Board of Directors, the executive team, line management and staff. A key premise of Sun Life Financial's enterprise risk management culture is that all employees and distributors have an important role to play in managing enterprise risks, and collectively form part of the Company's extended risk management team.

Sun Life Financial's enterprise risk management framework is rooted in a corporate risk philosophy that reflects the understanding that the Company is in the business of taking risk for appropriate return. This is core to Sun Life Financial's corporate vision, mission and customer value position. Effective risk taking and risk management is therefore critical to the overall profitability, competitive market positioning and long-term financial viability of the Company. This presents both challenges and opportunities and the need to successfully navigate between these complementary risk dimensions is embedded within the business management practices of every business segment and corporate leader.

Risk Philosophy and Principles

Sun Life Financial's risk philosophy reflects a number of core principles that embody the Company's overall risk appetite and values. These principles are outlined below:

Strategic Alignment

Sun Life Financial's risk appetite is intimately linked to the Company's overall vision, mission and business goals and this alignment is facilitated by recognizing which risks are deemed to be core, non-core or collateral risks.

Core risks are those risks that Sun Life Financial is willing to accept in order to achieve its return expectations and successfully achieve its stated vision, mission and business objectives. In particular, Sun Life Financial's corporate mission, to "help customers achieve lifetime financial security", provides an important context for identifying and prioritizing core risks. These core risks include market, interest rate, mortality, morbidity, asset/liability management and credit. The Company has established a range of explicit risk appetite limits and/or operational control points for these core risks.

Non-core risks are those associated with activities outside of Sun Life Financial's risk appetite and approved business strategies and, hence, are generally avoided, regardless of expected returns.

Collateral risks are those that are incurred as a by-product or collateral to the pursuit of the risk/return optimization of core risks. Operational risks often fall into this category. Management endeavours to mitigate collateral risks to the extent that the cost of mitigation is less than the level of risk reduction.

Stakeholder Interests

The Company's risk framework considers the interests of a large number of key stakeholder groups, including shareholders, policyholders, employees, regulators, rating agencies and other capital market participants. The framework endeavours to appropriately balance the various needs, expectations, risk/reward perspectives and investment horizons of these stakeholders. In particular, risk appetite is established to support the pursuit of shareholder value while ensuring that the Company's ability to pay claims and fulfil long-term policyholder commitments is not unduly compromised. Sun Life Financial's risk management approach is designed to support long-term credit and financial strength ratings, ongoing favourable access to capital markets and the continuing enhancement of Sun Life Financial's overall franchise value and brand.

Capability Alignment

Sun Life Financial's risk appetite is aligned with the Company's inherent risk management capabilities. The ability to perform robust risk assessments, the quality of the Company's risk governance and control environment and the depth and quality of innovative risk response and pricing strategies are particularly important capabilities in this regard. The Company proactively seeks out profitable risk-taking opportunities in those areas where it has established risk management skills and capabilities. Conversely, Sun Life Financial endeavours to avoid risks it does not understand or is unable to manage.

Risk Budgeting

Sun Life Financial continuously seeks to allocate its risk-taking capacity in a manner that optimizes the overall level of risk adjusted returns and stakeholder value creation. This is achieved by embedding strong risk management discipline into key financial management processes, including product development and pricing, strategic planning, capital budgeting, mergers and acquisition activities, business case assessments, asset/liability management, project management, reinsurance and overall business planning.

Portfolio Perspective

Risk/return trade-offs are assessed and managed not only based on the intrinsic merits of a particular opportunity, but also relative to its marginal contribution to the Company's overall risk portfolio. This perspective is extended to the development of risk mitigation and pricing strategies, recognizing that often the most cost-effective way of managing risk involves utilizing available diversification relationships already inherent in Sun Life Financial's business model and risk portfolio.

Risk to Reputation

A financial institution's reputation is one of its most important assets. A key objective of Sun Life Financial's enterprise risk management framework is to help ensure that the Company continues to operate under standards that support its ability to maintain and build upon a sound corporate reputation and brand. It also recognizes the increasingly important and high profile role that a strong enterprise-wide risk management discipline can play in this regard.

Accountability

Sun Life Financial's enterprise-wide risk management framework sets out lines of responsibility and authority for risk taking, governance and control.

The Board of Directors is ultimately responsible for ensuring that risk management policies and practices are in place. Through approval of appropriate policies, reporting and ongoing oversight, the Board of Directors must ensure that the Company's principal risks are appropriately identified and managed. This function is delegated by the Board of Directors to its Risk Review Committee. The Risk Review Committee of the Board of Directors (RRC) is a standing committee of the Board of Directors, comprised of independent directors, whose primary functions are to assist the Board of Directors with its oversight role with respect to ensuring the identification of major areas of risk facing the Company, the development of strategies to manage those risks, to review compliance with risk management policies implemented by the Company and review reports related to compliance with legal and regulatory matters.

Primary accountability for risk management is delegated to management in the person of the Chief Executive Officer (CEO). The risk management structure enables the CEO to further delegate responsibilities throughout Sun Life Financial. The CEO delegates line accountability for the various classes of risk management to the Executive Team, who are accountable for ensuring the day-to-day management of enterprise risk in their scope of business accountability in accordance with Board-approved risk policies and this framework. In particular, business segment leaders have overall, front line accountability for managing the risks in their operations and are supported by a network of business segment compliance and risk officers.

The Chief Risk Officer (CRO) is responsible for developing and communicating the enterprise risk management framework, and for overseeing development and implementation of enterprise-wide risk management strategies aimed at optimizing the global risk/return profile of Sun Life Financial. In addition, the CRO provides independent functional oversight of the Company's enterprise-wide risk management programs by ensuring that effective processes are in place for the risk identification, measurement and assessment, risk response development, monitoring and control, and reporting and communication of risks inherent in the Company's activities. Sun Life Financial's risk management activities are supported by the Company's Internal Audit function through its ongoing assessments of the effectiveness of, and adherence to, internal controls.

Risk Management Policies

In order to support the effective communication, implementation and governance of the enterprise risk framework, Sun Life Financial has codified the processes and operational requirements in the form of a comprehensive series of risk management policies and operating guidelines. The polices facilitate application of a consistent approach to risk identification, measurement and assessment, risk response development, monitoring, control, reporting and communication of exposures across Sun Life Financial's global business platform. These risk management policies are reviewed and approved annually by the RRC. This Committee also receives an annual report summarizing management's attestation of compliance to these policies.

Risk Categories

There are five major risk categories- Credit Risk, Market Risk, Insurance Risk, Operational Risk and Strategic Risk.

Credit Risk

Risk Description

Credit risk is the uncertainty of receiving amounts Sun Life Financial is owed from its financial counterparties. Sun Life Financial is subject to credit risk arising from issuers of securities held in the Company's investment portfolio, debtors (e.g. mortgagors), reinsurers, derivative counterparties, other financial institutions (e.g. amounts held on deposit) and other entities. Losses may occur when a counterparty fails to make timely payments pursuant to the terms of the underlying contractual arrangement or when the counterparty's credit rating otherwise deteriorates.

Credit Risk Management Governance and Control

Key controls utilized in the management of credit risk are outlined below:

- Detailed credit and underwriting policies
- Specific diversification requirements such as asset class, geography and industry
- Comprehensive due diligence and ongoing credit analysis
- Establishing and reviewing credit quality ratings for portfolio investments
- Aggregate single and group counterparty exposure limits
- The Company has established target capital levels that exceed regulatory minimums
- Reserve provisions are established in accordance with standards set forth by the Canadian Institute of Actuaries
- Ongoing monitoring and reporting against pre-established limits
- For certain classes of in-force business (participating, experience rated and non-guaranteed), a portion of evolving adverse experience may be reflected through premium increases and/or benefit reductions
- Effects of large and sustained adverse credit developments are measured through Dynamic Capital Adequacy Testing and other stress-testing techniques

For additional credit risk disclosure please see Note 6 to SLF Inc.'s 2008 Consolidated Financial Statements- Financial Instruments Risk Management under Section a) Credit Risk.

Market Risk

Risk Description

Sun Life Financial is exposed to significant financial and capital market risks, including changes to interest rates, credit spreads, equity market prices, foreign currency exchange rates, real estate values, private equity values and market volatility. These factors can also give rise to liquidity risk if the Company is forced to sell assets at depressed market prices in order to fund its commitments. Market changes and volatility could be the result of general capital market conditions or specific social, political or economic events.

Market Risk Management Governance and Control

Sun Life Financial employs a wide range of market risk management practices and controls, as outlined below:

- Enterprise-wide equity risk management policies
- Product development and pricing policies requiring detailed risk assessment and provision for material market risks

- Hedging and asset/liability management programs are maintained in respect of key selected market risks (see Hedging and Asset/Liability Management below)
- The Company has established target capital levels that exceed regulatory minimums
- Reserve provisions are established in accordance with standards set forth by the Canadian Institute of Actuaries
- For certain classes of in-force business (participating, experience rated and non-guaranteed), a portion of evolving adverse experience may be reflected through premium increases and/or benefit reductions
- Ongoing monitoring and reporting against pre-established limits
- Effects of large and sustained adverse market movement are measured through Dynamic Capital Adequacy Testing and other stress-testing techniques

Hedging and Asset/Liability Management

For interest-sensitive businesses, such as individual and group annuities, duration management and key rate duration techniques are used to manage interest rate risk exposures to within prescribed tolerance limits and ranges.

Sun Life Financial is exposed to equity risk from a number of sources.

In particular, the Company derives a portion of its revenue from fee income generated by its asset management businesses and on certain insurance and annuity contracts where fee income is levied on account balances that directionally move in line with general equity market levels. Fee income is assessed as a percentage of assets under management and, therefore, varies directly with the value of such assets. Sun Life Financial also has direct exposure to equity markets as a result of the investments supporting other general account liabilities, surplus and employee benefit plans. These exposures generally fall within the Company's risk taking philosophy and appetite and, hence, are generally not hedged.

The Company is also exposed to equity risk through various classes of variable annuity business which provide guarantees linked to underlying fund performance. These guarantees may be triggered upon death, maturity, withdrawal or annuitization, depending on the market performance of the underlying funds. The cost of providing for these guarantees increases under volatile and declining equity market conditions. Due to the non-linear fashion with which these cost increases can occur, the Company has implemented hedging programs, involving the use of derivative instruments, in order to reduce its exposure to this particular class of equity risk. These programs are primarily focused on hedging a portion of the economic costs associated with providing the above-mentioned variable annuity guarantees. Since the economic present value of benefits being hedged will generally differ from the financial statement value, and other policy elements (primarily fees) remain unhedged, this approach will result in residual volatility to equity market shocks in reported income.

Sun Life Financial's hedging strategy is applied both at the line of business/product level and enterprise level using a combination of static (i.e. purchasing of longer dated equity put options) and dynamic (frequent rebalancing of short- dated equity and interest rate futures contracts) hedging techniques. (See also Derivative Financial Instruments and Risk Mitigation in the Investment section of this MD&A on page 31).

The general availability and cost of these hedging instruments may be adversely impacted by volatile and declining equity and interest rate market conditions. In addition, these hedging programs may themselves expose the Company to other risks such as basis risk (the risk that hedges do not exactly replicate the underlying portfolio experience), derivative counterparty credit risk (see Credit Risk section), model risk and other operational risks. While the Company's hedging programs include various elements aimed at mitigating these effects, (for example, hedge counterparty credit risk is managed by maintaining broad diversification, dealing with primarily highly rated counterparties and transacting through ISDA agreements that generally include applicable credit support annexes), residual risk and potential reported earnings volatility remain.

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, the Company generally maintains the currency profile of its assets so as to match the currency of aggregate liabilities and minimum required surplus. 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. These results are not hedged and, in general, a weakening in the local currency of the Company's foreign operations relative to the Canadian dollar will have a negative impact on Sun Life Financial's net income.

For additional market risk disclosure please see Note 6 to SLF Inc.'s 2008 Consolidated Financial Statements- Financial Instruments Risk Management under Section c) Market Risk.

Sensitivity measures

Risk Measurement — Sensitivity of Earnings

The value of the Company's policyholder obligations for certain products is dependent on assumptions about the future level of interest rates and equity market prices. The following table sets out the immediate impact or sensitivity of the Company's earnings to certain spontaneous changes in interest rates and equity market prices, based on the existing business mix.

The sensitivities presented measure the estimated impact on net income and capital based on a starting point of December 31, 2008 and immediate changes in interest rates and equity market prices noted below as well as business mix on that date. Changes to the starting point, interest rates, equity market prices and business mix will result in different estimated sensitivities. Further changes to interest rates and equity market prices in excess of the ranges illustrated will result in greater than proportional impacts. The sensitivities are forward looking statements based on the assumptions set out and the risk factors under the heading Forward Looking Statements on page 2.

Increase (Decrease) in Earnings (1)
($ millions)

Interest Rate Sensitivity (2)	
1% Increase	100 to 150
1% Decrease	(150) to (200)
Equity Market Sensitivity (3)	
10% Increase	250 to 300
10% Decrease	(275) to (350)

(1) Reflects business and asset portfolios at December 31, 2008.

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

(3) Represents a 10% change in equity markets.

Each of the sensitivities provided above is calculated assuming that all other variables remain constant. These are directional estimates of the underlying income sensitivity of each factor under these specialized assumptions, and should not be viewed as predictors of the Company's future earnings. Given the nature of these calculations, the Company cannot provide assurance that those actual earnings impacts will be within the indicated ranges.

Insurance Risk

Risk Description

Insurance risk is the uncertainty of product performance due to differences between the actual experience and expected assumptions affecting amounts of claims, benefits payments, expenses and the cost of embedded options and guarantees related to insurance risks. This risk class includes risk factors relating to product development and pricing, mortality, morbidity, longevity, policyholder behaviour and reinsurance.

Insurance Risk Management Governance and Control

Insurance risk is managed through a number of enterprise-wide controls addressing a wide range of insurance risk factors, as follows:

- Enterprise-wide insurance underwriting and claims, product development and pricing, and reinsurance risk management policies
- Product development and pricing policies require detailed risk assessment and provision for material insurance risks
- Various limits, restrictions and fee structures may be introduced into plan designs in order to establish more homogeneous policy risk profile and limit potential for anti-selection
- Enterprise underwriting and risk selection standards with oversight by corporate underwriting and claims risk management function
- Principle of diversification and risk pooling applies with aggregation of broad exposures across product lines, geography, distribution channels, etc.
- The Company has established target capital levels that exceed regulatory minimums
- Reserve provisions are established in accordance with standards set forth by the Canadian Institute of Actuaries

- For certain classes of in-force business (participating, experience rated and non-guaranteed), a portion of evolving adverse experience may be reflected through premium increases and/or benefit reductions
- Effects of large and sustained adverse market movement are measured through Dynamic Capital Adequacy Testing and other stress-testing techniques
- Board-approved maximum retention limits (amounts issued in excess of these limits are reinsured)
- Experience studies (both Company specific and industry level) and Earnings-by-Source analysis are continuously monitored and factored into ongoing valuation, renewal and new business basis setting processes
- Sun Life Financial purchases reinsurance for certain risks underwritten by its various insurance businesses. Sun Life Financial has established a reinsurance ceded policy to set acceptance criteria and protocols to monitor the level of reinsurance ceded to any single reinsurer or group of reinsurers. The Company's reinsurance counterparty risk profile is monitored closely, including through regular reporting to the Risk Review Committee of the Board of Directors

Operational Risk

Risk Description

Operational risk is the uncertainty arising from larger than expected losses or damage to reputation resulting from inadequate or failed internal processes, controls, people, systems or from external events. This risk class encompasses a wide range of risks, including those pertaining to legal, regulatory and market conduct, business continuity, model risk, information system security and privacy, third-party relationships, fraud, environmental risk and human resource management.

Operational Risk Management Governance and Control

There is ongoing monitoring and reporting of significant operational risks to senior management and the Audit and Risk Review Committees of the Board of Directors. Enterprise-wide policies and operating guidelines, and risk management governance and control processes, have been established for all significant operational risks.

- Enterprise-wide policies for all significant operational risks, supported by an annual compliance self-assessment process
- A comprehensive insurance program, including appropriate levels of self-insurance, is maintained to provide protection against a specified range of potential operational losses.
- An 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.
- Business continuity, crisis management and disaster recovery programs have been implemented and undergo periodic testing
- An enterprise-wide Security Program has been established, consisting of policies, procedures, processes, and technology, aligned to appropriate industry standards and compliant with applicable laws and regulations.
- Privacy policies, privacy officers and processes have been established to provide guidance on handling private and confidential information for reporting of privacy issues to appropriate management for response and resolution
- Ongoing monitoring and reporting, including regular briefings to the Audit and Risk Review Committees of the Board of Directors
- Annual enterprise-wide attestation by all employees regarding compliance with the Sun Life Financial Code of Business Conduct.

Strategic Risk

Risk Description

Strategic risk is the risk to future earnings and capital arising from changes in the competitive, economic, legal or political environment, changing customer behaviour, or a failure to achieve the Company's strategic or long-term business plans, either through incorrect choices or improper implementation of those choices.

Strategic Risk Management Governance and Control

Strategic risk is managed through the Company's formal strategic and business planning process. The Company's business plans are subject to approval by the Board of Directors, who also receive regular reviews of implementation progress against key business plan objectives. Merger and acquisition transactions are governed by a Board-approved risk management policy and significant transactions require the Board of Directors' explicit approval. The Company develops

and maintains a register of enterprise key risks, which represent a key input into the business planning process. The RRC receives regular updates of the enterprise key risks.

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, 2008, the Company maintained cash, cash equivalents and short-term securities totalling $8.9 billion, of which 3% were held in relation to certain derivative strategies and bond repurchase agreements. The corresponding percentage was 19% at the end of 2007. 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 increased by $3.4 billion in 2008. Cash flows generated by operating activities increased by $669 million in 2008 from 2007 mainly from lower levels of maturities and surrenders of $940 million mostly due to a maturity of a large medium-term note in 2007 which did not reoccur in 2008. This decrease in cash requirements was partially offset by increased levels of death and disability payments of $224 million and higher health benefits of $322 million on business growth in Canada group health and the acquisition of the Genworth EBG business in SLF U.S. in May 2007. Net cash from investing activities increased by $3.8 billion over 2007 mainly from lower 2008 net purchases of long-term invested assets and short-term securities of $1.7 billion. There was a cash contribution of $1.5 billion from the Company's sale of its interest in CI Financial Income Fund compared to cash used for the Genworth EBG business acquisition in the second quarter of 2007. Financing activities decreased cash by $407 million during 2008 compared to 2007. The net contribution from the issuance and redemption of debt and preferred shares in 2008 was $589 million compared to $1.2 billion in 2007. The repurchase of common shares was $285 million lower in 2008 than 2007. Dividends paid to common shareholders in 2008 were $57 million higher than the amount paid in 2007. There was also an increase of $642 million in 2008 due to the fluctuation of the Canadian dollar against foreign currencies.

($ millions)	**2008**	2007	2006
Net cash provided by operating activities	**1,737**	1,068	4,469
Net cash provided by (used in) financing activities	**(499)**	(92)	356
Net cash provided by (used in) investing activities	**1,780**	(2,010)	(2,647)
Changes due to fluctuations in exchange rates	**642**	(299)	18
Increase (decrease) in cash and cash equivalents	**3,660**	(1,333)	2,196
Cash and cash equivalents, beginning of year	**3,603**	4,936	2,740
Cash and cash equivalents, end of year	**7,263**	3,603	4,936
Short-term securities, end of year	**1,616**	1,897	1,303
Cash, cash equivalents and short-term securities, end of year	**8,879**	5,500	6,239

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

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.

In 2001 and 2002, Sun Life Capital Trust (SLC Trust), an unconsolidated subsidiary of the Company, issued $950 million (Series A) and $200 million (Series B) of Sun Life ExchangEable Securities (SLEECS). Pursuant to the share exchange agreement with Sun Life Assurance and Sun Life Financial, if SLC Trust fails to pay the indicated yield on the SLEECS securities on each regular distribution date, both Sun Life Assurance and SLF Inc. are subject to certain restrictions on paying dividends on their respective securities. In addition, under certain circumstances holders of the SLEECS securities have the right to convert these securities into a new series of Sun Life Assurance preferred shares or Sun Life Financial common shares. SLC Trust is expected to continue to pay the indicated yield at each distribution date.

The Company also maintains various credit facilities used for general corporate purposes. As at December 31, 2008, the Company had two committed syndicated credit facilities totalling US$1.5 billion ($1.8 billion) of which US$860 million ($1.0 billion) was utilized and the Company had uncommitted bi-lateral credit facilities totalling $308 million of which $194 million was utilized. All utilization was in respect of letters of credit. The maturity of these credit facilities as at December 31, 2008 ranges from one year to three and a half years.

The agreements relating to the Company's committed syndicated credit facilities contain typical covenants for investment grade companies regarding solvency, credit ratings and other such matters, all of which had been met as at December 31, 2008.

These covenants include but are not limited to the maintenance of total equity of at least $12 billion, tested as of the last day of each fiscal quarter. Sun Life Financial's total equity was $17.4 billion as at December 31, 2008.

Sun Life Financial's failure to comply with the covenants under the committed credit facilities would, subject to grace periods in the case of certain covenants, result in an event of default. This could require the Company to repay any outstanding borrowings or to cash collateralized letters of credit under such facility. A failure by SLF Inc. (or any of its subsidiaries) to pay an obligation due for an amount exceeding $250 million would also result in an event of default under the committed credit facilities described above.

Based on the Company's historical cash flows, coupled with a move toward more liquid investments, 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

SLF Inc. has a policy designed to maintain a strong capital position and provide the flexibility necessary to take advantage of growth opportunities, to support the risk associated with its businesses and optimize shareholder return. This policy is also intended to provide an appropriate level of risk management over capital adequacy risk, which is defined as the risk that capital is not or will not be sufficient to withstand adverse economic conditions, to maintain financial strength or to allow the Company and its subsidiaries to take advantage of opportunities for expansion. SLF Inc.'s capital base is structured to exceed regulatory and internal capital targets and maintain strong credit ratings, while maintaining a capital-efficient structure and desired capital ratios. 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.

The Board of Directors is responsible for the annual review and approval of the Company's capital plan. The Risk Review Committee of the Board of Directors reviews and approves SLF Inc.'s capital policy annually. Management oversight of the

Company's capital programs and position is provided by the Capital Management Committee that is chaired by the Executive Vice-President and Chief Financial Officer. Corporate Treasury and Risk Management are responsible for the design and implementation of the capital management policy.

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 SLC Trust.

Notes 10, 13 and 15 to SLF Inc.'s 2008 Consolidated Financial Statements include additional details on the Company's capital. The following table summarizes the sources of the Company's capital position over the past three years.

Source of Capital

($ millions)	2008	2007	2006
Subordinated debt	2,576	1,796	1,456
Trust Securities(1)	1,150	1,150	1,849
Equity			
Participating policyholders' equity	106	95	92
Preferred shareholders' equity	1,495	1,495	1,250
Common shareholders' equity	15,808	15,627	15,842
Total Equity	17,409	17,217	17184
Total Capital	21,135	20.163	20,489
Ratio of debt to total capital	17.6%	14.6%	16,.1%
Ratio of debt plus preferred shares to total capital	24.7%	22.0%	22.2%

(1) Includes SLEECS and Partnership Capital Securities(PCS). The PCS were redeemed in May 2007

In 2008, common shareholders' equity capital increased to $15.8 billion compared with 2007, an increase of $181 million over 2007 and reflected the after-tax capital gain of $825 million on the disposition of the Company's interest in CI Financial and the $1.8 billion change in the value of the foreign currency translation account. These increases were partially offset by the $217 million of common shares repurchased and cancelled, common share dividends paid in the amount of $809 million, and the $1.4 billion change in other comprehensive income due to unrealized losses on available-for-sale assets.

In January 2008, the Company issued $400 million of Series 2008-1 Subordinated Unsecured Fixed/Floating Debentures, yielding 5.59% annually, due in 2023 and in June 2008, $350 million of Series 2008-2 Subordinated Unsecured Fixed/Floating Debentures, yielding 5.12% annually, due in 2018.

As at December 31, 2008, the Company's debt capital consisted of $2.6 billion in subordinated debentures with maturity dates between 2015 and 2042 and $1.2 billion of SLEECS with maturity dates between 2031 and 2052. 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, the Company also has $1.8 billion of public issuances and $1.4 billion of private financings in connection with financing arrangements to address U.S. statutory reserve requirements for certain universal life contracts.

The current market environment continues to provide challenges for raising capital. However, management believes that the Company's strong underlying business franchise and financial ratings will provide adequate access to comparatively cost-efficient external financing.

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, increased by 2.7% over the past year to 24.7% as at December 31, 2008.

In 2008, SLF Inc. purchased and cancelled 4.8 million common shares at a cost of $217 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 6, 2009, 10 million options to acquire SLF Inc. shares and 559.7 million common shares of SLF Inc. were outstanding.

Number of Common Shares Outstanding

(in millions)	2008	2007	2006
Balance, beginning of year	564.1	571.8	582.0
Stock options exercised	0.4	2.1	2.2
Shares repurchased	(4.8)	(9.8)	(12.4)
Balance, end of year	559.7	564.1	571.8

Number of Stock Options Outstanding

(in millions)	2008	2007	2006
Balance, beginning of year	8.2	9.1	10.0
Options issued	2.3	1.3	1.5
Options exercised or cancelled	(0.5)	(2.2)	(2.4)
Balance, end of year	10.0	8.2	9.1

Shareholders' Dividends

SLF Inc. increased its quarterly common shareholders' dividend to $0.36 per share in the first quarter of 2008. Total common shareholder dividends declared in 2008 were $1.44 per share, up 9% from $1.32 in 2007.

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. The Board of Directors reviews the level of dividends on a periodic basis.

Dividends Declared for 2008

	Amount per share
Common shares	$ 1.44

Class A preferred shares	Coupon rate	Date issued	Amount per share
Series 1	4.75%	February 25, 2005	$ 1.187500
Series 2	4.80%	July 15, 2005	$ 1.200000
Series 3	4.45%	January 13, 2006	$ 1.112500
Series 4	4.45%	October 10, 2006	$ 1.112500
Series 5	4.50%	February 2, 2007	$ 1.125000

Capital Adequacy

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 minimum internal targets as at December 31, 2008.

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 regulatory MCCSR of 150% or greater. Sun Life Assurance's MCCSR ratio of 232% as at December 31, 2008 was well above minimum regulatory levels.

The MCCSR calculation involves using qualifying models or applying quantitative factors to specific assets and liabilities based on a number of risk components to arrive at required capital and comparing this requirement to available capital to assess capital adequacy. Certain of these risk components, along with available capital, are sensitive to changes in equity markets. The estimated impact on the MCCSR of Sun Life Assurance from an immediate 10% increase across all equity

markets as at December 31, 2008 would be a 2% to 4% increase in MCCSR. Conversely, the estimated impact on the MCCSR of Sun Life Assurance from an immediate 10% drop across all equity markets would be a 3% to 5% decrease in MCCSR. The information concerning MCCSR is a forward-looking statement and based on the assumptions set out. It is subject to the risk factors described under the heading Forward-looking Statements on page 2.

The current market environment highlighted the need to revise the treatment of certain components of capital to better reflect both the nature of the risks and the quality of capital supporting these risks. In response to the issues surfaced, OSFI issued several revisions to the current MCCSR rules effective December 2008. First, the minimum capital rules for segregated fund guarantees were updated to differentiate between near-term and long-term obligations. Second, companies were given the option to exclude from available capital the net after-tax unrealized gains and losses on available-for-sale bonds reflected in other comprehensive income to better reflect the long-term nature of these bonds. Finally, the requirement to hold capital for interest margin pricing risk was eliminated to avoid potential redundancy with risk charges and actuarial reserves.

The following table shows the components of the MCCSR for Sun Life Assurance for the last three years.

Sun Life Assurance MCCSR

($ million)	2008	2007	2006
Capital available			
Retained earnings and contributed surplus	10,117	9,957	9,148
Other comprehensive income	(841)	(1,521)	(838)
Common and preferred shares	1,996	1,446	1,446
Innovative instruments and subordinated debt	2,600	2,400	2,399
Other	219	531	1,096
Less:			
Goodwill and intangibles in excess of limit	1,893	1,607	1,501
Non-life investments and other	1,585	1,555	1,686
Total capital available	10,613	9,651	10,064
Required capital			
Asset default and market risks	2,620	2,497	2,532
Insurance risks	1,279	1,276	1,198
Interest rate risks	683	861	812
Other	—	(110)	—
Total capital required	4,582	4,524	4,542
MCCSR ratio	232%	213%	222%

Year over year, Sun Life Assurance's available capital increased by $962 million. The positive impact of the weakening of the Canadian dollar on the value of the currency translation account and the portion of the proceeds of the CI Financial transaction attributable to Sun Life Assurance more than offset the unfavourable impact of declining equity markets, investment write-downs and widening credit spreads on earnings and equity. Capital required remained relatively flat year over year as the unfavourable impact of lower equity markets was largely offset by the positive impact of the above-mentioned change to the segregated fund guarantee capital rules and the elimination of the interest margin pricing risk. Additional details concerning the calculation of available capital and MCCSR are included in the 2008 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.) (Sun Life (U.S.)), qualifies as a significant foreign life subsidiary. Sun Life U.S. is subject to the risk-based capital rules issued by the National Association of Insurance Commissioners. In spite of the current market challenges, through a combination of reinsurance arrangements, refinements to existing hedging arrangements and capital injections from its parent, SLF Inc., the risk-based capital (RBC) ratio of Sun Life U.S. exceeded the minimum regulatory level of 200% as at December 31, 2008.

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 maintained capital levels above the minimum local regulatory requirements as at December 31, 2008.

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 2008 Consolidated Financial Statements.

($ millions)	2008	2007
As at December 31		
Securitized assets under management	2,269	1,939
The Company's retained interests	70	91
For the year ended December 31		
Cash flow received on retained interests and servicing fees	12	14

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 non-cash collateral deficiency, in securities lending transactions. Additional information on securities lending is available in Note 5 to SLF Inc.'s 2008 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 Notes 6 and 21 to SLF Inc.'s 2008 Consolidated Financial Statements.

The following table summarizes the Company's significant financial liabilities and contractual obligations as at December 31, 2008.

Financial Liabilities and 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 (1)	6,345	200	1,661	239	4,245
Subordinated debt(1)	4,061	154	307	1,375	2,225
Bond repurchase agreements and securities lending transactions	2,376	2,376	—	—	—
Accounts payable and accrued expenses	2,787	2,787	—	—	—
Borrowed funds (1)	435	66	158	145	66
General fund policyholder liabilities(2)	206,833	13,078	14,216	11,536	168,003
Total liabilities	222,837	18,661	16,342	13,295	174,539
Contractual Commitments(3):					
Contractual loan, equity and real estate	1,072	444	551	27	50
Operating leases	425	102	161	104	58
Total contractual commitments	1,497	546	712	131	108

(1) Expected interest payments included.

(2) 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, amounts on deposits, 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 SLF Inc.'s 2008 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.

(3) Contractual commitments and operating lease commitments are not reported on the consolidated balance sheets.

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 federal, provincial and state, securities and insurance regulators in Canada, the United States and other jurisdictions, the SEC, the United States Financial Industry Regulatory Authority and state attorney generals in the United States, 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 under rules adopted by the Canadian securities regulatory authorities and the SEC, as of December 31, 2008, 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, 2008.

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 of December 31, 2008, 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 in Sun Life Financial Inc.'s 2008 Consolidated Financial Statements.

No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2008 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, 2008

February 11, 2009

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 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 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 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 Committee, with and without the presence of management.

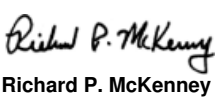
The Office of the Superintendent of Financial Institutions, Canada conducts periodic examinations of the Company. These examinations are designed to evaluate compliance with provisions of the Insurance Companies Act of Canada and to ensure that the interests of policyholders, depositors and the public 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 82.

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 Committee to discuss the results of their audit. The auditors' report to the Board and shareholders appears on page 83.



Donald A. Stewart
Chief Executive Officer



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

Toronto, February 11, 2009

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.

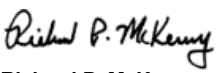
Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become 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 under rules adopted by the Canadian securities regulatory authorities and the United States Securities and Exchange Commission, as of December 31, 2008, 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, 2008.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008, 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, 2008. 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, 2008.



Donald A. Stewart
Chief Executive Officer



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

Toronto, February 11, 2009

Consolidated Statements of Operations

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

	2008	2007	2006*
REVENUE			
Premium income:			
Annuities	**$ 3,592**	$ 3,530	$ 5,380
Life insurance	**5,928**	6,010	6,168
Health insurance	**4,067**	3,584	3,061
	13,587	13,124	14,609
Net investment income (loss) *(Note 5)*:			
Change in fair value of held-for-trading assets	**(7,399)**	(1,558)	
Income (loss) from derivative investments	**(220)**	86	
Net gains (losses) on available-for-sale assets	**(241)**	101	
Other net investment income	**6,078**	6,223	6,664
Gain on sale of equity investment *(Note 3)*	**1,015**	—	—
	(767)	4,852	6,664
Fee income	**2,743**	3,212	3,014
	15,563	21,188	24,287
POLICY BENEFITS AND EXPENSES			
Payments to policyholders, beneficiaries and depositors:			
Maturities and surrenders	**5,310**	6,250	5,707
Annuity payments	**1,380**	1,398	1,388
Death and disability benefits	**2,844**	2,620	2,438
Health benefits	**2,938**	2,616	2,253
Policyholder dividends and interest on claims and deposits	**1,303**	1,360	1,109
	13,775	14,244	12,895
Net transfers to (from) segregated funds	**539**	952	835
Increase (decrease) in actuarial liabilities *(Note 9)*	**(4,429)**	(2,515)	2,525
Commissions	**1,545**	1,811	1,916
Operating expenses *(Note 16)*	**3,003**	3,260	3,028
Premium taxes	**227**	240	205
Interest expense *(Notes 11, 12 and 13)*	**366**	349	323
	15,026	18,341	21,727
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	**537**	2,847	2,560
Income taxes expense (benefit) *(Note 19)*	**(343)**	522	389
Non-controlling interests in net income of subsidiaries *(Note 14)*	**23**	35	27
TOTAL NET INCOME	**857**	2,290	2,144
Less: Participating policyholders' net income (loss)	**2**	2	7
SHAREHOLDERS' NET INCOME	**855**	2,288	2,137
Less: Preferred shareholder dividends	**70**	69	48
COMMON SHAREHOLDERS' NET INCOME	**$ 785**	$ 2,219	$ 2,089
Average exchange rates:			
U.S. dollars	***1.07***	*1.07*	*1.13*
U.K. pounds	***1.96***	*2.15*	*2.09*
Earnings per share			
Basic	**$ 1.40**	$ 3.90	$ 3.62
Diluted	**$ 1.37**	$ 3.85	$ 3.58
Weighted average shares outstanding in millions *(Note 17)*			
Basic	**561**	569	577
Diluted	**562**	572	580

* The 2006 financial statements have not been restated as a result of the changes in accounting policies adopted in 2007 (Note 2).

The attached notes form part of these Consolidated Financial Statements.

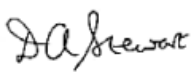
Consolidated Balance Sheets

AS AT DECEMBER 31 (in millions of Canadian dollars)

		2008	2007
ASSETS			
Bonds — held-for-trading *(Note 6)*		**$ 48,458**	$ 50,608
Bonds — available-for-sale *(Note 6)*		**10,616**	9,148
Mortgages and corporate loans *(Note 6)*		**22,302**	20,742
Stocks — held-for-trading *(Note 6)*		**3,440**	4,438
Stocks — available-for-sale *(Note 6)*		**1,018**	788
Real estate *(Note 5)*		**4,908**	4,303
Cash, cash equivalents and short-term securities		**8,879**	5,500
Derivative assets *(Notes 5 and 6)*		**2,669**	1,947
Policy loans and other invested assets		**3,585**	4,349
Other invested assets — held-for-trading *(Note 6)*		**380**	440
Other invested assets — available-for-sale *(Note 6)*		**623**	757
Invested assets		**106,878**	103,020
Goodwill *(Note 7)*		**6,598**	6,018
Intangible assets *(Note 7)*		**878**	775
Other assets *(Note 8)*		**5,479**	4,478
Total general fund assets		**$119,833**	$114,291
Segregated funds net assets		**$ 65,762**	$ 73,205
LIABILITIES AND EQUITY			
Actuarial liabilities and other policy liabilities *(Note 9)*		**$ 81,411**	$ 79,830
Amounts on deposit		**4,079**	3,747
Deferred net realized gains *(Note 5)*		**251**	276
Senior debentures *(Note 11)*		**3,013**	3,014
Derivative liabilities *(Notes 5 and 6)*		**3,219**	638
Other liabilities *(Note 12)*		**7,831**	7,675
Total general fund liabilities		**99,804**	95,180
Subordinated debt *(Note 13)*		**2,576**	1,796
Non-controlling interests in subsidiaries *(Note 14)*		**44**	98
Total equity		**17,409**	17,217
Total general fund liabilities and equity		**$119,833**	$114,291
Segregated funds contract liabilities		**$ 65,762**	$ 73,205
Exchange rate at balance sheet date:			
	U.S. dollars	***1.22***	*1.00*
	U.K. pounds	***1.78***	*1.98*

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	2008	2007	2006*
PREFERRED SHARES					
Balance, beginning of year	**$ —**	**$ 1,495**	**$ 1,495**	$ 1,250	$ 712
Preferred shares issued *(Note 15)*	**—**	**—**	**—**	250	550
Issuance costs, net of taxes *(Note 15)*	**—**	**—**	**—**	(5)	(12)
Balance, end of year	**—**	**1,495**	**1,495**	1,495	1,250
COMMON SHARES					
Balance, beginning of year	**—**	**7,033**	**7,033**	7,082	7,173
Stock options exercised *(Note 18)*	**—**	**10**	**10**	66	73
Common shares purchased for cancellation *(Note 15)*	**—**	**(60)**	**(60)**	(115)	(164)
Balance, end of year	**—**	**6,983**	**6,983**	7,033	7,082
CONTRIBUTED SURPLUS					
Balance, beginning of year	**—**	**62**	**62**	72	66
Stock-based compensation *(Note 18)*	**—**	**58**	**58**	1	18
Stock options exercised *(Notes 15 and 18)*	**—**	**(2)**	**(2)**	(11)	(12)
Balance, end of year	**—**	**118**	**118**	62	72
RETAINED EARNINGS					
Balance, beginning of year, as previously reported	**109**	**11,282**	**11,391**	10,117	9,095
Adjustment for change in accounting policy *(Note 2)*	**—**	**—**	**—**	192	—
Balance, beginning of year, after change in accounting policy	**109**	**11,282**	**11,391**	10,309	9,095
Net income	**2**	**855**	**857**	2,290	2,144
Dividends on common shares	**—**	**(809)**	**(809)**	(752)	(663)
Dividends on preferred shares	**—**	**(70)**	**(70)**	(69)	(48)
Common shares purchased for cancellation *(Note 15)*	**—**	**(157)**	**(157)**	(387)	(411)
Balance, end of year	**111**	**11,101**	**11,212**	11,391	10,117
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes					
Balance, beginning of year	**(14)**	**(2,750)**	**(2,764)**	(1,337)	(1,500)
Adjustment for change in accounting policy *(Note 2)*	**—**	**—**	**—**	359	—
Balance, beginning of year, after change in accounting policy	**(14)**	**(2,750)**	**(2,764)**	(978)	(1,500)
Total other comprehensive income (loss)	**9**	**356**	**365**	(1,786)	163
Balance, end of year	**(5)**	**(2,394)**	**(2,399)**	(2,764)	(1,337)
Total retained earnings and accumulated other comprehensive income	**106**	**8,707**	**8,813**	8,627	8,780
Total equity	**$ 106**	**$ 17,303**	**$ 17,409**	$ 17,217	$ 17,184
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes					
Balance, end of year, consists of:					
Unrealized (losses) gains on available-for-sale assets	**$ —**	**$ (1,429)**	**$ (1,429)**	$ 25	$ —
Unrealized foreign currency translation (losses) gains, net of hedging activities	**(5)**	**(1,044)**	**(1,049)**	(2,821)	(1,337)
Unrealized gains (losses) on derivatives designated as cash flow hedges	**—**	**79**	**79**	32	—
Balance, end of year	**$ (5)**	**$ (2,394)**	**$ (2,399)**	$ (2,764)	$ (1,337)

Consolidated Statements of Comprehensive Income

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)

	2008	2007	2006*
Total net income	**$ 857**	$ 2,290	$ 2,144

Other comprehensive income (loss), net of taxes *(Note 20)*:			
Unrealized foreign currency translation gains (losses), excluding hedges	**2,162**	(1,781)	167
Unrealized foreign currency gains (losses), net investment hedges	**(396)**	282	
Net adjustment for foreign exchange losses (gains) *(Note 23)*	**6**	3	(4)
Unrealized gains (losses) on available-for-sale assets	**(1,653)**	(238)	
Reclassifications to net income for available-for-sale assets	**199**	(84)	
Unrealized gains (losses) on cash flow hedging instruments	**24**	40	
Reclassifications to net income for cash flow hedges	**23**	(8)	
Total other comprehensive income (loss)	**365**	(1,786)	163
Total comprehensive income (loss)	**1,222**	504	2,307
Less: Participating policyholders' net income (loss)	**2**	2	7
Participating policyholders' foreign currency translation gains (losses), excluding hedges	**9**	(5)	—
Shareholders' comprehensive income (loss)	**$ 1,211**	$ 507	$ 2,300

* The 2006 financial statements have not been restated as a result of the changes in accounting policies adopted in 2007 (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)

	2008	2007	2006*
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Total net income	**$ 857**	$ 2,290	$ 2,144
Items not affecting cash:			
Increase (decrease) in actuarial and other policy-related liabilities	**(4,392)**	(2,328)	2,538
Unrealized (gains) losses on held-for-trading assets and derivatives	**7,383**	2,447	
Amortization of:			
Net deferred realized and unrealized gains on investments	**(136)**	(121)	(751)
Deferred acquisition costs and intangible assets	**74**	89	137
Write-down of intangible asset	**—**	52	—
(Gain) loss on foreign exchange *(Note 5)*	**22**	(37)	14
Future income taxes	**(489)**	453	(335)
Provisions for losses (recoveries) on investments	**4**	2	(10)
Stock-based compensation *(Note 18)*	**31**	96	80
Accrued expenses and taxes	**(424)**	(109)	129
Investment income due and accrued	**6**	(7)	(6)
Other changes in other assets and liabilities	**(560)**	(649)	550
Gain on sale of equity investment *(Note 3)*	**(1,015)**	—	—
Realized (gains) losses on held-for-trading and available-for-sale assets	**410**	(1,065)	—
New mutual fund business acquisition costs capitalized	**(56)**	(69)	(66)
Redemption fees of mutual funds	**22**	24	45
Net cash provided by operating activities	**1,737**	1,068	4,469
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Borrowed funds	**(17)**	113	28
Issuance of senior financing *(Note 12)*	**118**	929	—
Collateral on senior financing *(Note 12)*	**(258)**	—	—
Issuance of senior debentures *(Note 11)*	**—**	250	1,000
Redemption of senior debentures *(Note 11)*	**—**	(727)	—
Issuance of subordinated debt *(Note 13)*	**746**	398	—
Redemption and maturity of subordinated debt *(Note 13)*	**—**	(28)	—
Issuance of preferred shares *(Note 15)*	**—**	250	550
Payments to underwriters *(Note 15)*	**—**	(9)	(18)
Issuance of common shares on exercise of stock options	**8**	55	61
Common shares purchased for cancellation *(Note 15)*	**(217)**	(502)	(575)
Dividends paid on common shares	**(809)**	(752)	(633)
Dividends paid on preferred shares	**(70)**	(69)	(57)
Net cash provided by (used in) financing activities	**(499)**	(92)	356
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Sales, maturities and repayments of:			
Bonds	**15,697**	21,091	29,644
Mortgages and corporate loans	**5,624**	6,279	2,590
Stocks	**1,715**	3,456	1,572
Real estate	**109**	221	204
Purchases of:			
Bonds	**(15,706)**	(20,896)	(31,104)
Mortgages and corporate loans	**(5,746)**	(7,159)	(3,938)
Stocks	**(1,915)**	(3,298)	(2,203)
Real estate	**(320)**	(628)	(523)
Policy loans	**(162)**	(69)	(87)
Short-term securities	**215**	(658)	1,120
Cash cost of acquisition *(Note 3)*	**—**	(725)	—
Cash and cash equivalents acquired on acquisition *(Note 3)*	**—**	132	—
Net cash from sale of equity investment *(Note 3)*	**1,546**	—	—
Other investments	**723**	244	78
Net cash provided by (used in) investing activities	**1,780**	(2,010)	(2,647)
Changes due to fluctuations in exchange rates	**642**	(299)	18
Increase (decrease) in cash and cash equivalents	**3,660**	(1,333)	2,196
Cash and cash equivalents, beginning of year	**3,603**	4,936	2,740
Cash and cash equivalents, end of year	**7,263**	3,603	4,936
Short-term securities, end of year	**1,616**	1,897	1,303
Cash, cash equivalents and short-term securities, end of year	**$ 8,879**	$ 5,500	$ 6,239
Supplementary Information			

Cash and cash equivalents:			
Cash	**$ 745**	$ 399	$ 642
Cash equivalents	**6,518**	3,204	4,294
	$ 7,263	$ 3,603	$ 4,936
Cash disbursements made for:			
Interest on borrowed funds, debentures and subordinated debt	**$ 381**	$ 319	$ 303
Income taxes, net of refunds	**$ 467**	$ 499	$ 567

* The 2006 financial statements have not been restated as a result of the changes in accounting policies adopted in 2007 (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)

	2008	2007	2006
ADDITIONS TO SEGREGATED FUNDS			
Deposits:			
Annuities	**$ 9,236**	$ 9,921	$ 7,444
Life insurance	**1,683**	3,399	1,309
	10,919	13,320	8,753
Net transfers (to) from general funds	**539**	952	835
Net realized and unrealized (losses) gains	**(17,772)**	(210)	5,386
Other investment income	**2,481**	3,813	2,637
	(3,833)	17,875	17,611
DEDUCTIONS FROM SEGREGATED FUNDS			
Payments to policyholders and their beneficiaries	**7,843**	8,793	7,910
Management fees	**861**	867	747
Taxes and other expenses	**188**	189	137
Effect of changes in currency exchange rates	**(5,282)**	5,610	(988)
	3,610	15,459	7,806
Net additions (reductions) to segregated funds for the year	**(7,443)**	2,416	9,805
Segregated funds net assets, beginning of year	**73,205**	70,789	60,984
Segregated funds net assets, end of year	**$ 65,762**	$ 73,205	$ 70,789

Consolidated Statements of Segregated Funds Net Assets

AS AT DECEMBER 31(in millions of Canadian dollars)

	2008	2007
ASSETS		
Segregated and mutual fund units	**$ 49,392**	$ 58,185
Stocks	**5,178**	7,376
Bonds	**9,771**	7,868
Cash, cash equivalents and short-term securities	**863**	863
Real estate	**153**	202
Mortgages	**43**	38
Other assets	**2,068**	906
	67,468	75,438
LIABILITIES	**1,706**	2,233
Net assets attributable to segregated funds policyholders	**$ 65,762**	$ 73,205

Investments held within segregated funds are not impacted by the changes in accounting policies adopted in 2007 (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. 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 26.

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 and the Company’s share of other comprehensive income (OCI) in the consolidated statements of comprehensive income. 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.

BONDS — HELD-FOR-TRADING AND AVAILABLE-FOR-SALE

Bonds are designated as held-for-trading or available-for-sale and are carried at fair value. Generally, bonds supporting the Company’s actuarial liabilities are designated as held-for-trading. 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. Because the value of actuarial liabilities is determined by reference to the assets supporting those liabilities, changes in the actuarial liabilities offset a significant portion of the change in fair value of the assets, except for changes in the fair value of the assets that are due to other-than-temporary impairment. Bonds not supporting the Company’s actuarial liabilities are generally designated as available-for-sale. Changes in fair value of available-for-sale bonds are recorded to unrealized gains and (losses) in OCI.

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. Transaction costs for bonds classified as held-for-trading are expensed immediately, while transaction costs for bonds classified as available-for-sale are capitalized on initial recognition and are recognized in income using the effective interest method.

1. Accounting Policies (Cont'd)

Realized gains and losses on the sale of available-for-sale bonds are reclassified from accumulated OCI and recorded as net gains (losses) on available for sale assets on the consolidated statements of operations. Since held-for-trading bonds are measured at fair value, realized gains and losses are included with unrealized gains and losses in changes in fair value of held-for-trading assets in the consolidated statements of operations. 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.

Bonds are tested for impairment 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. Since held-for-trading bonds are recorded at fair value with changes in fair value recorded to income, any reduction in value of the asset due to impairment is already reflected in investment income. Impairment of held-for-trading bonds may impact the change in actuarial liabilities due to the impact of impairment on future cash flows. 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 net gains (losses) on available-for-sale assets. 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.

For 2006, the Company followed a different accounting policy for bonds. Bonds were carried at amortized cost, net of allowances for losses and included corporate loans that did not meet the definition of a debt security under the current financial instrument standards. Realized gains and losses on the sales of bonds were deferred and amortized into net investment income on a constant yield basis over the remaining period to maturity. When a bond was classified as impaired, allowances for losses were established to adjust the carrying value of the asset to its net recoverable amount. Allowances for losses, and write-offs of specific investments net of recoveries, were charged against net investment income. Once the conditions causing the impairment improved and future payments were reasonably assured, allowances were reduced and the invested asset was no longer classified as impaired. Sectoral allowances were also established for classes of assets when there was concern about the ultimate collection of principal or interest.

MORTGAGES AND CORPORATE LOANS

Mortgages and corporate loans are accounted for at amortized cost using the effective interest method. 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. Transaction costs on mortgages and corporate loans are capitalized on initial recognition and are recognized in income using the effective interest method.

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. Interest income earned is recorded as other net investment income on the consolidated statements of operations.

Mortgages and corporate loans are classified as impaired when there is no longer assurance of the timely collection of the full amount of principal and interest. 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.

For 2006, the Company followed a different accounting policy for mortgages and corporate loans. Corporate loans were included with bonds and accounted for as described for bonds. Realized gains and losses on the sales of mortgages were deferred and amortized into net investment income on a constant yield basis over the remaining period to maturity.

1. Accounting Policies (Cont'd)

STOCKS — HELD-FOR-TRADING AND AVAILABLE-FOR-SALE

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 market price in an active market and that are designated as available-for-sale are carried at cost. Generally, stocks supporting the Company's actuarial liabilities are designated as held-for-trading. 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. Because the value of actuarial liabilities is determined by reference to the assets supporting those liabilities, changes in the actuarial liabilities offset a significant portion of the change in fair value of the assets, except for changes in the fair value of the assets that are due to other-than-temporary impairment. Stocks not supporting the Company's actuarial liabilities are generally designated as available-for-sale. Changes in fair value of available-for-sale stocks are recorded to unrealized gains and (losses) in OCI.

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.

Realized gains and losses on the sale of available-for-sale stocks are reclassified from accumulated OCI and recorded as net gains (losses) on available-for-sale assets on the consolidated statements of operations. Since held-for-trading stocks are measured at fair value, realized gains and losses are included with unrealized gains and losses in changes in fair value of held-for-trading assets in the consolidated statements of operations. 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.

Stocks are tested for impairment 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 held-for-trading and available-for-sale stocks is the same as described previously for bonds.

For 2006, the Company followed a different accounting policy for stocks. Stocks were originally recorded at cost and the carrying value was adjusted towards fair value at 5% of the difference between fair value and carrying value per quarter. Realized gains and losses on sales of stocks were deferred and amortized into net investment income at the rate of 5% of the unamortized balance each quarter. Impairment was tested on an entire portfolio basis and write-downs were recorded for any other than temporary decline in the aggregate value of the stock portfolio.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are required to be classified as held-for-trading unless designated as a hedge for accounting purposes. 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. 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.

All derivatives, including derivatives designated as hedges for accounting purposes and embedded derivatives, are recorded on the consolidated balance sheets at fair value. Derivatives with a positive fair value are recorded as derivative assets while derivatives with a negative fair value are recorded as derivative liabilities. The accounting for the changes in fair value of derivatives depends on whether or not they are designated as hedges for accounting purposes.

Derivatives not designated as accounting hedges (derivative investments) and embedded derivatives

Derivative investments are derivatives that have not been designated as hedges for accounting purposes. Derivative investments and embedded derivatives are recorded on the consolidated balance sheets at fair value with changes in fair value recorded to income (loss) from derivative investments in the consolidated statements of operations. Income earned on these derivatives, such as interest income, is also recorded to income (loss) from derivative investments.

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. The accounting for the change in fair value of these derivatives depends on the type of hedge they are designated as for accounting purposes.

1. Accounting Policies (Cont'd)

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 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.

For 2006, the Company followed a different accounting policy for derivative financial instruments. Most of the Company's derivatives were accounted for as either fixed term portfolio investments at amortized cost or equity portfolio investments using a moving average market method such as was used for stocks. Generally, derivatives accounted for at amortized cost were off-balance sheet and the net receivables and payables were accrued to other assets or other liabilities with the net spread recorded to other investment income. Realized gains or losses associated with these derivatives were deferred and amortized to net investment income. Option premiums were deferred in other invested assets and amortized to net investment income over the term of the options. Certain equity derivative instruments that were used to manage exposure from stock-based compensation plans and stock market fluctuations in the actuarial liabilities were recorded at fair value in other invested assets or other liabilities, with changes in fair value recognized in other net investment income. Certain derivatives were designated as hedges for accounting purposes. All derivatives designated as hedges for accounting purposes were documented at inception and hedge effectiveness was assessed on a quarterly basis. Generally, the accounting for the derivatives designated as hedges for accounting purposes followed the accounting for the underlying hedged item. Embedded derivatives were not separately identified and accounted for.

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.

1. Accounting Policies (Cont'd)

CASH, CASH EQUIVALENTS AND SHORT-TERM SECURITIES

Cash, cash equivalents and short-term securities are highly liquid investments. Cash equivalents have an original 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. Effective January 1, 2007, cash equivalents and short-term securities are 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. In 2006, cash equivalents and short-term securities were carried at amortized cost.

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.

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 assets are supporting the Company's actuarial liabilities or are investments held within the non-insurance subsidiaries of the Company. Held-for-trading assets 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 include investments in limited partnerships. These investments are accounted for at cost since these assets are not traded in an active market. Distributions received, such as dividends, are recorded to other net investment income. Other invested assets designated as available-for-sale also include 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 deferred 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 reporting units 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. Goodwill assessment may occur in between annual periods if events or circumstances occur that may result in the fair value of a reporting unit falling below its carrying amount.

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 or more frequently if events or changes in circumstances indicate that the asset may be impaired. Impairment is assessed by comparing the carrying values of the indefinite-life intangible assets 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.

1. Accounting Policies (Cont'd)

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.

ACTUARIAL LIABILITIES AND OTHER POLICY 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. Transaction costs are recorded as part of the liability and are recognized in income using the effective interest method.

INCOME TAXES

The Company uses the asset and 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 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. Future income tax assets are recognized to the extent that they are more likely than not to be realized.

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

PREMIUM 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.

1. Accounting Policies (Cont'd)

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 comprehensive income. 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.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

A description of the Company's pension and other post-retirement benefits is included in Note 22.

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

A description of the Company's stock-based compensation plans is included in Note 18.

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 2008

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 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 new disclosures required are included in Notes 6 and 10 of these Consolidated Financial Statements.

INCOME STATEMENT PRESENTATION OF A TAX LOSS CARRYFORWARD RECOGNIZED FOLLOWING AN UNREALIZED GAIN RECORDED IN OTHER COMPREHENSIVE INCOME

In the third quarter of 2008, the Company adopted, on a retrospective basis, Emerging Issues Committee (EIC) 172, Income Statement Presentation of a Tax Loss Carryforward Recognized Following an Unrealized Gain Recorded in Other Comprehensive Income. This EIC requires that tax benefits from the recognition of tax loss carryforwards resulting from the recording of unrealized gains in other comprehensive income, such as unrealized gains on available-for-sale financial assets, be recognized in net income. The adoption of this EIC did not have a material impact on the Consolidated Financial Statements.

FINANCIAL INSTRUMENTS — RECOGNITION, MEASUREMENT, DISCLOSURE AND PRESENTATION

In the fourth quarter of 2008, the Company adopted the amendments to CICA Handbook Sections 3855, Financial Instruments — Recognition and Measurement, 3861, Financial Instruments — Disclosure and Presentation, and 3862, Financial Instruments — Disclosures. The amendments permit reclassification of financial assets in specified circumstances. Since the Company's assets that were designated as held-for-trading upon adoption of Sections 3855, 3861 and 3862 are not permitted to be reclassified under the provisions of the amendments, the adoption of these amendments did not have a material impact on the Consolidated Financial Statements.

ADOPTED IN 2007

FINANCIAL INSTRUMENTS, HEDGES AND COMPREHENSIVE INCOME:

A) SUMMARY OF THE 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 these 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.

2. Changes in Accounting Policies (Cont'd)

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 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 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:

The accounting policies for the financial instruments and investments significantly impacted by the adoption of these Sections are described in detail in Note 1.

As a result of the adoption of these Sections, the Company recorded an increase to opening retained earnings on January 1, 2007 of $192. $186 was allocated to shareholders and $6 was allocated to participating policyholders. The adjustment to retained earnings is due to the recording of held-for-trading assets and derivatives at fair value, the reversal of deferred net realized gains, and an adjustment for the change in actuarial liabilities, all net of applicable income taxes. 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 and in income subsequent to transition.

The Company also recorded an increase in opening OCI of $359 and reclassified the currency translation account of $(1,337) to OCI on January 1, 2007. The increase in opening OCI is due to the recording of available-for-sale assets at fair value and adjustments for cash flow and net investment hedges, all net of applicable income taxes. Assets designated as available-for-sale generally are not supporting actuarial liabilities.

FUTURE IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

GOODWILL AND INTANGIBLE ASSETS

The CICA issued Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Provisions concerning goodwill are unchanged from the standards included in the previous Section 3062. The provisions relating to intangible assets, including internally generated intangible assets, are incorporated from international financial reporting standards. The Company will adopt the new standards on January 1, 2009. The Company does not expect the adoption of this Section to have a material impact on the Consolidated Financial Statements.

2. Changes in Accounting Policies (Cont'd)

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

On April 7, 2008, the Canadian Accounting Standards Board ("AcSB") released an Omnibus exposure draft entitled "Adopting IFRS in Canada", which covers among other things, the incorporation of IFRS into the CICA Handbook. The exposure draft calls for Canadian publicly accountable entities to adopt IFRS for fiscal years beginning on or after January 1, 2011 with disclosure requirements beginning in 2008. As a result, IFRS will be adopted by the Company on January 1, 2011 and its first set of IFRS compliant financial statements will be for the quarter ending March 31, 2011. The IFRS accounting standard for insurance contracts, IFRS 4 — Phase II which deals with recognition and measurement is still under development. A discussion paper was published in May 2007 and an exposure draft is not expected until 2009 and the final standard is not expected before 2011. The Company is currently going through the assessment and evaluation phase of its IFRS implementation project to determine the effect on its processes, systems and financial statements upon adoption.

3. Acquisitions and Disposals

ACQUISITIONS

On May 31, 2007, the Company acquired the U.S. group benefits business of Genworth Financial, Inc. (Genworth EBG Business) for $725. Genworth EBG Business results are included in 2007 income reported from June 1, 2007. Genworth EBG Business 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. 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 was deductible for tax purposes.

The acquisition is summarized below:

	2007 Genworth EBG Business
Percentage of shares acquired	100%
Invested assets acquired	$ 977
Other assets acquired (1)	129
	1,106
Actuarial liabilities and other policy liabilities acquired	654
Amounts on deposit acquired	49
Other liabilities acquired	38
	$ 741
Net balance sheet assets acquired	$ 365
Consideration:	
Cash cost of acquisition	$ 709
Transaction and other related costs	16
Total consideration	$ 725
Goodwill on acquisition	$ 360
Cash and cash equivalents acquired	$ 132

(1) Other assets acquired includes $71 of intangible assets.

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.

3. Acquisitions and Disposals (Cont'd)

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 12, 2008, the Company sold its 37% interest in CI Financial to the Bank of Nova Scotia in exchange for cash of $1,552, common shares with a fair value of $437 and preferred shares with a fair value of $250 for total proceeds of $2,239. The investment was accounted for by the equity method and had a carrying value of $1,218 as at the date of sale, which was included in policy loans and other invested assets on the consolidated balance sheets prior to the date of sale. The carrying value included goodwill of $377, indefinite-life intangible assets of $757 and finite-life intangible assets of $9. A pre-tax gain of $1,015, net of transaction costs of $6, was recorded in net investment income in the fourth quarter ($825 net of taxes).

On February 29, 2008, the Company sold 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 not material to these 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.

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 Corporate Support operations, which includes active reinsurance and 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 values prevailing when the arrangements are negotiated. Inter-segment revenue for 2008 consists mainly of interest of $144 ($146 in 2007 and $281 in 2006) and fee income of $52 in 2008 ($79 in 2007 and $78 in 2006).

4. Segmented Information (Cont'd)

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. The results for Corporate for 2008 include the net of tax gain on the sale of CI Financial of $825. Results and the equity method carrying value of the investment asset in CI Financial were included in SLF Canada for 2008 and prior periods.

Results by segment for the years ended December 31

		United States				
	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate	Consolidation Adjustments	Total
2008							
Revenue	**$ 7,927**	**$ 3,817**	**$ 1,381**	**$ 498**	**$ 2,144**	**$ (204)**	**$ 15,563**
Change in actuarial liabilities	**$ (854)**	**$ (2,920)**	**$ —**	**$ (444)**	**$ (200)**	**$ (11)**	**$ (4,429)**
Interest expenses	**$ 181**	**$ 263**	**$ 2**	**$ —**	**$ 64**	**$ (144)**	**$ 366**
Income taxes expense (benefit)	**$ 435**	**$ (648)**	**$ 133**	**$ 22**	**$ (285)**	**$ —**	**$ (343)**
Total net income (loss)	**$ 647**	**$ (1,016)**	**$ 194**	**$ 33**	**$ 999**	**$ —**	**$ 857**
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

Assets by segment as at December 31

		United States				
	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate	Consolidation Adjustments	Total
2008							
General fund assets	**$ 53,935**	**$ 45,746**	**$ 847**	**$ 6,274**	**$ 14,373**	**$ (1,342)**	**$ 119,833**
Segregated funds net assets	**$ 32,333**	**$ 27,443**	**$ —**	**$ 1,696**	**$ 4,290**	**$ —**	**$ 65,762**
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

4. Segmented Information (Cont'd)

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

	2008	2007	2006
Revenue:			
United States	**$ 580**	$ 720	$ 618
United Kingdom	**313**	878	1,309
Canada	**1,235**	14	227
Other countries	**16**	22	10
Total revenue	**$ 2,144**	$ 1,634	$ 2,164
Total net income (loss):			
United States	**$ (70)**	$ 212	$ 190
United Kingdom	**208**	207	193
Canada	**860**	(153)	(17)
Other countries	**1**	(13)	(7)
Total net income (loss)	**$ 999**	**$** 253	$ 359
Assets:			
General funds:			
United States	**$ 3,647**	$ 3,865	$ 4,715
United Kingdom	**7,686**	9,416	10,254
Canada	**2,912**	552	1,400
Other countries	**128**	134	147
Total general fund assets	**$ 14,373**	$ 13,967	$ 16,516
Segregated funds:			
United Kingdom	**$ 4,290**	$ 6,842	$ 8,229
Total segregated funds net assets	**$ 4,290**	$ 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.

	2008			2007		
	Carrying Value	**Fair Value**	**Yield %**	Carrying Value	Fair Value	Yield %
ASSETS						
Bonds — held-for-trading	**$ 48,458**	**$ 48,458**	**5.90**	$ 50,608	$ 50,608	5.89
Bonds — available-for-sale	**10,616**	**10,616**	**5.50**	9,148	9,148	5.62
Mortgages and corporate loans	**22,302**	**22,485**	**5.99**	20,742	21,046	6.18
Stocks — held-for-trading	**3,440**	**3,440**	**2.57**	4,438	4,438	2.64
Stocks — available-for-sale	**1,018**	**1,020**	**3.19**	788	788	3.57
Real estate	**4,908**	**5,812**	**10.86**	4,303	5,183	10.77
Policy loans	**3,401**	**3,401**	**6.80**	2,959	2,959	6.84
Cash, cash equivalents and short-term securities	**8,879**	**8,879**	**n/a**	5,500	5,500	n/a
Derivative assets	**2,669**	**2,669**	**n/a**	1,947	1,947	n/a
Other invested assets including held-for-trading and available-for-sale other invested assets	**1,187**	**1,230**	**n/a**	2,587	4,295	n/a
Total invested assets	**$106,878**	**$108,010**	**5.80**	$103,020	$105,912	6.01

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. Other invested assets for 2007 includes the Company's investment in trust units and limited partnership units of CI Financial with a carrying value of $1,226 and fair value of $2,935. The Company sold its investment in CI Financial in the fourth quarter of 2008 as described in Note 3.

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 $3,219 ($638 in 2007) are also included on the consolidated balance sheets.

i) FAIR VALUE METHODOLOGIES AND ASSUMPTIONS

The fair value of publicly traded fixed maturity and equity securities is determined using quoted market bid prices in active markets that are readily and regularly obtainable, when available. When quoted prices in active markets are not available, the determination of fair value is based on market standard valuation methodologies, which include matrix pricing, consensus pricing from various broker dealers that are typically the market makers, discounted cash flows, or other similar techniques. The assumptions and valuation inputs in applying these market standard valuation methodologies are primarily using observable market inputs, which include, but are not limited to, benchmark yields, issuer spreads, reported trades of identical or similar instruments and prepayment speeds. Prices obtained from independent pricing services are validated through back-testing to trade data, comparison to observable market inputs or other economic indicators, and other qualitative analysis to ensure that the fair value is reasonable. For fair value that is based solely on non-binding broker quotes that cannot be validated to observable market data, the Company typically considers the fair value to be based on unobservable market inputs, due to a general lack of transparency in the process that the brokers use to develop the prices. The changes in fair value of assets with unobservable market inputs backing actuarial liabilities are expected to be largely offset by changes in those liabilities. Stocks that do not have a quoted market price on an active market and are designated as available-for-sale are reported at cost and are not material to these Consolidated Financial Statements.

The fair value of non-publicly traded bonds is determined using a discounted cash flow approach that includes provisions for credit risk, liquidity premium, and the expected maturities of the securities. The valuation techniques used are primarily based on observable market prices or rates.

The fair value of derivative financial instruments depends upon the type of derivative, and is determined primarily using observable market inputs. Fair value of exchange-traded futures are based on the quoted market prices, while fair value of interest rate and cross-currency swaps and forward contracts are determined by discounting expected future cash flows using current market interest and exchange rates for similar instruments. Fair value of common stock index swaps and options are determined using the value of underlying securities or indices and option pricing models using index prices, projected dividends and volatility surfaces.

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

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 external appraisals, using expected future net cash flows discounted at current market interest rates.

Fair values of policy loans and cash are assumed to be equal to their carrying values, due to their nature. 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

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. The yield for real estate was calculated the same as for other assets except that it is based on the average carrying value which includes deferred net realized gains.

B) REAL ESTATE INVESTMENTS

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

	2008	2007
Canada	**$ 3,090**	$ 2,828
United States	**1,546**	1,168
United Kingdom	**271**	306
Other	**1**	1
Total real estate	**$ 4,908**	$ 4,303

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.

	2008		2007	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Real estate held for investment	**$ 4,898**	**$ 5,802**	$ 4,295	$ 5,175
Real estate held for sale	**10**	**10**	8	8
Total real estate	**$ 4,908**	**$ 5,812**	$ 4,303	$ 5,183

The carrying value of real estate that was non-income producing for the preceding 12 months was $151 in 2008 ($87 in 2007).

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.

	2008	2007
Balance, January 1	**$ 276**	$ 255
Net realized gains for the year	**12**	76
Amortization of deferred net realized gains	**(33)**	(36)
Effect of changes in currency exchange rates	**(4)**	(19)
Balance, December 31	**$ 251**	$ 276

Amortization of deferred net realized gains on real estate for 2006 recorded to income was $28.

C) DEFERRED NET REALIZED GAINS

In 2006 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. The amortization of deferred net realized gains recorded to income in 2006 related to bonds, stocks, mortgages and derivatives was $549.

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

D) NET INVESTMENT INCOME

Changes in fair value of held-for-trading assets recorded to net income for the years ended December 31 consists of the following:

	2008	2007
Bonds	**$ (5,852)**	$ (1,691)
Stocks	**(1,432)**	103
Other invested assets	**(122)**	33
Cash equivalents and short-term securities	**7**	(3)
Total changes in fair value of held-for-trading assets	**$ (7,399)**	$ (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 years ended December 31, consists of the following:

	2008	2007
Changes in fair value	**$ (154)**	$ 75
Interest income	**(70)**	10
Other income	**4**	1
Total income from derivative investments	**$ (220)**	$ 86

Other net investment income has the following components:

	2008	2007	2006
Interest income:			
Bonds			$ 3,874
Held-for-trading bonds	**$ 3,006**	$ 3,091	
Available-for-sale bonds	**580**	531	
Mortgages and corporate loans	**1,291**	1,286	930
Policy loans	**216**	212	203
Cash, cash equivalents and short-term securities	**147**	231	170
Interest income	**5,240**	5,351	5,177
Dividends from stocks			103
Dividends on held-for-trading stocks	**117**	103	
Dividends on available-for-sale stocks	**24**	23	
Real estate income (net) (1)	**332**	300	260
Amortization of deferred net realized gains and unrealized gains and losses	**136**	121	751
Derivative realized and unrealized gains and losses (2)			116
Foreign exchange gains (losses)	**(22)**	37	(14)
Other income (3)	**354**	377	359
Investment expenses and taxes	**(103)**	(89)	(88)
Total other net investment income	**$ 6,078**	$ 6,223	$ 6,664

(1) Includes operating lease rental income of $293 ($242 and $223, in 2007 and 2006, respectively).

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

(3) Includes equity income from CI Financial of $190 in 2008 ($228 in 2007, and $167 in 2006).

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

E) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

	2008		2007	
	Fair Value		Fair Value	
	Positive	Negative	Positive	Negative
Interest rate contracts	$ 1,801	$ (2,135)	$ 286	$ (555)
Foreign exchange contracts	487	(917)	1,281	(42)
Other contracts	381	(167)	380	(41)
Total derivatives	$ 2,669	$ (3,219)	$ 1,947	$ (638)

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.

	2008			2007		
	Total Notional Amount	Fair Value		Total Notional Amount	Fair Value	
		Positive	Negative		Positive	Negative
Derivative investments (1)	$ 44,453	$ 2,377	$ (2,479)	$ 37,074	$ 1,216	$ (611)
Fair value hedges	2,983	—	(504)	2,577	237	(7)
Cash flow hedges	82	—	(37)	77	10	—
Net investment hedges	3,278	292	(199)	2,914	484	(20)
Total	$ 50,796	$ 2,669	$ (3,219)	$ 42,642	$ 1,947	$ (638)

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

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

i) FAIR VALUE HEDGES

The Company recorded a charge of $4 to income as hedge ineffectiveness for fair value hedges in other net investment income for the year ended December 31, 2008 ($14 to income for the year ended December 31, 2007).

During the third quarter of 2008, certain cross currency interest rate swaps designated as fair value hedging instruments were settled and the hedging relationships terminated as a result of the other-than-temporary impairment of the hedged available-for-sale bonds as described in Note 6Aiv).

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 2009, 2010 and 2011. 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 for cash flow hedges and recorded as a charge to other net investment income for 2008 was $6 for cash flow hedges (a charge of $3 in 2007). The Company expects to reclassify losses of $5 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. Certain arrangements allow the Company to invest the cash collateral received for the securities loaned. It is the Company's practice to obtain a guarantee from the lending agent against counterparty default, including non-cash collateral deficiency. As at December 31, 2008, the Company had loaned securities (which are included in invested assets) with a carrying value and fair value of approximately $889($2,065 in 2007).

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

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:

	2008	2007
Carrying value of retained interests	**$ 70**	$ 91
Fair value of retained interests	**$ 70**	$ 91
Weighted average remaining life (in years)	**1.49-11.29**	1.14-14.2
Discount rate	**2.5%-12.5%**	2.5%-12.5%
Anticipated credit losses	**0.5%**	0.5%

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 2008, 2007 and 2006:

	2008	2007	2006
	Mortgages	Mortgages	Mortgages
Cash flows received on retained interests and servicing fees	**$ 12**	$ 14	$ 18

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.

6. Financial Instrument Risk Management (Cont'd)

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.

	2008	2007
Cash, cash equivalents and short-term securities	**$ 8,879**	$ 5,500
Held-for-trading bonds (1)	**48,458**	50,608
Available-for-sale bonds	**10,616**	9,148
Mortgages	**16,267**	15,468
Corporate loans	**6,035**	5,274
Derivative assets (2)	**2,669**	1,947
Other financial assets (3)	**2,704**	2,722
Total balance sheet maximum credit exposure	**$ 95,628**	$ 90,667
Off-balance sheet items		
Loan commitments (4)	**$ 659**	$ 1,332
Guarantees	**51**	98
Total off-balance sheet items	**$ 710**	$ 1,430

(1) In addition to the carrying value, credit exposure may be increased to the extent that the amounts recovered from default are insufficient to satisfy the actuarial liability cash flows that the assets are intended to support.

(2) 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.

(3) Other financial assets include accounts receivable and investment income due and accrued as shown in Note 8.

(4) 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.

As at December 31, 2008, the Company held collateral assets with a fair value of $1,098 ($740 as at December 31, 2007) under certain derivative contracts and is usually permitted to sell or re-pledge this collateral. The Company has not sold or re-pledged any collateral. The assets pledged are primarily cash, US Treasuries, and other government securities. The terms and conditions related to the use of the collateral are consistent with industry practice.

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.

	2008			2007		
	Held-for-Trading Bonds	**Available-for-Sale Bonds**	**Total Bonds**	Held-for-Trading Bonds	Available-for-Sale Bonds	Total Bonds
Canada	**$ 18,184**	**$ 1,380**	**$ 19,564**	$ 18,457	$ 1,567	$ 20,024
United States	**19,533**	**7,270**	**26,803**	20,452	5,865	26,317
United Kingdom	**4,397**	**597**	**4,994**	5,704	600	6,304
Other	**6,344**	**1,369**	**7,713**	5,995	1,116	7,111
Total Bonds	**$ 48,458**	**$ 10,616**	**$ 59,074**	$ 50,608	$ 9,148	$ 59,756

The carrying value of bonds by issuer and industry sector as at December 31 is shown in the following table.

	2008			2007		
	Held-for-Trading Bonds	**Available-for-Sale Bonds**	**Total**	Held-for-Trading Bonds	Available-for-Sale Bonds	Total
Bonds issued or guaranteed by:						
Canadian federal government	**$ 2,354**	**$ 489**	**$ 2,843**	$ 2,320	$ 567	$ 2,887
Canadian provincial and municipal governments	**6,064**	**262**	**6,326**	5,849	336	6,185
U.S. Treasury and other U.S. agencies	**1,462**	**571**	**2,033**	1,055	372	1,427
Other foreign governments	**3,295**	**467**	**3,762**	3,195	521	3,716
Total government issued or guaranteed bonds	**13,175**	**1,789**	**14,964**	12,419	1,796	14,215
Corporate bonds by industry sector:						
Financials	**11,606**	**3,926**	**15,532**	13,062	3,497	16,559
Utilities and energy	**7,447**	**929**	**8,376**	7,475	752	8,227
Telecom	**2,329**	**885**	**3,214**	2,136	666	2,802
Consumer staples and discretionary	**5,429**	**1,374**	**6,803**	5,185	952	6,137
Industrials	**2,510**	**495**	**3,005**	2,665	374	3,039
Other	**1,641**	**451**	**2,092**	1,730	429	2,159
Total corporate	**30,962**	**8,060**	**39,022**	32,253	6,670	38,923
Asset-backed securities	**4,321**	**767**	**5,088**	5,936	682	6,618
Total bonds	**$ 48,458**	**$ 10,616**	**$ 59,074**	$ 50,608	$ 9,148	$ 59,756

6. Financial Instrument Risk Management (Cont'd)

The carrying value of mortgages and corporate loans by geographic location as at December 31 are shown in the following tables. 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.

	2008				
	Mortgages				
	Non-residential	Residential	Total	Corporate Loans	Total Mortgages and Corporate Loans
Canada	$ 5,896	$ 2,620	$ 8,516	$ 5,518	$ 14,034
United States	7,338	342	7,680	254	7,934
United Kingdom	71	—	71	—	71
Other	—	—	—	263	263
Total mortgages and corporate loans	$ 13,305	$ 2,962	$ 16,267	$ 6,035	$ 22,302

	2007				
	Mortgages				
	Non-residential	Residential	Total	Corporate Loans	Total Mortgages and Corporate Loans
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

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

The contractual maturities of bonds as at December 31, 2008, 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.

	2008		
	Held-for-Trading Bonds	Available-for-Sale Bonds	Total Bonds
Due in 1 year or less	$ 2,920	$ 1,043	$ 3,963
Due in years 2-5	12,253	2,874	15,127
Due in years 6-10	10,897	2,869	13,766
Due after 10 years	22,388	3,830	26,218
Total bonds	$ 48,458	$ 10,616	$ 59,074

As at December 31, 2008, the carrying value of scheduled mortgage and corporate loan maturities, before allowances for losses, are as follows.

	Mortgages	Corporate Loans	Total
2009	$ 1,360	$ 661	$ 2,021
2010	991	380	1,371
2011	1,275	608	1,883
2012	846	553	1,399
2013	1,141	945	2,086
Thereafter	10,667	2,898	13,565
Total mortgages and corporate loans, before allowances for losses	$ 16,280	$ 6,045	$ 22,325

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:

	2008				2007			
	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	**$ 1,724**	**$ 10,846**	**$ 14,567**	**$ 27,137**	$ 625	$ 7,453	$ 12,116	$ 20,194
Options purchased	**682**	**669**	**2,249**	**3,600**	60	283	1,841	2,184
Foreign exchange contracts:								
Forward contracts	**1,786**	**77**	**—**	**1,863**	1,849	105	—	1,954
Swap contracts	**191**	**3,821**	**5,123**	**9,135**	222	3,157	5,351	8,730
Other contracts:								
Options purchased	**1,543**	**1,500**	**6**	**3,049**	2,245	3,814	49	6,108
Options written	**—**	**1,132**	**—**	**1,132**	—	—	—	—
Forward contracts	**79**	**59**	**—**	**138**	648	53	—	701
Swap contracts	**150**	**101**	**—**	**251**	230	95	13	338
Credit derivatives	**—**	**12**	**134**	**146**	—	—	90	90
Exchange-traded contracts:								
Interest rate contracts:								
Futures contracts	**1,697**	**45**	**—**	**1,742**	1,182	85	—	1,267
Foreign exchange contracts:								
Futures contracts	**323**	**—**	**—**	**323**	34	—	—	34
Other contracts:								
Futures contracts	**2,280**	**—**	**—**	**2,280**	1,042	—	—	1,042
Total notional amount	**$ 10,455**	**$ 18,262**	**$ 22,079**	**$ 50,796**	$ 8,137	$ 15,045	$ 19,460	$ 42,642

The following table provides the fair value of derivative instruments outstanding as at December 31 by term to maturity:

	2008				2007			
	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
Total asset derivatives	**$ 285**	**$ 886**	**$ 1,498**	**$ 2,669**	$ 202	$ 1,034	$ 711	$ 1,947
Total liability derivatives	**$ (73)**	**$ (933)**	**$ (2,213)**	**$ (3,219)**	$ (54)	$ (101)	$ (483)	$ (638)

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.

6. Financial Instrument Risk Management (Cont'd)

Bonds by Credit Rating

Investment grade bonds are those rated BBB and above. The Company's bond portfolio was 97.0% (97.6% in 2007) investment grade based on carrying value. The carrying value of bonds by rating is shown in the following table.

	2008			2007		
	Held-for-Trading Bonds	**Available-for-Sale Bonds**	**Total**	Held-for-Trading Bonds	Available-for-Sale Bonds	Total
Bonds by credit rating (1):						
AAA	**$ 9,119**	**$ 2,494**	**$ 11,613**	$ 9,896	$ 2,214	$ 12,110
AA	**9,183**	**1,635**	**10,818**	9,567	1,501	11,068
A	**14,805**	**3,326**	**18,131**	15,443	2,538	17,981
BBB	**13,826**	**2,893**	**16,719**	14,382	2,773	17,155
BB and lower	**1,525**	**268**	**1,793**	1,320	122	1,442
Total bonds	**$ 48,458**	**$ 10,616**	**$ 59,074**	$ 50,608	$ 9,148	$ 59,756

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

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, 2008, the Company had assets of $864 ($183 in 2007) 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.

	2008		
	Gross positive Replacement Cost(1)	**Impact of Master Netting Agreements(2)**	**Net Replacement Cost(3)**
Over-the-counter contracts:			
AAA	**$ 120**	**$ (4)**	**$ 116**
AA	**865**	**(330)**	**535**
A	**1,666**	**(780)**	**886**
Exchange-traded	**18**	**(5)**	**13**
Total	**$ 2,669**	**$ (1,119)**	**$ 1,550**

	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

(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.

6. Financial Instrument Risk Management (Cont'd)

Mortgages and Corporate Loans Past Due or Impaired

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

	2008					
	Gross Carrying Value			Allowance for Losses		
	Mortgages	Corporate Loans	Total	Mortgages	Corporate Loans	Total
Not past due	$ 16,171	$ 5,946	$ 22,117	$ —	$ —	$ —
Past due:						
Past due less than 90 days	17	17	34	—	—	—
Past due 90 to 179 days	—	14	14	—	—	—
Past due 180 days or more	1	9	10	—	—	—
Impaired	91	59	150	13	10	23
Balance, December 31	$ 16,280	$ 6,045	$ 22,325	$ 13	$ 10	$ 23

	2007					
	Gross Carrying Value			Allowance for Losses		
	Mortgages	Corporate Loans	Total	Mortgages	Corporate Loans	Total
Not past due	$ 15,400	$ 5,200	$ 20,600	$ 7	$ —	$ 7
Past due:						
Past due less than 90 days	58	33	91	—	—	—
Past due 90 to 179 days	1	3	4	—	—	—
Impaired	26	52	78	10	14	24
Balance, December 31	$ 15,485	$ 5,288	$ 20,773	$ 17	$ 14	$ 31

Impaired mortgages and corporate loans of $19 as at December 31, 2008 ($4 of impaired mortgages as at December 31, 2007) 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.

The weighted average investment in impaired mortgages and corporate loans, before allowances for losses was $46 as at December 31, 2008 ($43 in 2007). The carrying value of mortgages and corporate loans that were non-income producing for the preceding 12 months was $37 ($13 in 2007).

Changes in Allowances for Losses

The changes in the allowances for losses are as follows:

	Bonds	Mortgages	Corporate Loans	Other	Total
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
Provision for losses	—	—	4	—	4
Write-offs, net of recoveries	—	(6)	(8)	—	(14)
Effect of changes in currency exchange rates	—	2	—	—	2
Balance, December 31, 2008	$ —	$ 13	$ 10	$ —	$ 23

Restructured Mortgages and Corporate Loans

Mortgages and corporate loans with a carrying value of $5 have had their terms renegotiated during the year ended December 31, 2008 (nil in 2007).

6. Financial Instrument Risk Management (Cont'd)

Possession of Collateral/Foreclosed Assets

During 2008, the Company took possession of the real estate collateral of $14 it held as security for mortgages ($8 of real estate held as collateral in 2007). 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 the end of the period was greater than their fair value, resulting in an unrealized loss. Unrealized losses may be due to interest rate fluctuations, widening of credit spreads, general depressed market prices due to current market conditions, 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, 2008		December 31, 2007	
	Fair Value	**Unrealized Losses**	Fair Value	Unrealized Losses
Available-for-sale bonds	**$ 7,041**	**$ 1,875**	$ 4,895	$ 273
Available-for-sale stocks (1)	**430**	**176**	238	34
Available-for-sale other invested assets (2)	**194**	**21**	108	12
Total temporarily impaired financial assets	**$ 7,665**	**$ 2,072**	$ 5,241	$ 319

(1) This includes available-for-sale private equities that are accounted for at cost with a carrying value of $7 ($13 in 2007).

(2) This pertains to available-for-sale limited partnerships that are accounted for at cost with a carrying value of $215 ($120 in 2007).

Other-Than-Temporarily Impaired Available-for-Sale Assets

The Company wrote down $318 of impaired available-for-sale assets recorded at fair value during 2008 ($35 in 2007). Approximately $28 of the write-down during 2008 relates to impaired available-for-sale bonds that were part of fair value hedging relationships as described in Note 5Ei). These assets were written down since the length of time that the fair value was less than the cost and the extent and nature of the loss indicated that the fair value would not recover, or due to issuer bankruptcy. These write-downs are included in net gains (losses) on available-for-sale assets in the consolidated statements of operations.

Impairment of Held-for-Trading Assets

The Company generally maintains distinct asset portfolios for each line of business. Changes in the fair values of these assets are largely offset by changes in the fair value of actuarial liabilities, when there is an effective matching of assets and liabilities. When assets are designated as held-for-trading, the change in fair value arising from impairment is not required to be separately disclosed under Canadian generally accepted accounting principles. The reduction in fair values of held-for-trading assets attributable to impairment results in an increase in actuarial liabilities charged through the consolidated statement of operations for the period.

During 2008, the net charge to the income statement attributable to impairments of held-for-trading assets backing actuarial liabilities amounted to $608 (nil in 2007).

Non-Income Producing Bonds

There were no non-income producing bonds for the years ended December 31, 2008 and 2007.

6. Financial Instrument Risk Management (Cont'd)

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 anticipated demand liabilities. The Company's asset-liability management process 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.

The contractual maturities of the Company's significant financial liabilities and contractual commitments at December 31, 2008 are shown in the following table.

	Within 1 Year	1 Year to 3 Years	3 Years to 5 Years	Over 5 Years	Total
General fund policyholder liabilities (1)	$ 13,078	$ 14,216	$ 11,536	$168,003	$206,833
Senior debentures and financing (2)	200	1,661	239	4,245	6,345
Subordinated debt (2)	154	307	1,375	2,225	4,061
Bond repurchase agreements and securities lending transactions	2,376	—	—	—	2,376
Accounts payable and accrued expenses	2,787	—	—	—	2,787
Borrowed funds (2)	66	158	145	66	435
Total liabilities	$ 18,661	$ 16,342	$ 13,295	$174,539	$222,837
Contractual commitments (3):					
Contractual loan, equity and real estate commitments	$ 444	$ 551	$ 27	$ 50	$ 1,072
Operating lease commitments	102	161	104	58	425
Total contractual commitments	$ 546	$ 712	$ 131	$ 108	$ 1,497

(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, amounts on deposit, 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 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.

(2) Includes expected interest payments.

(3) Contractual commitments and operating lease commitments are not reported on the consolidated balance sheets. A further description of the commitments is included in Note 21A) and B).

6. Financial Instrument Risk Management (Cont'd)

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.

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. 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. As at December 31, 2008, the Company did not have a material currency exposure related to financial instruments.

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 on the Company's actuarial liabilities and the assets supporting those liabilities is included in Note 9.

Bonds designated as available-for-sale generally do not support actuarial liabilities. Changes in fair value of available-for-sale bonds are recorded to OCI. For the Company's available-for-sale bonds, an immediate 1% parallel increase in interest rates at December 31, 2008, across the entire yield curve, would result in an estimated after-tax decrease in OCI of $400 to $450. Conversely, an immediate 1% parallel decrease in interest rates would result in an estimated after-tax increase in OCI of $400 to $450.

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 on the Company's actuarial liabilities and the assets supporting those liabilities is included in Note 9.

Equities designated as available-for-sale generally do not support actuarial liabilities. Changes in fair value of available-for-sale equities are recorded to OCI. For the Company's available-for-sale equities, an immediate 10% increase in stock prices at December 31, 2008, would result in an estimated after-tax increase in OCI of $50 to $100. Conversely, an immediate 10% decrease in stock prices would result in an estimated after-tax decrease in OCI of $50 to $100.

The Company's equity portfolio is well diversified.

The carrying value of stocks by issuer country as at December 31 is shown in the following table.

	2008			2007		
	Held-for-Trading Stocks	**Available-for-Sale Stocks**	**Total Stocks**	Held-for-Trading Stocks	Available-for-Sale Stocks	Total Stocks
Canada	**$ 1,724**	**$ 577**	**$ 2,301**	$ 2,016	$ 222	$ 2,238
United States	**942**	**396**	**1,338**	1,141	566	1,707
United Kingdom	**434**	**6**	**440**	893	—	893
Other	**340**	**39**	**379**	388	—	388
Total stocks	**$ 3,440**	**$ 1,018**	**$ 4,458**	$ 4,438	$ 788	$ 5,226

7. Goodwill and Intangible Assets

A) GOODWILL

In addition to the goodwill of $6,598 ($6,018 in 2007) shown on the consolidated balance sheets, goodwill of $377 in 2007 for investments accounted for by the equity method was included in other invested assets. The equity method goodwill was related to the Company's investment in CI Financial which was sold in the fourth quarter of 2008 as described in Note 3. In addition to acquisitions and disposals of subsidiaries and equity method investments, transactions with the non-controlling interests also result in increases and decreases to goodwill. There were no write-downs of goodwill due to impairment during 2008, 2007 and 2006.

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, 2007	$ 3,768	$ 1,453	$ 508	$ 571	$ 6,300
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**	**$ 433**	**$ 577**	**$ 6,395**
Acquisitions (Note 3)	**17**	**—**	**—**	**75**	**92**
Disposals (Note 3)	**(377)**	**(16)**	**—**	**(5)**	**(398)**
Effect of changes in currency exchange rates	**—**	**369**	**103**	**37**	**509**
Balance, December 31, 2008	**$ 3,481**	**$ 1,897**	**$ 536**	**$ 684**	**$ 6,598**

B) INTANGIBLE ASSETS

In addition to the intangible assets of $878 ($775 in 2007) shown on the consolidated balance sheets, intangible assets of $766 for investments accounted for by the equity method were included in other invested assets in 2007. These intangible assets were related to the Company's investment in CI Financial which was sold in the fourth quarter of 2008 as described in Note 3. There were no write-downs of intangible assets due to impairment during 2008, 2007 and 2006. During 2007, the Company retired the Clarica brand name as part of its integrated brand strategy in Canada. The write-down of the brand name of $52 was recorded to operating expenses in 2007 ($ 43 net of the related taxes of $9).

Amortization of intangible assets recorded in operating expenses during the year was $24 ($25 in 2007 and $25 in 2006). The Company expects to record amortization expenses of $24 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:

	2008			2007		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Amount**	Gross Carrying Amount	Accumulated Amortization	Net Amount
Finite-life intangible assets:						
Sales potential of field force	**$ 504**	**$ 74**	**$ 430**	$ 486	$ 60	$ 426
Asset administration contracts	**231**	**58**	**173**	224	49	175
Other (1)	**2**	**2**	**—**	2	2	—
	737	**134**	**603**	712	111	601
Indefinite-life intangible assets:						
Fund management contracts (2)	**263**	**—**	**263**	930	—	930
State licenses	**12**	**—**	**12**	10	—	10
	275	**—**	**275**	940	—	940
Total intangible assets	**$ 1,012**	**$ 134**	**$ 878**	$ 1,652	$ 111	$ 1,541

(1) The asset has been fully amortized as at December 31, 2008.

(2) Decrease in 2008 is due to the sale of CI Financial described in Note 3.

8. Other Assets

Other assets consist of the following:

	2008	2007
Accounts receivable	**$ 1,496**	$ 1,629
Investment income due and accrued	**1,208**	1,093
Future income taxes (Note 19)	**1,190**	382
Deferred acquisition costs	**154**	139
Prepaid expenses	**303**	231
Premiums receivable	**476**	395
Accrued benefit asset (Note 22)	**422**	422
Capital assets	**210**	171
Other	**20**	16
Total other assets	**$ 5,479**	$ 4,478

Amortization of deferred acquisition costs charged to income amounted to $50 in 2008 ($64 and $112 in 2007 and 2006, respectively).

Capital assets are carried at a cost of $855 ($722 in 2007), less accumulated depreciation and amortization of $645 ($551 in 2007). Depreciation and amortization charged to operating expenses in the consolidated statements of operations totalled $63 in 2008 ($62 and $67 in 2007 and 2006, 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. Prior to 2007, deferred net realized gains on bonds, stocks, mortgages and derivatives were also taken into account in establishing the actuarial liabilities.

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

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 $877 are included in policyholder dividends and interest on claims and deposits in the consolidated statements of operations ($906 in 2007 and $846 in 2006).

B) COMPOSITION OF ACTUARIAL LIABILITIES AND OTHER POLICY LIABILITIES

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

	2008				
	SLF Canada	**SLF U.S.**	**SLF Asia**	**Corporate[1]**	**Total**
Individual participating life	**$ 13,548**	**$ 5,776**	**$ 2,722**	**$ 2,408**	**$ 24,454**
Individual non-participating life	**2,692**	**8,946**	**195**	**1,261**	**13,094**
Group life	**1,212**	**206**	**15**	**13**	**1,446**
Individual annuities	**9,192**	**10,468**	**—**	**3,572**	**23,232**
Group annuities	**6,011**	**3,854**	**426**	**—**	**10,291**
Health insurance	**5,497**	**1,127**	**1**	**99**	**6,724**
Total actuarial liabilities	**38,152**	**30,377**	**3,359**	**7,353**	**79,241**
Add: Other policy liabilities[2]	**587**	**801**	**76**	**706**	**2,170**
Actuarial liabilities and other policy liabilities	**$ 38,739**	**$ 31,178**	**$ 3,435**	**$ 8,059**	**$ 81,411**

	2007				
	SLF Canada	SLF U.S.	SLF 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

(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.

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

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:

2008

	Bonds		Stocks					
	Held-for -Trading	**Available -for-sale**	**Held-for -Trading**	**Available -for-sale**	**Mortgages and Corporate Loans**	**Real Estate**	**Other**	**Total**
Individual participating life	**$ 13,253**	**$ —**	**$ 2,505**	**$ 10**	**$ 4,732**	**$ 3,312**	**$ 4,022**	**$ 27,834**
Individual non-participating life	**7,218**	**402**	**611**	**2**	**3,373**	**231**	**6,177**	**18,014**
Group life	**1,077**	**—**	**2**	**—**	**1,122**	**26**	**10**	**2,237**
Individual annuities	**16,280**	**60**	**11**	**—**	**5,761**	**—**	**3,854**	**25,966**
Group annuities	**6,750**	**307**	**60**	**5**	**3,145**	**150**	**1,025**	**11,442**
Health insurance	**3,872**	**—**	**1**	**1**	**3,255**	**106**	**681**	**7,916**
Equity and other	**8**	**9,847**	**250**	**1,000**	**914**	**1,083**	**13,322**	**26,424**
Total assets	**$ 48,458**	**$ 10,616**	**$ 3,440**	**$ 1,018**	**$ 22,302**	**$ 4,908**	**$ 29,091**	**$119,833**

2007

	Bonds		Stocks					
	Held-for -Trading	Available -for-sale	Held-for -Trading	Available -for-sale	Mortgages and Corporate Loans	Real Estate	Other	Total
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)

D) CHANGES IN ACTUARIAL LIABILITIES

Changes in actuarial liabilities during the year are as follows:

	2008	2007
Actuarial liabilities, January 1, before change in accounting policy	**$ 77,936**	$ 79,286
Adjustment for change in accounting policy (Note 2)	**—**	7,129
Actuarial liabilities, January 1, after change in accounting policy	**77,936**	86,415
Change in liabilities on in-force business	**(7,777)**	(5,201)
Liabilities arising from new policies	**3,094**	2,803
Significant changes in assumptions or methodology (1):		
Gross increases	**405**	380
Gross decreases	**(151)**	(497)
Increase (decrease) in actuarial liabilities	**(4,429)**	(2,515)
Actuarial liabilities before the following:	**73,507**	83,900
Acquisition (Note 3)	**—**	536
Effect of changes in currency exchange rates	**5,734**	(6,500)
Actuarial liabilities, December 31	**79,241**	77,936
Add: Other policy liabilities	**2,170**	1,894
Actuarial liabilities and other policy liabilities, December 31	**$ 81,411**	$ 79,830

(1) The increase in actuarial liabilities in 2008 included $296 from strengthening default assumptions on bonds and mortgages, and $109 from the receipt of more comprehensive information on liabilities accepted on our retrocession business. The decrease in 2008 included $151 for taking account of investment synergies between business units within SLF Canada and within SLF U.S. 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.

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

Changes in the fair value of assets backing actuarial and other policy liabilities would be substantially offset by a corresponding change in the fair value of the liabilities (including actuarial liabilities and related future income taxes and deferred net realized gains), resulting in limited impact on the Company's equity.

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.

For life insurance products for which higher mortality would be financially adverse to the Company, a 2% increase in the best estimate assumption would decrease net income by about $120. For life insurance products for which lower mortality would be financially adverse to the Company, a 2% decrease in the mortality assumption would decrease net income by about $10. For annuities products for which lower mortality would be financially adverse to the Company, a 2% decrease in the mortality assumption would decrease net income by about $80.

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

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 SLF Reinsurance. 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 5% adverse change in that assumption would reduce net income by about $120.

Asset default

Assumptions related to investment returns include expected future credit losses on fixed income investments. Past Company and industry experience over the long term, 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 $2,320 determined on a pre-tax basis to provide for possible future asset defaults and loss of asset value on current assets and on future purchases. The amount excludes defaults that can be passed through to participating policyholders and excludes provisions for loss in the value of equity and real estate assets supporting actuarial liabilities.

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 $250 to $300; conversely, the impact of a decrease of 10% would be an immediate estimated decrease in net income of $275 to $350.

A 100 basis point reduction in future assumed equity and real estate returns would result in an estimated decrease in net income of about $500 to $600.

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.

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

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.

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, 2008, across the entire yield curve in all markets, would be an increase in net income of $100 to $150. Conversely an immediate 1% parallel decrease in interest rates would result in an estimated decrease in net income of $150 to $200.

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 about $190 if the termination rate assumption were reduced by 10%. For products where more terminations would be financially adverse to the Company, net income would be decreased by about $180 if the termination rate assumption were increased by 10%.

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 5% increase in unit expenses Company-wide would result in a decrease in net income of about $140.

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:

	2008	2007	2006
Premiums:			
Direct premiums	**$ 14,124**	$ 13,550	$ 14,947
Reinsurance assumed	**585**	564	574
Reinsurance ceded	**(1,122)**	(990)	(912)
	$ 13,587	$ 13,124	$ 14,609
Payments to policyholders, beneficiaries and depositors:			
Direct payments	**$ 13,863**	$ 14,292	$ 12,987
Reinsurance assumed	**657**	526	419
Reinsurance ceded	**(745)**	(574)	(511)
	$ 13,775	$ 14,244	$ 12,895

Actuarial liabilities are shown net of ceded reinsurance of $2,292 in 2008 ($2,448 in 2007).

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 2008 analysis tested the capital adequacy of the Company until December 31, 2012, 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 $7,663 ($3,691 in 2007). All of these regulatory requirements constrain the Company's ability to distribute its retained earnings.

10. Capital Management

The Company's capital base is structured to exceed regulatory and internal capital targets and maintain strong credit ratings while maintaining a capital efficient structure and desired capital ratios. The Company strives to achieve an optimal capital structure by balancing the use of debt and equity financing. Capital is managed on a consolidated basis under principles that consider all the risks associated with the business. It is also managed at the business unit level under the principles appropriate to the jurisdiction in which it operates.

The Board is responsible for the annual review and approval of the Company's capital plan, in conjunction with the operating plan. The Capital Management Committee (CMC) has management oversight responsibility for capital management. Corporate Treasury and Risk Management are responsible for the design and implementation of the capital management policy.

This policy is designed to ensure that adequate capital is maintained to provide the flexibility necessary to take advantage of growth opportunities, to support the risks associated with the businesses of the Company and to optimize return to its shareholders. This policy is also intended to provide an appropriate level of risk management over capital adequacy risk, which is defined as the risk that capital is not or will not be sufficient to withstand adverse economic conditions, to maintain financial strength or to allow the Company and its subsidiaries to take advantage of opportunities for expansion.

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 minimum internal targets as at December 31, 2008 and 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 ratio of 150% or greater, based on the risk profile of the relevant insurance company. Sun Life Assurance's MCCSR ratio as at December 31, 2008 and December 31, 2007, was above the minimum levels that would require any regulatory or corrective action.

Significant foreign life subsidiaries that are not subject to the MCCSR rules are expected to comply with the capital adequacy requirements imposed in the foreign jurisdictions in which they operate. The Company'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 at least 200% of minimum risk-based capital. The risk-based capital of Sun Life Assurance Company of Canada (U.S.) was above the minimum level as at December 31, 2008 and December 31, 2007.

10. Capital Management (Cont'd)

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 maintained capital levels above the local requirements as at December 31, 2008 and December 31, 2007.

The Company's capital base consists mainly of common shareholders' equity, participating policyholders' equity, preferred shareholders' equity and certain other capital securities (that qualify as regulatory capital).

	As at	
	December 31 2008	December 31 2007
Equity:		
Participating policyholders' equity	**$ 106**	$ 95
Preferred shareholders' equity	**1,495**	1,495
Common shareholders' equity	**15,808**	15,627
Total equity	**17,409**	17,217
Other capital securities:		
Subordinated debt	**2,576**	1,796
Sun Life Assurance debentures, Series A, B (1)	**1,150**	1,150
Total other capital securities	**3,726**	2,946
Total capital	**$ 21,135**	$ 20,163

(1) The Sun Life Assurance debentures qualify as regulatory capital up to the amount of $1,150 of Sun Life ExchangEable Capital Securities issued by Sun Life Capital Trust, a former subsidiary of the Company that was deconsolidated upon the adoption of CICA Handbook Accounting Guideline 15, Consolidation of Variable Interest Entities, in 2005.

The significant changes in capital are included in the following notes on senior debentures, subordinated debt and share capital.

11. Senior Debentures

The following obligations are included in senior debentures:

	Currency of Borrowing	Interest Rate	Maturity	**2008**	2007
Sun Life Assurance debentures					
Series A debenture	Cdn. dollars	6.87%	2031	**$ 960**	$ 960
Series B debenture	Cdn. dollars	7.09%	2052	**200**	200
SLF Inc. senior unsecured debentures					
Series A	Cdn. dollars	4.80%	2035	**600**	600
Series B	Cdn. dollars	4.95%	2036	**953**	954
Series C	Cdn. dollars	5.00%	2031	**300**	300
				$ 3,013	$ 3,014
Fair value				**$ 2,768**	$ 3,068

Fair value is based on market price for the same or similar instruments as appropriate. Interest expense for senior debentures was $170, $192 and $205 for 2008, 2007 and 2006, respectively.

Partnership capital securities

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

11. Senior Debentures (Cont'd)

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

SLF Inc. issued $600 principal amount of Series A Senior Unsecured 4.8% Fixed/Floating Debentures due 2035 in 2005. 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.

SLF Inc. issued $700 principal amount of Series B Senior Unsecured 4.95% Fixed/Floating Debentures due 2036 on March 13, 2006. An additional $250 principal amount was issued on February 26, 2007 for a total principal amount of $950. 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.

SLF Inc. issued $300 principal amount of Series C Senior Unsecured 5% Fixed/Floating Debentures due 2031 on July 11, 2006. 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.

12. Other Liabilities

A) COMPOSITION OF OTHER LIABILITIES

Other liabilities consist of the following:

	2008	2007
Accounts payable	**$ 2,599**	$ 1,762
Bank overdrafts	**314**	303
Bond repurchase agreements	**1,406**	1,982
Accrued expenses and taxes	**534**	1,012
Borrowed funds	**348**	335
Senior financing	**1,356**	996
Future income taxes (Note 19)	**477**	582
Accrued benefit liability (Note 22)	**501**	479
Other	**296**	224
Total other liabilities	**$ 7,831**	$ 7,675

B) BOND REPURCHASE AGREEMENTS

The Company enters into bond repurchase agreements for operational funding and liquidity purposes. Bond repurchase agreements have maturities ranging from 2 to 86 days, averaging 39 days, and bear interest at rates averaging 1.64% as at December 31, 2008 (4.26% in 2007). As at December 31, 2008, the Company had assets with a total fair value of $1,419 ($1,822 in 2007), pledged as collateral for the bond repurchase agreements.

12. Other Liabilities (Cont'd)

C) BORROWED FUNDS

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

	Currency of Borrowing	Maturity	2008	2007
Encumbrances on real estate	Cdn. dollars	2009-2018	**$ 187**	$ 188
	U.S. dollars	2009-2015	**161**	147
Total borrowed funds			**$ 348**	$ 335

The aggregate maturities of encumbrances on real estate are included in Note 6B).

As at December 31, 2008, the Company had $122 line of credit from a financial institution of which a total of $45 was used during the year. The weighted average interest rates related to those borrowing is 2.37% (not used in 2007). The line of credit will expire in November 2009. There was no balance outstanding as of December 31, 2008.

Interest expense for the borrowed funds was $22, $16 and $15 for 2008, 2007 and 2006, respectively.

D) SENIOR FINANCING

On November 8, 2007, a variable interest entity (the VIE) 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. During 2008, the VIE issued an additional U.S. $115 of certificates. During the fourth quarter of 2008, collateral of U.S. $213 was delivered to the lender, as per the financing agreement.

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, 2008, the Company recorded $48 of interest expense relating to this obligation ($9 in 2007).

13. Subordinated Debt

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

	Currency	Interest Rate	Maturity	2008	2007
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(4)	Cdn. dollars	5.40%	2042	**398**	398
Subordinated debentures(5)	Cdn. dollars	5.59%	2023	**398**	—
Subordinated debentures(6)	Cdn. dollars	5.12%	2018	**348**	—
Subordinated notes	U.S. dollars	7.25%	2015	**183**	149
Total				**$ 2,576**	$ 1,796
Fair value				**$ 2,397**	$ 1,849

(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) After May 29, 2037, until maturity of the debentures interest rate is payable at 1% over the 90-day Bankers' Acceptance Rate. Redeemable in whole on the maturity date.

(5) After January 30, 2018, until maturity of the debentures interest rate is payable at 2.1% over the 90-day Bankers' Acceptance Rate. Redeemable in whole on the maturity date.

(6) After June 26, 2013, until maturity of the debentures interest rate is payable at 2% over the 90-day Bankers' Acceptance Rate. Redeemable in whole on the maturity date.

Fair value is based on market prices for the same or similar instruments as appropriate. Interest expense on subordinated debt was $142, $105 and $93 for 2008, 2007 and 2006, 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 month 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.

On January 30, 2008, SLF Inc. issued $400 principal amount of Series 2008-1 Subordinated Unsecured 5.59% Fixed/Floating Debentures due in 2023. On June 26, 2008, SLF Inc. issued $350 principal amount of Series 2008-2 Subordinated Unsecured 5.12% Fixed/Floating Debentures due in 2018. The proceeds of these issuances were used for general corporate purposes, including investments in subsidiaries.

14. 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 2008, 2007 and 2006.

15. 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 in shares issued and outstanding are as follows:

	2008		2007		2006	
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
Preferred shares (in millions of shares)						
Balance, January 1:	**61**	**$ 1,495**	51	$ 1,250	29	$ 712
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)
Balance, December 31	**61**	**$ 1,495**	61	$ 1,495	51	$ 1,250
Common shares (in millions of shares)						
Balance, January 1	**564**	**$ 7,033**	572	$ 7,082	582	$ 7,173
Stock options exercised (Note 18)	**1**	**10**	2	66	2	73
Common shares purchased for cancellation	**(5)**	**(60)**	(10)	(115)	(12)	(164)
Balance, December 31	**560**	**$ 6,983**	564	$ 7,033	572	$ 7,082

Further information on the preferred shares outstanding as at December 31, 2008, is as follows:

	Issue Date	Dividend rate	Earliest Redemption Date	Number of Shares	Face amount	Net * Amount
Preferred shares (in millions of shares)						
Preferred shares issued, Class A, Series 1	February 25, 2005	4.75%	March 31, 2010	16	$ 400	$ 394
Preferred shares issued, Class A, Series 2	July 15, 2005	4.80%	September 30, 2010	13	325	318
Preferred shares issued, Class A, Series 3	January 13, 2006	4.45%	March 31, 2011	10	250	245
Preferred shares issued, Class A, Series 4	October 10, 2006	4.45%	December 31, 2011	12	300	293
Preferred shares issued, Class A, Series 5	February 2, 2007	4.50%	March 31, 2012	10	250	245
Total preferred shares				61	$ 1,525	$ 1,495

* Net of issuance costs

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.

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

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 except for the January 12, 2008 to January 11, 2009 program, 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. For the January 12, 2008 program, the maximum number of shares that could be purchased represented approximately 3.5% of the shares issued and outstanding at January 10, 2008. 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, 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
January 12, 2008 to January 11, 2009	20 million

SLF Inc. also purchased and cancelled common shares pursuant to private agreements between SLF Inc. and an arm's 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:

	2008	2007	2006
Number of shares repurchased (in millions)	**4.8**	9.8	12.2
Amount (1)	**$ 217**	$ 502	$ 575
Average price per share	**$ 45.30**	$ 51.18	$ 46.31

(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.

16. Operating Expenses

Operating expenses consist of the following:

	2008	2007	2006
Compensation costs	**$ 1,789**	$ 1,898	$ 1,851
Premises and equipment costs	**247**	265	259
Capital asset depreciation and amortization (Note 8)	**63**	62	67
Other (1)	**904**	1,035	851
Total operating expenses	**$ 3,003**	$ 3,260	$ 3,028

(1) 2007 includes the write-down of the brand name intangible asset of $52 as described in Note 7.

17. Earnings Per Share

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

	2008	2007	2006
Common shareholders' net income	**$ 785**	$ 2,219	$ 2,089
Less: Effect of stock awards of subsidiaries (1)	**14**	20	11
Common shareholders' net income on a diluted basis	**$ 771**	$ 2,199	$ 2,078
Weighted average number of shares outstanding for basic earnings per share (in millions)	**561**	569	577
Add: Adjustments relating to the dilutive impact of stock options (2)	**1**	3	3
Weighted average number of shares outstanding on a diluted basis (in millions)	**562**	572	580

(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.

18. 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 numbers 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:

	2008		2007		2006	
	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	**8,168**	**$ 35.98**	9,138	$ 32.58	10,049	$ 28.95
Granted	**2,355**	**40.47**	1,261	52.55	1,460	49.29
Exercised	**(306)**	**24.99**	(2,075)	27.45	(2,228)	26.57
Forfeited	**(187)**	**47.40**	(156)	46.04	(143)	37.47
Balance, December 31	**10,030**	**$ 37.81**	8,168	$ 35.98	9,138	$ 32.58
Exercisable, December 31	**5,911**	**$ 33.24**	5,333	$ 29.19	5,909	$ 28.39

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, 2008 is $8. For options where the exercise price is greater than the market price of an SLF Inc. share, the intrinsic value is zero. The aggregate intrinsic value of options exercised in 2008 was $6 ($51 and $48 for 2007 and 2006, respectively). As at December 31, 2008, the number of stock options vested and expected to vest at the end of the relevant vesting period is 9,515 thousand. The aggregate intrinsic value of the options vested and expected to vest is $8 with a weighted average exercise price of $37.54 and a weighted average remaining term to maturity of 5.89 years.

18. Stock-Based Compensation (Cont'd)

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.

	2008	2007	2006
Compensation expense recorded	**$ 10**	$ 10	$ 13
Income tax benefit on expense recorded	**$ 1**	$ 1	$ 1
Income tax benefit realized on exercised options	**$ 1**	$ 4	$ 6

The unrecognized compensation cost, adjusted for an estimate of future forfeitures, for non-vested stock options as at December 31, 2008 was $8. The weighted average recognition period over which this compensation cost is expected to be recognized is 3.2 years.

The stock options outstanding and exercisable as at December 31, 2008, 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 $24.00	**942**	**3.33**	**$ 22.38**	**942**	**3.33**	**$ 22.38**
$25.00 to $30.00	**2,918**	**5.21**	**27.84**	**2,018**	**3.18**	**27.58**
$31.00 to $35.00	**1,132**	**3.17**	**32.88**	**1,132**	**3.17**	**32.88**
$36.00 to $45.00	**1,196**	**5.97**	**40.43**	**907**	**5.91**	**40.31**
$46.00 to $53.00	**3,842**	**8.21**	**49.83**	**912**	**7.46**	**50.37**
	10,030	**6.04**	**$ 37.81**	**5,911**	**4.28**	**$ 33.24**

The weighted average fair values of the stock options, calculated using the Black-Scholes option-pricing model, granted during the year ended December 31, 2008, was $6.59 ($8.73 and $8.40 for 2007 and 2006, 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	**2008**	2007	2006
Risk-free interest rate	**3.4%**	4.1%	4.1%
Expected volatility	**23.8%**	16.0%	16.0%
Expected dividend yield	**3.8%**	2.4%	2.2%
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 employee's 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.

18. Stock-Based Compensation (Cont'd)

Details of these plans are as follows:

Senior Executives' Deferred Share Unit (DSU) Plan: Under the DSU plan, designated executives may elect to receive all or a portion of their annual incentive award in the form of DSUs. Each DSU is equivalent to one common share and earns dividend equivalents in the form of additional DSUs at the same rate as the dividends on common shares. The designated executives must elect to participate in the plan prior to the beginning of the plan year and this election is irrevocable. Awards generally vest immediately; however, participants are not permitted to redeem the DSUs until termination, death or retirement. The value at the time of redemption will be based on the fair 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, 2006	588	2,138	611	3,337
Units outstanding December 31, 2007	554	1,809	515	2,878
Units outstanding December 31, 2008	**771**	**2,171**	**523**	**3,465**
Liability accrued as at December 31, 2008	**$ 17**	**$ 31**	**$ 7**	**$ 55**

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 adjustment in expenses due to the impact of hedging.

	2008	2007	2006
Compensation expense recorded	**$ (16)**	$ 49	$ 50
Income tax expense (benefit) on expense recorded	**$ 6**	$ (17)	$ (17)

The unrecognized liability and compensation cost for other stock-based compensation plan units outstanding as at December 31, 2008, including an adjustment for expected future forfeitures, as at December 31, 2008 was $31. The weighted average recognition period over which this compensation cost is expected to be recognized is 2 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 $43 related to the liabilities of these plans in 2008 ($63 and $27 for 2007 and 2006, respectively).

18. Stock-Based Compensation (Cont'd)

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). Vesting requirements must be met in order for employees to have full ownership rights to the restricted share awards. Dividends are paid to restricted shareholders 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 and stock options vest over a four-year period. The RSUs 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 expenses in the consolidated statements of operations for these awards are as follows:

	2008	2007	2006
Awards outstanding (in thousands)	**143**	151	172
Expense recorded in operating expenses	**$ 37**	$ 37	$ 17
Income tax benefit recorded	**$ 16**	$ 14	$ 6

19. Income Taxes

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

	2008	2007	2006
Canadian income tax expense (benefit):			
Current	**$ 252**	$ (89)	$ 418
Future	**98**	135	(271)
Total	**350**	46	147
Foreign income tax expense (benefit):			
Current	**(106)**	158	306
Future	**(587)**	318	(64)
Total	**(693)**	476	242
Total income taxes expense (benefit)	**$ (343)**	$ 522	$ 389

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 $160 as at December 31, 2008 ($134 and $105 in 2007 and 2006, respectively).

19. Income Taxes (Cont'd)

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

	2008		2007		2006	
		%		%		%
Total net income	**$ 857**		$ 2,290		$ 2,144	
Add: Income taxes expense (benefit)	**(343)**		522		389	
Non-controlling interests in net income of subsidiaries	**23**		35		27	
Total net income before income taxes and non-controlling interests in net income of subsidiaries	**$ 537**		$ 2,847		$ 2,560	
Taxes at the combined Canadian federal and provincial statutory income tax rate	**$ 175**	**32.5**	$ 996	35.0	$ 896	35.0
Increase (decrease) in rate resulting from:						
Higher (lower) effective rates on income subject to taxation in foreign jurisdictions	**(441)**	**(82.1)**	(250)	(8.8)	(239)	(9.3)
Tax (benefit) cost of unrecognized losses	**20**	**3.7**	19	0.6	(41)	(1.6)
Tax exempt investment income	**(49)**	**(9.1)**	(155)	(5.4)	(179)	(7.0)
Changes to statutory income tax rates	**(30)**	**(5.6)**	(86)	(3.0)	(41)	(1.6)
Other	**(18)**	**(3.3)**	(2)	(0.1)	(7)	(0.3)
Company's effective worldwide income taxes	**$ (343)**	**(63.9)**	$ 522	18.3	$ 389	15.2

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 assets and liabilities on an ongoing basis. The re-measurement of future taxes in 2008, 2007 and 2006 impacted both the business attributable to participating policyholders and shareholders. The participating policyholders benefited by $25 in 2008 ($32 and $36 in 2007 and 2006, respectively), while the increase to shareholders' income amounted to $5 in 2008 ($54 and $5 in 2007 and 2006, respectively).

The Company has accumulated tax losses, primarily in the United Kingdom, United States and Canada, totalling $777 ($572 in 2007). 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 $134 ($95 in 2007) in future income taxes. The capital losses in the United States expire in 2013 while non-capital losses expire in 2023. The losses in Canada expire primarily in 2028. The losses in the United Kingdom can be carried forward indefinitely. 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.

19. Income Taxes (Cont'd)

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

	2008		2007	
	Assets	**Liabilities**	Assets	Liabilities
Investments	**$ 1,927**	**$ 809**	$ (27)	$ 1,257
Actuarial liabilities	**(1,323)**	**(245)**	261	(464)
Deferred acquisition costs	**464**	**—**	144	(199)
Losses available for carry forward	**62**	**(128)**	6	(111)
Other	**203**	**13**	3	82
	1,333	**449**	387	565
Valuation allowance	**(143)**	**28**	(5)	17
Total	**$ 1,190**	**$ 477**	$ 382	$ 582

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:

	2008	2007	2006
Investments	**$ (2,070)**	$ (524)	$ 14
Actuarial liabilities	**1,851**	883	(101)
Deferred acquisition costs	**(46)**	(67)	(45)
Losses (incurred) utilized	**71**	(3)	(75)
Other	**(295)**	164	(128)
Future income tax expense (benefit)	**$ (489)**	$ 453	$ (335)

20. 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:

	2008	2007
Unrealized foreign currency gains and losses on net investment hedges	**$ (5)**	$ 13
Unrealized gains and losses on available-for-sale assets	**376**	21
Reclassifications to net income for available-for-sale assets	**(48)**	29
Unrealized gains and losses on cash flow hedging instruments	**62**	28
Reclassifications to net income for cash flow hedges	**—**	4
Total income taxes benefit (expense) included in OCI	**$ 385**	$ 95

21. 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 total $425. The future rental payments by year of payment are included in Note 6B).

B) CONTRACTUAL COMMITMENTS

In the normal course of business, various contractual commitments are outstanding, which are not reflected in the Consolidated Financial Statements. In addition to the loan commitments for bonds and mortgages included in Note 6Ai), the Company has equity and real estate commitments. As at December 31, 2008, the Company had a total of $1,072 of contractual commitments outstanding. The expected maturities of these commitments are included in Note 6B).

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

C) LETTERS OF CREDIT

The Company issues commercial letters of credit in the normal course of business. As at December 31, 2008, letters of credit in the amount of $1,236 are outstanding.

D) INDEMNITIES AND GUARANTEES

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, the sale of equity interests, 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 6Ai).

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.

21. 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)
2008					
Revenue	**$ 518**	**$ 13,290**	**$ 2,689**	**$ (934)**	**$ 15,563**
Shareholders' net income	**$ 855**	**$ 1,506**	**$ (814)**	**$ (692)**	**$ 855**
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

	SLF Inc. (Unconsolidated)	Sun Life Assurance (Consolidated)	Other Subsidiaries of SLF Inc. (Combined)	Consolidation Adjustments	SLF Inc. (Consolidated)
2008					
Invested assets	**$ 20,393**	**$ 81,169**	**$ 24,103**	**$ (18,787)**	**$ 106,878**
Total other assets	**$ 4,844**	**$ 10,912**	**$ 8,942**	**$ (11,743)**	**$ 12,955**
Actuarial and other policy liabilities	**$ —**	**$ 65,954**	**$ 15,484**	**$ (27)**	**$ 81,411**
Total other liabilities	**$ 7,934**	**$ 15,729**	**$ 12,242**	**$ (14,892)**	**$ 21,013**
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

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 federal, provincial and state regulatory bodies, securities and insurance regulators in Canada, the United States and other jurisdictions, the United States Securities Commission, the United States Financial Industry Regulatory Authority, and state attorneys general in the United States, 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, 2008, copies of which are available on the Company's website at www.sunlife.com and at www.sedar.com and www.sec.gov.

22. 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. These post-retirement benefits are not pre-funded.

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

	Pension		Post-Retirement	
	2008	2007	**2008**	2007
Change in projected benefit obligation:				
Projected benefit obligation, January 1	**$2,426**	$2,643	**$ 249**	$ 328
Change in January 1 balance due to acquisition	**—**	—	**—**	5
Service cost	**50**	53	**5**	7
Interest cost	**129**	128	**14**	15
Adjustment for change in measurement date	**2**	—	—	—
Actuarial losses (gains)	**(331)**	(159)	**(34)**	(23)
Benefits paid	**(112)**	(104)	**(11)**	(10)
Curtailments, settlements and plan amendments	**—**	4	**(1)**	(64)
Effect of changes in currency exchange rates	**22**	(139)	**11**	(9)
Projected benefit obligation, December 31 (1), (2)	**$2,186**	$2,426	**$ 233**	$ 249
Accumulated benefit obligation, December 31 (3)	**$2,005**	$2,213		
Change in plan assets:				
Fair value of plan assets, January 1	**$2,393**	$2,502	**$ —**	$ —
Net actual return on plan assets	**(307)**	122	**—**	—
Employer contributions	**14**	16	**11**	11
Adjustment for change in measurement date	**2**	—	—	—
Benefits paid	**(112)**	(104)	**(11)**	(11)
Effect of changes in currency exchange rates	**5**	(143)	**—**	—
Fair value of plan assets, December 31 (1)	**$1,995**	$2,393	**$ —**	$ —
Net funded status, December 31	**$ (191)**	$ (33)	**$ (233)**	$ (249)
Unamortized net actuarial loss	**436**	319	**(18)**	22
Unamortized past service cost	**11**	12	**(28)**	(50)
Unamortized transition asset	**(52)**	(72)	**(4)**	(6)
Contributions (transfers), October 1 to December 31 (1)	**—**	(1)	**—**	1
Accrued benefit asset (liability), December 31 (1)	**$ 204**	$ 225	**$ (283)**	$ (282)
Balance sheet classification of accrued benefit asset (liability), December 31:				
Other assets	**$ 422**	$ 422	**$ —**	$ —
Other liabilities	**$ 218**	$ 197	**$ 283**	$ 282
Pension plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	**$1,027**	$ 778		
Plan assets	**$ 756**	$ 553		

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

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

	Pension			Post-Retirement		
	2008	2007	2006	**2008**	2007	2006
Components of defined benefit cost recognized:						
Service cost, curtailments and settlements	**$ 50**	$ 53	$ 56	**$ 5**	$ (7)	$ 9
Plan amendments	**—**	4	8	**(1)**	(64)	**—**
Interest cost	**129**	128	124	**14**	15	17
Actual return on plan assets	**307**	(122)	(242)	**—**	—	—
Actuarial losses (gains)	**(331)**	(159)	(25)	**(34)**	(23)	(27)
Benefit cost before adjustments to recognize the long-term nature of defined benefit plans	**$ 155**	$ (96)	$ (79)	**$ (16)**	$ (79)	$ (1)
Adjustments to recognize the long-term nature of defined benefit plans:						
Difference between expected and actual return on plan assets for year	**$ (462)**	$ (41)	$ 73	**$ —**	$ —	$ —
Difference between actuarial losses (gains) recognized and actual actuarial losses (gains) on accrued benefit obligation for year	**363**	189	55	**35**	25	31
Difference between amortization of past service costs for year and actual plan amendments for year	**1**	1	(7)	**(23)**	45	(2)
Amortization of transition obligation (asset)	**(18)**	(18)	(17)	**(2)**	(2)	(2)
Total adjustments to defer costs to future periods	**$ (116)**	$ 131	$ 104	**$ 10**	$ 68	$ 27
Total benefit cost recognized	**$ 39**	$ 35	$ 25	**$ (6)**	$ (11)	$ 26

Key weighted average assumptions:

	Pensions		Post-Retirement	
	2008	2007	**2008**	2007
To measure benefit obligation at end of year **(1)**				
Discount rate	**6.5%**	5.5%	**6.5%**	5.4%
Rate of compensation increase	**3.6%**	3.7%	**—**	—
Initial health care cost trend rate **(4)**	—	—	**9.4%**	9.8%
To determine 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%	**—**	—
Initial health care cost trend rate **(4)**	**—**	—	**9.8%**	9.8%

(1) The measurement date for the plans in the United States has changed from September 30 to December 31 in 2008. All other defined benefit plans have the measurement date as December 31.

(2) The date of the most recent actuarial valuation for funding purposes was January 1, 2006 for the United Kingdom, and January 1, 2008 for all other plans. The next required funding valuation is January 1, 2011 for the plans in Canada, and January 1, 2009 for all other plans.

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

(4) The assumed medical cost trend rate used in measuring the accumulated post-retirement benefits obligation in Canada in 2008 was 9.5%, decreasing by 0.5% each year to an ultimate rate of 5.5% per year. In the United States in 2008, the assumed rate was 9%, decreasing gradually to an ultimate rate of 5.0% per year in 2014. The assumed dental cost trend rate is 4.5% in Canada and 5% in the United States.

22. 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.

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	**$ 19**	**$ (17)**
Effect on aggregated service and interest costs	**$ 2**	**$ (2)**

Composition of fair value of plan assets, December 31:

	2008	2007
Equity investments	**37%**	43%
Fixed income investments	**47%**	44%
Real estate investments	**5%**	4%
Other	**11%**	9%
Total composition of fair value of plan assets	**100%**	100%

Target allocation of plan assets, December 31:

	2008	2007
Equity investments	**42%**	42%
Fixed income investments	**45%**	45%
Real estate investments	**4%**	5%
Other	**9%**	8%
Total	**100%**	100%

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

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 those 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	**$ 31**	**$ 8**	**$ 39**

Expected future benefit payments

	2009	2010	2011	2012	2013	2014 -2018
Pension	**$ 91**	**$ 96**	**$ 100**	**$ 108**	**$ 112**	**$ 660**
Post-retirement	**14**	**14**	**15**	**16**	**16**	**93**
Total	**$ 105**	**$ 110**	**$ 115**	**$ 124**	**$ 128**	**$ 753**

The total contribution made by the Company to defined contribution plans was $52 in 2008, $52 in 2007 and $51 in 2006.

23. Foreign Exchange Gain/Loss

The net foreign exchange loss of $6, equivalent to the proportionate amount of the foreign exchange loss accumulated in the unrealized foreign currency translation gains (losses) in accumulated other comprehensive income from its self-sustaining foreign operations, was recognized in net investment income for the year ended December 31, 2008 (loss of $3 in 2007 and gain of $4 in 2006).

24. 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 2008 of $129 ($144 and $127 in 2007 and 2006, respectively) are included in fee income in the consolidated statements of operations. The equity investment in CI Financial was sold on December 12, 2008, as described in Note 3, and as a result, CI Investments Inc. is no longer a related party of the Company.

25. 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 $367, 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 12D) 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.

26. 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.

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

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

i) Consolidated statements of operations:

	2008		2007		2006	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
REVENUE						
Premiums	**$ 13,587**	**$ 8,979**	$ 13,124	$ 8,517	$ 14,609	$ 7,791
Total net investment income (loss)	**(526)**	**2,401**	4,748	5,823	6,664	6,022
Net realized gains (losses)	**(241)**	**(951)**	104	291		337
Fee income	**2,743**	**3,335**	3,212	3,343	3,014	3,077
	15,563	**13,764**	21,188	17,974	24,287	17,227
POLICY BENEFITS AND EXPENSES						
Payments to policyholders, beneficiaries and depositors	**14,314**	**9,847**	15,196	9,813	13,730	8,860
Increase (decrease) in actuarial liabilities	**(4,429)**	**2,085**	(2,515)	1,262	2,525	1,602
Acquisition expense amortization	**50**	**(394)**	64	337	112	779
Other expenses	**5,091**	**3,970**	5,596	4,504	5,360	4,159
	15,026	**15,508**	18,341	15,916	21,727	15,400
INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	**537**	**(1,744)**	2,847	2,058	2,560	1,827
Income taxes expense (benefit)	**(343)**	**(1,088)**	522	308	389	243
Non-controlling interests in net income of subsidiaries	**23**	**23**	35	35	27	27
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	**857**	**(679)**	2,290	1,715	2,144	1,557
Cumulative effect of accounting changes, net of taxes		**—**		**—**		4
TOTAL NET INCOME (LOSS)	**857**	**(679)**	2,290	1,715	2,144	1,561
Less participating policyholders' net income	**2**	**—**	2	—	7	—
SHAREHOLDERS' NET INCOME (LOSS)	**855**	**(679)**	2,288	1,715	2,137	1,561
Less preferred shareholder dividends	**70**	**70**	69	69	48	48
COMMON SHAREHOLDERS' NET INCOME (LOSS)	**$ 785**	**$ (749)**	$ 2,219	$ 1,646	$ 2,089	$ 1,513
Earnings (loss) per share						
Basic						
Common shareholders' net income (loss) excluding cumulative effect of accounting changes	**$ 1.40**	**$ (1.34)**	$ 3.90	$ 2.89	$ 3.62	$ 2.61
Cumulative effect of accounting changes		**—**		—		0.01
Common shareholders' net income (loss)	**$ 1.40**	**$ (1.34)**	$ 3.90	$ 2.89	$ 3.62	$ 2.62
Diluted						
Common shareholders' net income (loss) excluding cumulative effect of accounting changes	**$ 1.37**	**$ (1.36)**	$ 3.85	$ 2.84	$ 3.58	$ 2.58
Cumulative effect of accounting changes		**—**		**—**		0.01
Common shareholders' net income (loss)	**$ 1.37**	**$ (1.36)**	$ 3.85	$ 2.84	$ 3.58	$ 2.59
Weighted average shares outstanding in millions						
Basic	**561**	**561**	569	569	577	577
Diluted	**562**	**561**	572	572	580	580

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

ii) Consolidated balance sheets:

	2008		2007	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP
ASSETS				
Bonds – held-for-trading	**$ 48,458**	**$ 15,915**	$ 50,608	$ 5,781
Bonds – available-for-sale	**10,616**	**42,810**	9,148	53,962
Mortgages and corporate loans	**22,302**	**22,302**	20,742	20,742
Stocks – held-for-trading	**3,440**	**1,062**	4,438	1,463
Stocks – available-for-sale	**1,018**	**3,396**	788	3,763
Real estate, net of accumulated depreciation (accumulated depreciation: 2008 – $528; 2007 – $441)	**4,908**	**3,346**	4,303	2,961
Cash and cash equivalents	**7,263**	**7,098**	3,603	3,740
Short-term securities (1)	**1,616**	**1,584**	1,897	1,882
Derivative assets	**2,669**	**2,673**	1,947	1,931
Policy loans and other invested assets	**3,585**	**4,648**	4,349	6,157
Other invested assets – held-for-trading	**380**	**204**	440	264
Other invested assets – available-for-sale	**623**	**793**	757	954
Invested assets	**106,878**	**105,831**	103,020	103,600
Goodwill	**6,598**	**4,854**	6,018	4,565
Intangible assets	**878**	**872**	775	770
Deferred acquisition costs	**154**	**9,384**	139	6,677
Future income taxes (2)	**1,190**	**1,673**	382	233
Other assets	**4,135**	**9,292**	3,957	8,287
Total other assets	**12,955**	**26,075**	11,271	20,532
Segregated funds assets (3)		**65,362**		72,834
Total consolidated assets	**$119,833**	**$197,268**	$114,291	$196,966
Segregated funds net assets (3)	**$ 65,762**		$ 73,205	
LIABILITIES AND EQUITY				
Actuarial liabilities and other policy liabilities	**$ 81,411**	**$ 57,082**	$ 79,830	$ 53,920
Contract holder deposits		**37,268**		32,706
Amounts on deposit	**4,079**	**4,403**	3,747	3,616
Derivative liabilities	**3,219**	**3,271**	638	642
Deferred net realized gains	**251**		276	
Senior debentures	**3,013**	**3,013**	3,014	3,014
Future income taxes (2)	**477**	**236**	582	545
Other liabilities	**7,354**	**9,718**	7,093	10,625
Total general fund liabilities	**99,804**	**114,991**	95,180	105,068
Subordinated debt	**2,576**	**2,576**	1,796	1,796
Non-controlling interests in subsidiaries	**44**	**44**	98	98
Segregated funds liabilities (3)		**65,362**		72,834
Equity	**17,409**	**14,295**	17,217	17,170
Total consolidated liabilities and equity	**$119,833**	**$197,268**	$114,291	$196,966
Segregated funds contract liabilities (3)	**$ 65,762**		$ 73,205	

(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.

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

iii) Consolidated statements of equity:

	2008		2007	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP
PARTICIPATING POLICYHOLDERS' CAPITAL ACCOUNT:				
Balance, January 1	**$ 95**	**$**	$ 92	$
Adjustment for change in accounting policy (Note 2)	**—**		6	
Net income attributed to participating policyholders	**2**		2	
Total other comprehensive income (loss)	**9**		(5)	
Balance, December 31	**106**		95	
SHAREHOLDERS' EQUITY:				
PREFERRED SHARES				
Balance, January 1	**1,495**	**1,495**	1,250	1,250
Shares issued, net of issuance costs	**—**	**—**	245	245
Balance, December 31	**1,495**	**1,495**	1,495	1,495
PAID IN CAPITAL				
Balance, January 1	**7,095**	**12,912**	7,154	12,981
Stock options exercised (2)	**8**	**8**	55	55
Common shares purchased for cancellation (1)	**(60)**	**(108)**	(115)	(211)
Stock option compensation (3)	**58**	**71**	1	55
Subsidiary equity transaction	**—**	**20**	—	32
Balance, December 31	**7,101**	**12,903**	7,095	12,912
RETAINED EARNINGS				
Balance, January 1, as previously reported	**11,282**	**5,052**	10,016	4,450
Adjustment for changes in accounting policies (Note 2 and Section C of this note)	**—**	**(87)**	186	(1)
Balance, January 1, after change in accounting policy	**11,282**	**4,965**	10,202	4,449
Net income (loss) for the year attributed to shareholders	**855**	**(679)**	2,288	1,715
Dividends on common shares	**(809)**	**(809)**	(752)	(752)
Dividends on preferred shares	**(70)**	**(70)**	(69)	(69)
Common shares purchased for cancellation	**(157)**	**(109)**	(387)	(291)
Balance, December 31	**11,101**	**3,298**	11,282	5,052
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes				
Balance, January 1, as previously reported	**(2,750)**	**(2,289)**	(1,328)	(170)
Adjustment for change in accounting policy (Note 2 and Section C of this note)	**—**	**87**	359	—
Balance, January 1, after changes in accounting policies	**(2,750)**	**(2,202)**	(969)	(170)
Total other comprehensive income (loss)	**356**	**(1,199)**	(1,781)	(2,119)
Balance, December 31	**(2,394)**	**(3,401)**	(2,750)	(2,289)
Total retained earnings and accumulated other comprehensive income (loss)	**8,707**	**(103)**	8,532	2,763
TOTAL EQUITY	**$ 17,409**	**$ 14,295**	$ 17,217	$ 17,170
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes				
Balance, end of year, consists of:				
Unamortized net actuarial loss (4)		**(173)**		(126)
Unamortized past service cost (4)		**13**		29
Unamortized transition asset (4)		**—**		5
Unrealized gains (losses) on available-for-sale assets	**(1,429)**	**(2,371)**	25	1,316
Unrealized foreign currency translation gains (losses), net of hedging activities	**(1,049)**	**(1,362)**	(2,821)	(2,866)
Unrealized gains (losses) on derivatives designated as cash flow hedges	**79**	**(7)**	32	3
Deferred acquisition costs and other liabilities		**499**		(650)
Balance, December 31	**$ (2,399)**	**$ (3,401)**	$ (2,764)	$ (2,289)

(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.

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

iv) Comprehensive income:

A consolidated statement of comprehensive income was introduced under Cdn. GAAP upon the adoption of Section 1530 on January 1, 2007 as described in Note 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.

	2008		2007		2006
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP	U.S. GAAP
Total net income (loss)	**$ 857**	**$ (679)**	$ 2,290	$ 1,715	$ 1,561
Other comprehensive income (loss), net of taxes:					
Unrealized foreign currency translation gains (losses), excluding hedges	**2,162**	**1,955**	(1,781)	(1,807)	236
Unrealized foreign currency gains (losses), net investment hedges	**(396)**	**(451)**	282	343	(60)
Net adjustment for foreign exchange losses	**6**	**—**	3	—	—
Unrealized gains (losses) on available-for-sale assets	**(1,653)**	**(4,763)**	(238)	(1,140)	78
Reclassifications to net income (loss) for available-for-sale assets	**199**	**885**	(84)	(288)	(30)
Unrealized gains (losses) on cash flow hedging instruments	**24**	**(34)**	40	7	5
Reclassifications to net income (loss) for cash flow hedges	**23**	**24**	(8)	(7)	(8)
Changes to deferred acquisition costs and other liabilities		**1,253**		639	268
Changes in unamortized net actuarial loss		**(47)**		114	—
Changes in past service cost		**(16)**		22	—
Changes in transition asset		**(5)**		(2)	—
Additional minimum pension liability (1)		**—**		—	136
Total other comprehensive income (loss)	**365**	**(1,199)**	(1,786)	(2,119)	625
Less:					
Participating policyholders' net income	**2**		2		
Participating policyholders' foreign currency translation gains (losses) excluding hedges	**9**		(5)		
Shareholders' comprehensive income (loss)	**$ 1,211**	**$ (1,878)**	$ 507	$ (404)	$ 2,186

(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).

26. 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.

	2008	2007	2006
Total net income in accordance with Cdn. GAAP	**$ 857**	$ 2,290	$ 2,144
Adjustments related to:			
Investments			
Bonds(1) excluding interest rate related impairment	**2,314**	1,559	(217)
Interest rate related impairment	**(682)**	(100)	—
Stocks and segregated fund units(1)	**980**	114	75
Derivative instruments	**(136)**	(96)	(65)
Real estate	**(214)**	(125)	(95)
Total investments	**2,262**	1,352	(302)
Deferred acquisition costs			
Deferred acquisition costs — deferred	**793**	723	897
Deferred acquisition costs — amortization and interest	**444**	(273)	(665)
Total deferred acquisition costs	**1,237**	450	232
Actuarial liabilities and other policyholder revenues and expenses			
Premium and fees revenue	**(3,766)**	(4,167)	(6,466)
Payments to policyholders, beneficiaries and depositors	**4,467**	5,383	4,870
Actuarial liabilities	**(6,514)**	**(3,777)**	923
Total actuarial liabilities and other policyholder revenues and expenses	**(5,813)**	(2,561)	(673)
Other	**33**	(30)	10
Income tax effect of above adjustments	**745**	214	146
Change in accounting policy	**—**	**—**	4
Total net income (loss) in accordance with U.S. GAAP	**$ (679)**	$ 1,715	$ 1,561

(1) In 2007 and 2008, 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.

26. 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
Bonds and Stocks	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.	Commencing January 1, 2008, as a result of issuance of FAS 159, certain financial assets and liabilities can be designated as held-for-trading under certain conditions. Prior to 2008, 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. In addition to other-than-temporary impairment due to issuer credit, other-than-temporary impairment charges are recorded for declines in fair values of available-for-sale bonds due to changes in prevailing interest rates when the Company does not have the intent and ability to hold to recovery.
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.

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

	Cdn. GAAP	U.S. GAAP
Actuarial liabilities and contract holder deposits	Actuarial liabilities are calculated in accordance with Canadian generally accepted actuarial practice. This method uses best estimate assumptions for future experience factors adjusted to provide modest margins for adverse deviation in each experience factor.	The actuarial liabilities for participating life policies, except those in the United Kingdom, are computed using a net level premium reserve method with interest and mortality assumptions based primarily upon those assumptions used for establishing the cash surrender values in the contract. For universal life-type and investment contracts, contract holder deposits represent account balances and U.S. GAAP liabilities primarily equal account value balances. The account values represent an accumulation of gross deposits received plus credited interest less withdrawals, expenses and mortality charges. Other non-participating products include term, group and disability insurance. For these products, as well as participating contracts in the United Kingdom, a net level premium method is used with assumptions locked in at time of issue, unless the business is in a loss recognition position, in which case a best estimate gross premium valuation is used.
Deferred net realized gains	Realized gains and losses on sales of 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 substantively 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 E viii) of this note. Part E xiv) of this note provides other disclosure differences.

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

	Cdn. GAAP	U.S. GAAP
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.	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.
	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.	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 with changes in fair value recorded in income.
Non-cash collateral	Non-cash collateral received in securities lending transactions is not recognized on the Consolidated Financial Statements.	If the Company has the ability to sell or repledge non-cash collateral received in securities lending transactions, the Company recognizes an asset on the balance sheet and a corresponding liability for the obligation to return it.

(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 were carried at amortized cost.	Bonds were carried at fair value. The bonds were classified as available-for-sale or trading.
	Realized gains and losses were deferred and amortized to income using the constant yield method over the remaining period to maturity.	Unrealized gains and losses were included in OCI if classified as available-for-sale, and included in net income if classified as trading. Realized gains and losses were included in net income immediately.
		Certain instruments, included with bonds under Cdn. GAAP, were reclassified to mortgages and corporate loans under U.S. GAAP, as they did not meet the definition of a security.
Stocks	Stocks were originally recorded at cost.	Stocks were carried at fair value. The stocks were classified as available-for-sale or trading.
	The carrying value was adjusted towards the fair value at 5% of the difference between fair value and carrying value per quarter. Realized gains and losses were deferred and amortized into net investment income at the rate of 5% of the unamortized balance each quarter.	Unrealized gains and losses were 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 resulted in a write-down charged to income.
	The Company recorded a write-down for any other than temporary decline in the value of the entire stock portfolio.	

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

	Cdn. GAAP	U.S. GAAP
Derivatives	Most of the Company's derivatives were accounted for as either fixed term portfolio investments or equity portfolio investments. Fixed term portfolio investment accounting reported investments at amortized cost. Equity portfolio investments were carried at a value calculated using a moving average market method. Realized gains and losses on the derivatives were deferred and amortized into net investment income. Certain derivative instruments were used for risk management purposes and either accounted for using hedge accounting or fair value accounting. Under hedge accounting, the accounting for the derivative followed the underlying asset or liability that is being hedged. Under fair value accounting, the derivative instrument was recorded at fair value on the balance sheet with increases or decreases recorded to net investment income. There was no requirement to separately account for embedded derivatives prior to 2007. Foreign exchange exposure of an anticipated purchase transaction might have qualified for hedge accounting.	Derivative instruments were carried at their fair values. Changes in fair values of derivatives that were not hedges were 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 was recognized in income. For cash flow hedges, the effective portion of the changes in the fair value of the derivatives was recorded in OCI and the ineffective portion was recognized in income. Embedded derivatives were separately accounted for as stand-alone derivatives and carried at fair values with the changes in fair value recorded in income when they were not clearly and closely related to their host instruments. This requirement included insurance policies issued by the Company. Foreign exchange exposure of an anticipated purchase transaction did not 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 were recognized in income immediately.

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

C) U.S. GENERALLY ACCEPTED ACCOUNTING STANDARDS ADOPTED BY THE COMPANY IN 2008

i) 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. Fair value, as defined in SFAS 157, is based on a hypothetical transaction between market participants and represents, at the valuation date, the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced liquidation or distress sale). As such, SFAS 157 clarifies that fair value is an exit price from the perspective of the reporting entity. In addition, SFAS 157 establishes a three-level hierarchy for fair value measurements based on the level of valuation inputs.

On January 1, 2008, the Company adopted SFAS 157 on a prospective basis for assets and liabilities that are measured at fair value. The adoption of SFAS 157 changes the valuation of embedded derivatives associated with certain insurance contracts, to include a fair value calculation that incorporates risk margins and the Company's own credit standing and to change valuation assumptions regarding certain policyholder behaviours. The impact of these changes as at January 1, 2008, was recorded to net income and resulted in an increase in net income of $47 (net of taxes of $35).

Effective January 1, 2008, the Company adopted FASB Staff Position No. FAS 157-1("FSP FAS 157-1"), "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purpose of Lease Classification or Measurement under Statement 13." FSP FAS 157-1 amends SFAS 157 to provide a scope out exception for lease classification and measurement under SFAS No. 13, Accounting for Leases. The Company also adopted FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157", which amends SFAS No. 157 to allow an entity to delay the application of this statement until January 1, 2009 for certain non-financial assets and liabilities. Under the provision of FSP FAS 157-2, the Company delayed the application of SFAS No. 157 for fair value measurements used in the impairment testing of goodwill and indefinite-life intangible assets and eligible non-financial assets and liabilities included in a business combination.

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

In October 2008, the FASB issued Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP FAS 157-3"). FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in the determination of the fair value of a financial asset when the market for that asset is not active. FSP FAS 157-3 was effective upon issuance and did not have a material impact on the Company's consolidated financial statements.

ii) 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 adopted the measurement date provision of SFAS 158 in 2008 for certain of its U.S. plans. The adoption of the measurement date change did not have a material impact on the Consolidated Financial Statements.

iii) FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159): The Company adopted SFAS 159 on January 1, 2008. SFAS No. 159 provides entities the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period ("FV option"). This election is on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. 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. The Company elected to apply the provisions of SFAS No. 159 for fixed maturity securities attributable to certain life, health and annuity products in its U.S. insurance subsidiaries which had previously been designated as available-for-sale. As at January 1, 2008, these available-for-sale securities had a fair value of $10,692 and an amortized cost of $11,016.

The election of the FV option for these assets allows the Company to mitigate earnings volatility since interest rate swaps are used as part of the asset-liability management strategy for these businesses. The Company does not employ hedge accounting for these derivative instruments. The election of the FV option results in both the changes in fair values of the fixed maturity investments and the derivative investments being recognized in income, resulting in less income volatility.

As a result of adoption of SFAS No. 159, the Company recorded an increase to opening accumulated other comprehensive income and a corresponding decrease to opening retained earnings of $87, related to the unrealized loss on investments, net of deferred acquisition costs, policyholder liabilities, and tax effects.

iv) FASB Staff Position FAS133-1 and FASB Interpretation 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP FAS 133-1 and FIN 45-4): In the fourth quarter of 2008, the Company adopted the requirement of FSP FAS133-1 and FIN 45-4. The requirement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. It also amends FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, to require an additional disclosure about the current status of the payment/performance risk of a guarantee and clarifies the FASB's intent about the effective date of SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133.* The adoption did not have a material impact on the consolidated financial statements.

v) Derivative Implementation Group Statement 133 Implementation Issue No. E.23: Issues Involving the Application of the Shortcut Method under paragraph 68 (DIG E23): The Company adopted the provision of DIG E23 on January 1, 2008. The short-cut method may be applied to a fair value hedge when it is designated on the trade date of the swap and the hedged item, even though the hedged item is not recognized for accounting purposes until the transaction settles, provided the period of time between the trade date and settlement date of the hedged item is within established conventions for that marketplace. The adoption did not have a material impact on the consolidated financial statements.

vi) FASB Staff Position No. FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities (FSP FAS 140-4 and FIN46(R)-8): The Company adopted the provisions of FSP FAS 140-4 and FIN46(R)-8 in the fourth quarter of 2008. FSP FAS 140-4 and FIN46(R)-8 require additional disclosures about transfers of financial assets and interests in variable interest entities.

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

vii) FASB Staff Position No. EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20 (EITF 99-20-1): The Company adopted the provisions of EITF 99-20-1 in the fourth quarter of 2008. EITF 99-20-1 amends the impairment guidance in EITF Issue No. 99-20 to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The adoption did not have a material impact on the consolidated financial statements.

D) 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. 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. 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 and the adoption of this Standard is not expected to have a material impact on the consolidated financial statements.

iii) FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 (SFAS 161): SFAS 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company will adopt SFAS 161 on January 1, 2009.

E) 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:

	2008	2007	2006
Bonds:			
Gross realized gains	**$ 264**	$ 287	$ 383
Gross realized losses	**$ (1,161)**	$ (278)	$ (256)
Stocks:			
Gross realized gains	**$ 116**	$ 416	$ 193
Gross realized losses	**$ (229)**	$ (171)	$ (78)

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

	2008	2007	2006
Bonds	**$ (3,492)**	$ (182)	$ (80)
Stocks	**$ (465)**	$ 59	$ 301

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

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

	2008			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Estimated Fair Value**
Issued or guaranteed by:				
Canadian federal government	**$ 2,561**	**$ 232**	**$ (1)**	**$ 2,792**
Canadian provincial and municipal governments	**5,602**	**719**	**(16)**	**6,305**
U.S. Treasury and other U.S. agencies	**1,196**	**262**	**(4)**	**1,454**
Other governments	**2,337**	**336**	**(55)**	**2,618**
Corporate	**30,661**	**402**	**(3,780)**	**27,283**
Asset-backed securities	**2,623**	**71**	**(336)**	**2,358**
Total bonds	**$ 44,980**	**$ 2,022**	**$ (4,192)**	**$ 42,810**

	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

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

	Original Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Estimated Fair Value**
Total 2008	**$ 3,901**	**$ 135**	**$ (640)**	**$ 3,396**
Total 2007	$ 3,139	$ 730	$ (106)	$ 3,763

v) Real estate

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

	2008	2007	2006
Depreciation expense	**$ 67**	$ 61	$ 56

vi) Derivatives

As a result of the adoption of CICA Handbook Sections 3865, Hedges, and 3855, Financial Instruments — Recognition and Measurement, on January 1, 2007, accounting for derivatives is consistent under both Cdn. and U.S. GAAP. The Company also designated fair value and cash flow hedges consistently under both GAAPs and therefore, information on these hedges for the periods ended December 31, 2008 and December 31, 2007, is the same in Cdn. and U.S. GAAP (see Note 5). The following includes information on these hedges for the year ended December 31, 2006.

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

Fair value hedge

For the year ended December 31, 2006, 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, the Company excluded a net loss of $1 from hedge effectiveness assessment and reclassified $1 from OCI to income. There is no hedge ineffectiveness recognized in net income.

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, 2008, 2007 and 2006, the Company recorded $(451), $343 and $(60) 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, 2008.

	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	$ 13,214	$ (1,499)	$ 7,746	$ (2,693)	$ 20,960	$ (4,192)
Stocks	1,559	(302)	769	(338)	2,328	(640)
Total temporarily impaired securities	$ 14,773	$ (1,801)	$ 8,515	$ (3,031)	$ 23,288	$ (4,832)

Available-for-sale debt securities have generally been identified as temporarily impaired if their amortized cost as at December 31, 2008, 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 2,945 debt securities were in an unrealized loss position as at December 31, 2008, of which 1,616 were in a continuous loss position for less than 12 months and 1,329 positions for 12 months or more. Of the 2,945 debt securities, unrealized losses less than 12 months included 452 positions with an aggregate fair value of $1,203 (125 positions with an aggregate fair value of $280 for 12 months or more) having unrealized losses of less than one hundred thousand dollars per individual holding. A total of 144 stock positions were in a loss position as at December 31, 2008 of which 104 were in a continuous loss position for less than 12 months and 40 positions for 12 months or more. Of the 144 stock positions, unrealized losses less than 12 months included 19 positions with an aggregate fair value of $27 having unrealized losses of less than one hundred thousand dollars per individual holding.

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

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:

	2008			
	Future Income Tax Asset[1]		Future Income Tax Liability[1]	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Investments	$ 1,927	$ 2,017	$ 809	$ 630
Actuarial liabilities	(1,323)	856	(245)	(889)
Deferred acquisition costs	464	(1,461)	—	598
Losses available for carry forward	62	62	(128)	(128)
Other	203	341	13	(4)
Future tax asset/liability before valuation allowance	1,333	1,815	449	207
Valuation allowance	(143)	(142)	28	29
Total	$ 1,190	$ 1,673	$ 477	$ 236

	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

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

26. 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 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	
	Cdn. GAAP	U.S. GAAP
Invested assets acquired	$ 977	$ 977
Other assets acquired(1)	129	353
Segregated funds assets acquired	—	—
	1,106	1,330
Actuarial liabilities and other policy liabilities acquired	654	545
Amounts on deposit acquired	49	51
Other liabilities acquired	38	50
Segregated funds liabilities acquired	—	—
	741	646
Net balance sheet assets acquired	$ 365	$ 684
Consideration:		
Cash cost of acquisition	$ 709	$ 709
Transaction and other related costs	16	16
	$ 725	$ 725
Goodwill on acquisition	$ 360	$ 41

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

The following supplemental unaudited pro forma information has been prepared to give effect to the acquisition of Genworth EBG Business, as if the transaction had been completed at the beginning of each year presented. The pro forma information is calculated by combining the results of operations of the Company with those of the Genworth EBG Business prior to the acquisition date. The pro forma information is not intended to reflect what would have actually resulted had the transaction been completed at the beginning of those years or what may be obtained in the future. Where applicable, the impact of synergy savings and integration costs arising from the acquisition have been reflected.

Supplemental unaudited pro forma condensed information:

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

26. 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:

	2008		2007		2006	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Common shareholders' net income (loss) excluding cumulative effect of accounting changes	**$ 785**	**$ (749)**	$ 2,219	$ 1,646	$ 2,089	$ 1,509
Cumulative effect of accounting changes, net of income taxes		**—**		—		4
Common shareholders' net income (loss)	**785**	**(749)**	2,219	1,646	2,089	1,513
Less: Effect of stock awards of subsidiaries	**14**	**14**	20	20	11	11
Common shareholders' net income (loss) on a diluted basis	**$ 771**	**$ (763)**	$ 2,199	$ 1,626	$ 2,078	$ 1,502
Weighted average number of shares outstanding (in millions)	**561**	**561**	569	569	577	577
Add: Adjustments relating to the dilutive impact of stock options	**1**	**—**(1)	3	3	3	3
Weighted average number of shares outstanding on a diluted basis (in millions)	**562**	**561**	572	572	580	580

(1) For the year ended December 31, 2008, an adjustment of 1 million common shares related to the potential dilutive impact of stock options was excluded from the calculation of diluted earnings per share since their effect is anti-dilutive when a loss is reported.

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:

	2008	2007	2006
Deposits and withdrawals reclassified to financing activities:			
Deposits to policyholders' accounts	**$ 5,020**	$ 4,141	$ 6,417
Withdrawals from policyholders' accounts	**$ 7,076**	$ 7,090	$ 6,510

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, 2008, 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.

The table below represents information regarding the Company's variable annuity and unit-linked pension contracts with guarantees as at December 31, 2008:

Benefit type	**Account Balance**	**Net Amount at Risk**	**Weighted Average Attained Age of Contract Holders**
Minimum death	**$ 27,141**	**$ 7,574**	**67**
Minimum income	**$ 2,289**	**$ 2,332**	**66**
Minimum accumulation or withdrawal	**$ 6,053**	**$ 1,046**	**63**

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

The following summarizes the additional reserve for the minimum guaranteed death benefit and income benefit as at December 31, 2008:

	Minimum Guaranteed Death Benefit	Guaranteed Minimum Income Benefit	Total
Balance as at January 1, 2007	$ 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
Benefit ratio and assumption changes	**207**	**36**	**243**
Incurred guaranteed benefits	**58**	**1**	**59**
Paid guaranteed benefits	**(63)**	**(20)**	**(83)**
Interest	**9**	**53**	**62**
Effect of changes in currency exchange rates	**39**	**(15)**	**24**
Balance as at December 31, 2008	**$ 303**	**$ 193**	**$ 496**

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 $378 and $2,374 as at December 31, 2007 and December 31, 2008, respectively.

xiii) Disclosures relating to fair value measurements:

In compliance with SFAS 157, the Company has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value on a recurring basis on the Balance Sheets are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. The types of assets and liabilities classified as Level 1 generally include U.S. Treasury and agency securities, cash and cash equivalents, investments in publicly-traded mutual funds, exchange-traded equities and derivatives.

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

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs, or inputs that are derived principally from or corroborated with observable market data through correlation or other means. The types of assets and liabilities classified as Level 2 generally include government bonds, corporate and private bonds, certain asset-backed securities ("ABS") and mortgage-backed securities ("MBS"), over-the-counter derivatives, and institutional mutual funds.

Level 3: Fair value is based on valuation techniques that require one or more of significant unobservable inputs or the use of broker quotes. These unobservable inputs reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability. The types of assets and liabilities classified as Level 3 generally include a majority of commercial mortgage-backed securities ("CMBS"), certain ABS, certain structured products and corporate bonds, and embedded derivatives bifurcated from certain insurance contracts ("embedded derivatives").

The following table presents the Company's assets and liabilities that are carried at fair value on a recurring basis, by SFAS 157 hierarchy level, as at December 31, 2008:

	Level 1	Level 2	Level 3	Total
Assets				
Bonds — held-for-trading	**$ 597**	**$ 14,534**	**$ 784**	**$ 15,915**
Bonds — available-for-sale	**1,015**	**40,537**	**1,258**	**42,810**
Stocks — held-for-trading	**959**	**103**	**—**	**1,062**
Stocks — available-for-sale	**3,162**	**177**	**36**	**3,375**
Cash, cash equivalents and short-term securities	**5,481**	**3,201**	**—**	**8,682**
Derivative assets	**16**	**2,610**	**47**	**2,673**
Other invested assets — held-for-trading	**151**	**52**	**1**	**204**
Other invested assets — available-for-sale	**269**	**385**	**6**	**660**
Total general fund assets recorded at fair value	**$ 11,650**	**$ 61,599**	**$ 2,132**	**$ 75,381**
Segregated funds net assets	**9,889**	**53,740**	**1,187**	**64,816**
Total assets measured at fair value on a recurring basis	**$ 21,539**	**$115,339**	**$ 3,319**	**$140,197**
Liabilities				
Amounts on deposit	**$ —**	**$ 78**	**$ —**	**$ 78**
Derivative liabilities	**42**	**3,146**	**83**	**3,271**
Embedded derivatives	**—**	**—**	**2,469**	**2,469**
Total liabilities measured at fair value on a recurring basis	**$ 42**	**$ 3,224**	**$ 2,552**	**$ 5,818**

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

The following table shows a reconciliation of the beginning and ending balances for assets and liabilities which are categorized as Level 3 for the year ended December 31, 2008:

		Total realized and unrealized gains (losses) (1)					
	Beginning balance	Included in earnings	Included in other comprehensive income	Purchases, issuances, and settlements (net)	Transfers in and/or out of level 3	Ending balance	Change in unrealized gains (losses) included in earnings relating to instruments still held at the reporting date (1)
Assets							
Bonds — held-for-trading	$ 1,288	$ (661)	$ —	$ 41	$ 116	$ 784	$ (538)
Bonds — available-for-sale	1,346	(132)	(119)	(78)	241	1,258	(17)
Stocks — available-for-sale	19	(10)	5	22	—	36	—
Derivative assets	32	40	—	(25)	—	47	41
Other invested assets — held-for-trading	3	(8)	—	6	—	1	(8)
Other invested assets — available-for-sale	7	(1)	—	—	—	6	—
Total general fund assets recorded at fair value	$ 2,695	$ (772)	$ (114)	$ (34)	$ 357	$ 2,132	$ (522)
Segregated funds net assets	1,994	(39)	—	236	(1,004)	1,187	(29)
Total assets measured at fair value on a recurring basis	$ 4,689	$ (811)	$ (114)	$ 202	$ (647)	$ 3,319	$ (551)
Liabilities							
Derivative liabilities	$ 16	$ 67	$ —	$ —	$ —	$ 83	$ 71
Embedded derivatives	651	1,835	—	(17)	—	2,469	1,860
Total liabilities measured at fair value on a recurring basis	$ 667	$ 1,902	$ —	$ (17)	$ —	$ 2,552	$ 1,931

(1) For liabilities, losses are indicated in positive numbers.

Valuation techniques

Please refer to Note 5Ai) for fair value methodologies and assumptions. In addition, derivatives, such as guaranteed minimum accumulation benefits ("GMABs") and withdrawal benefits ("GMWBs"), which are embedded in certain insurance contracts, are required to be bifurcated and reported separately at fair value under U.S. GAAP. The fair value of these embedded instruments is determined using various valuation assumptions, including certain risk margins and the Company's own credit standing, as well as assumptions regarding policyholder behaviour.

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

xiv) Accounting for uncertainty in income taxes

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109 (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 the 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 $550 as at December 31, 2008 ($617 as at December 31, 2007 and $624 as at January 1, 2007). Of this total, $498 ($452 as at December 31, 2007) of tax benefits would favourably affect the Company's effective tax rate if the tax benefits were recognized in the financial statements.

The net changes in the liability since January 1, 2007 are as follows:

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**
Increase (decrease) related to tax positions in prior year	**(191)**
Increase (decrease) related to tax positions in current year	**107**
Increase (decrease) related to foreign exchange movement	**17**
UTB balance as at December 31, 2008	**$ 550**

The Company records interest and penalties related to income taxes as a component of other expense in the consolidated statements of operations. The Company has $51 of net interest and penalties accrued related to UTBs as at December 31, 2008 ($61 as at December 31, 2007). During 2008, the Company recorded a decrease of gross interest and penalties of $17 ($16 increase in 2007) in the consolidated statements of operations. The foreign exchange effect of the accrued interest is recorded in the currency translation account.

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	2004 - forward
U.S.	2001 - forward
U.K.	2003 - forward

xv) Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities

In the fourth quarter of 2008 the Company adopted FSP FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities. U.S. GAAP requires additional disclosures about transfers of financial assets and interests in variable interest entities than the disclosures required under Canadian GAAP.

In order to determine whether the Company is (or is not) the primary beneficiary of a variable interest entity, the Company performs an assessment of the level of each party's participation in controlling the entity by means other than a voting interest, which includes assumptions about the sufficiency of an equity investment at risk, the essential characteristics of a controlling financial interest, and the significance of voting rights in relation to economic interests. If the Company is exposed to the majority of the expected losses, the majority of the expected residual returns, or both, associated with a VIE then the Company is the VIE's primary beneficiary and must consolidate the entity.

The VIE's are generally financed with equity through the establishment of a trust by a trustee. The carrying amount of VIE's for which the Company has significant influence have been included in bonds — held-for-trading, bonds — available-for-sale, and other invested assets on the consolidated balance sheets.

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, 2008 and 2007 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 11, 2009

Report of Independent Registered Chartered Accountants

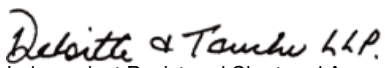
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF SUN LIFE FINANCIAL INC.

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, 2008 and 2007, 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, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). 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, 2008 and 2007, 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, 2008 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, 2008, 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, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.



Independent Registered Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 11, 2009

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 26 to the consolidated financial statements. Our report to the Board of Directors and Shareholders, dated February 11, 2009, 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 11, 2009

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, 2008, 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, 2008, 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, 2008 of the Company and our report dated February 11, 2009 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.

Deloitte & Touche LLP.
Independent Registered Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 11, 2009

Exhibit 3

Annual Information Form

Sun Life Financial Inc.

For the Year Ended December 31, 2008

February 11, 2009

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, 2008, 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, 2008, and

(ii) SLF Inc.’s Consolidated Financial Statements and accompanying notes (Consolidated Financial Statements) for the year ended December 31, 2008.

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 and interim 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, investment losses and defaults and changes to investment valuations; the performance of equity markets; interest rate fluctuations; other market risks including movement in credit spreads; possible sustained economic downturn; risks related to market liquidity; market conditions that adversely affect the company’s capital position or its ability to raise capital; downgrades in financial strength or credit ratings; the impact of mergers and acquisitions; the performance of the Company’s investments and investment portfolios managed for clients such as segregated and mutual funds; insurance risks including mortality, morbidity, longevity and policyholder behaviour including the occurrence of natural or man-made disasters, pandemic diseases and acts of terrorism; 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; the availability, cost and effectiveness of reinsurance; the inability to maintain strong distribution channels and risks relating to market conduct by intermediaries and agents; currency exchange rate fluctuations; the cost, effectiveness and availability of risk-mitigating hedging programs; the creditworthiness of guarantors and counterparties to derivatives; risks relating to operations in Asia including risks relating to joint ventures; the impact of competition; risks relating to financial modelling errors; business continuity risks; failure of information systems and Internet-enabled technology; breaches of computer security and privacy; dependence on third party relationships including outsourcing arrangements; the ability to attract and retain employees; the impact of adverse results in the closed block of business; the ineffectiveness of risk management policies and procedures; and the potential for financial loss related to changes in the environment. 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

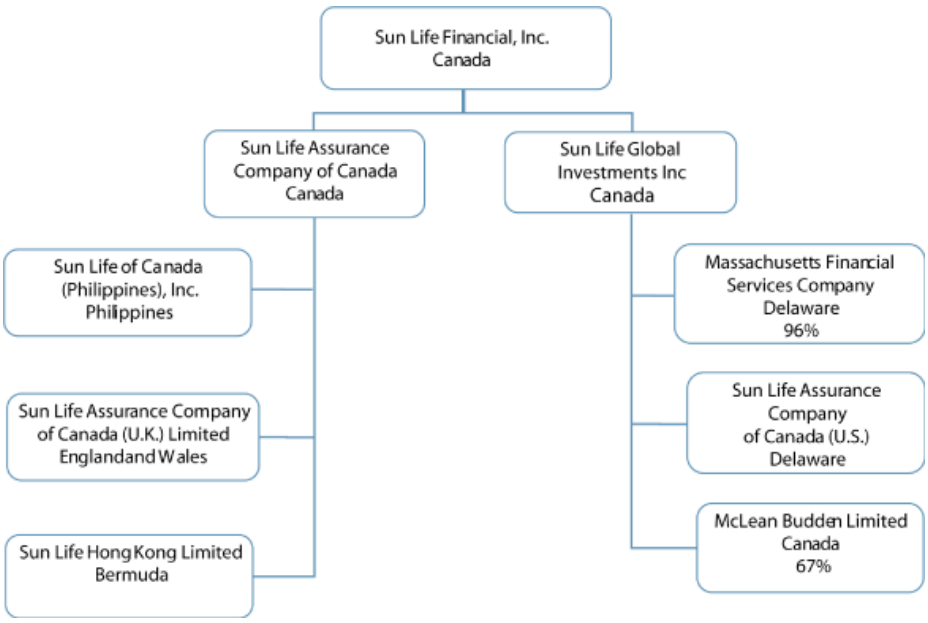
Sun Life Financial Inc. (SLF Inc.) was incorporated under the Insurance Companies Act, Canada (the Insurance Act) on August 5, 1999, for the purpose of becoming the holding company of Sun Life Assurance Company of Canada (Sun Life Assurance) following its demutualization.

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, 2008, including its principal direct and indirect subsidiaries, 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.



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.), and Corporate Support, which includes the Company's life retrocession and run-off reinsurance businesses as well as investment income, expenses, capital and other items not allocated to Sun Life Financial's other business 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 offered 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	
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 and telemarketing)	n			n

Acquisitions, Disposals, 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 following summary outlines Sun Life Financial's major acquisitions and dispositions, in the past three years. Additional information is provided in Note 3 to SLF Inc.'s 2008 Consolidated Financial Statements.

Disposition of CI Financial income Fund

On December 12, 2008 SLF sold its 37% interest in CI Financial Income Fund to The Bank of Nova Scotia (Scotiabank) for $2.2 billion. The proceeds included $1.55 billion in cash and the balance in common and preferred shares of Scotiabank. An after-tax gain of $825 million was included in the 2008 financial results.

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 November 7, 2007, the Company sold the U.S. subsidiaries that comprised the Independent Financial Marketing Group business to LPL Holdings, Inc. The sale had no material effect of the 2007 financial results.

On February 29, 2008, the Company sold 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 sale had no material effect on the 2008 financial results.

Business of Sun Life Financial

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 included in SLF Inc.'s 2008 MD&A which is incorporated by reference in this AIF and should be read in conjunction with SLF Inc.'s 2008 Consolidated Financial Statements. These documents are available on SEDAR at www.sedar.com and with the SEC
at www. sec.gov.

Protection and Wealth Industries

The global financial services industry continues to evolve rapidly in response to demographic and economic trends. The aging 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 straining existing health care systems, as a larger portion of the population requires treatment over a longer timeframe. Demand for products such as long-term care and critical illness insurance is growing as consumers turn to products that help ensure direct access to high-quality health care. Lastly, concern about inadequate public pension plans is continuing to provide growth in 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.

The turbulence in world economic and capital markets in 2008 has led to continued consolidation of major players, uncertainty in financial outlooks and failure of several major financial services organizations. During the fourth quarter of 2008, the United States government officially pronounced that it was in a recession. The U.S. Treasury, Federal Reserve and central banks around the world took action throughout the year to stimulate a loss of confidence in financial markets as the economy continued to falter. The S&P 500 hit an eleven-year low in 2008, credit spreads across all fixed income products reached historically wide levels and market volatility skyrocketed. For the full year, the S&P/TSX Composite Index was down 36%, while the S&P 500 dropped 38%, marking the worst annual decline in the index since the Great Depression. At year-end 2008, the 2-year U.S. Treasury rate of 0.76% was the lowest since regular sales began in 1975 and the 10-year declined by 181 bps.

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, financial strength and deliver excellence to both distributors and customers.

Increased competition has also been a contributing factor to the global trend of consolidation within the financial services industry. As a result of consolidation 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 and unsettled with increased likelihood of consolidation as insurers look to achieve added scale to compete effectively.

Past regulation of the financial services industry in North America reduced the traditional barriers between the banking, insurance and investment industries, heightening competition in these markets. Most 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 recent years, in the emerging markets of Asia, the regulatory environments have moved 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 registered retirement savings plan 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

At December 31, 2008 the Company had approximately 14,500 full-time equivalent employees (FTEs) across its operations, not including employees in joint venture operations.

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 6, 2009, including stock exchange listings.

Issued Share Capital

Security	Number of Shares	Exchanges [1]		
		TSX	NYSX	PSE
Common Shares	559,698,331	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 under which these shares were issued, 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 2008:

Common Shares

	Price ($)			Trading volume (thousands)
	High	Low	Close	
January	55.99	45.44	49.65	32,237
February	51.25	46.34	47.15	30,072
March	48.36	43.23	47.99	35,650
April	49.75	45.81	48.69	25,174
May	50.89	45.27	46.25	41,194
June	46.19	41.46	41.95	36,700
July	44.99	38.05	39.80	40,357
August	41.10	37.80	40.95	29,088
September	41.96	35.23	37.20	63,507
October	39.00	24.53	28.35	51,208
November	32.43	19.38	27.65	45,982
December	28.50	22.46	28.44	37,523

Class A Preferred Shares

	Series 1				Series 2			
	Price ($)			Trading volume (thousands)	Price ($)			Trading volume (thousands)
	High	Low	Close		High	Low	Close	
January	22.95	21.75	22.60	391	23.57	22.00	22.50	236
February	23.55	22.50	23.25	163	23.70	22.41	23.28	163
March	23.20	21.01	21.65	158	23.20	21.65	21.87	151
April	22.46	21.40	22.05	685	22.44	21.53	22.00	406
May	22.24	21.76	22.04	279	22.20	21.53	21.83	1,203
June	22.00	19.15	20.05	418	22.00	19.31	19.90	276
July	20.30	17.50	18.75	267	20.17	17.65	19.09	183
August	19.67	18.73	19.36	549	19.85	18.80	19.80	587
September	20.00	19.00	19.60	1,024	20.19	19.31	19.70	254
October	19.99	16.40	17.38	334	19.99	16.31	16.95	681
November	17.74	12.03	14.40	788	17.65	13.00	14.07	460
December	16.75	12.79	16.58	795	16.70	13.00	16.00	682

	Series 3				Series 4			
	Price ($)			Trading volume	Price ($)			Trading volume
	High	Low	Close	(thousands)	High	Low	Close	(thousands)
January	21.45	20.50	20.99	250	21.47	20.11	21.04	232
February	22.25	21.00	21.90	162	22.25	20.81	22.00	238
March	21.93	19.45	19.55	155	21.94	18.98	19.70	164
April	21.00	19.52	19.92	154	20.83	19.50	19.88	317
May	20.77	19.76	20.56	91	20.63	19.89	20.30	201
June	20.54	18.16	18.82	173	20.44	17.90	18.50	257
July	19.48	16.50	17.96	424	18.63	16.50	18.00	326
August	18.64	17.69	18.39	319	18.35	17.91	18.28	180
September	19.32	18.00	18.21	280	18.74	17.75	18.73	420
October	18.50	15.03	16.38	211	18.60	15.13	16.25	287
November	16.40	12.00	14.00	523	16.50	12.00	13.95	846
December	15.65	12.06	15.26	582	15.79	12.01	15.40	670

	Series 5			
	Price ($)			Trading volume
	High	Low	Close	(thousands)
January	21.75	20.15	21.20	327
February	22.65	20.90	22.00	139
March	21.95	20.20	20.70	353
April	21.00	20.01	20.75	114
May	20.97	19.93	20.50	210
June	20.60	18.60	19.60	219
July	19.30	16.45	18.21	517
August	19.19	18.00	18.98	179
September	19.47	18.03	18.36	163
October	18.50	14.80	16.41	582
November	16.45	11.94	13.60	268
December	16.50	12.01	16.50	859

Sales of Unlisted Securities

SLF Inc. has issued the following unlisted securities since January 1, 2008.

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.

On June 26, 2008 SLF Inc. issued $350 million of Series 2008-2 Subordinated Unsecured 5.12% Fixed/Floating Debentures (Series 2008-2) due in 2018.

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 Board of Directors reviews this objective on a periodic basis.

The table below outlines the dividends declared in each of the past three years ended December 31.

Dividends Declared

	2008	2007	2006
Common Shares	1.440000	$ 1.32	$ 1.15
Class A Preferred Shares			
Series 1	1.187500	$1.187500	$1.187500
Series 2	1.200000	$1.200000	$1.200000
Series 3	1.112500	$1.112500	$1.069067
Series 4	1.112500	$1.112500	$0.249932
Series 5	1.125000	$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 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, senior unsecured debentures, and subordinated unsecured debentures are shown in the table below. Security ratings assigned to securities by the rating agencies are not a recommendation to purchase, hold or sell these securities 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, Series 2008-1 and Series 2008-2	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 and 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 2008 MD&A under the heading Financial Position and Liquidity–Off-Balance Sheet Arrangements–Asset Securitization and in Note 5 to SLF Inc.'s 2008 Consolidated Financial Statements.

Transfer Agents and Registrars

Common Shares

	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 11/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 Hopewell Centre 18th Floor Rooms 1806-1807 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, and is the trustee and the registrar for SLF Inc.'s senior unsecured debentures, Series A, B and C and its subordinated debentures, Series 2007-1, Series 2008-1 and Series 2008-2. The registers for those securities are maintained in Toronto, Ontario, Canada.

Directors and Executive Officers

Board of Directors

At December 31, 2008, the Board of Directors of SLF Inc. had four standing committees: Audit Committee, Governance and Conduct Review 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 2009. 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 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 Risk Review
David A. Ganong New Brunswick, Canada	Chairman, Ganong Bros. Limited	2002	Management Resources Risk Review
Germaine Gibara Quebec, Canada	President, Avvio Management Inc.	2002	Audit Governance and Conduct Review
Krystyna T. Hoeg Ontario, Canada	Corporate Director	2002	Audit Risk Review
David W. Kerr Ontario, Canada	Managing Partner, Edper Financial Group	2004	Audit 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 and Conduct Review 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 and Conduct Review Management Resources
Ronald W. Osborne Ontario, Canada	Chairman, SLF Inc. and Sun Life Assurance	1999	Audit [1] Governance and Conduct Review Management Resources[1] Risk Review[1]
Donald A. Stewart Ontario, Canada	Chief Executive Officer, SLF Inc. and Sun Life Assurance	1999	none
James H. Sutcliffe[2] London, England	Corporate Director	2009	Audit Risk Review

1 Mr. Osborne is an ex-officio member of these committees.

2 Mr. Sutcliffe became a Director and a member of the Audit Committee and Risk Review Committee of SLF Inc. and Sun Life Assurance effective February 10, 2009.

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; and Mr. Merin, who prior to September 2005, was President and Chief Operating Officer of Morgan Stanley Investment Management, and Mr. Sutcliffe, who prior to September 2008, was Group Chief Executive Officer of Old Mutual plc.

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; and

(iii) 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 Committee

The responsibilities and duties of the Audit 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 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 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 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 Committee. Ms. Hoeg is a director of Shoppers Drug Mart Corporation, a director and a member of the audit committee of Imperial Oil Limited, Ganong Bros. Limited, Samuel, Son & Co., Limited, Canadian Pacific Railway Limited and Canadian Pacific Railway Company and a trustee of Cineplex Galaxy Income Fund. Ms. Hoeg is also a director of Toronto East General Hospital 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 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. Until October 2008, Mr. Baillie was 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., 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 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. and a trustee and Chairman of the audit committee of Canadian Real Estate Investment Trust. He is also a director of Summit Energy Holdings LLP, a board member of the Canadian Foundation for Plastic and Reconstructive Surgery and a trustee of the Shaw Festival Theatre Endowment Foundation, St. Michael's Hospital Foundation and Roy Thomson Hall and Massey Hall Endowment Foundation.

Germaine Gibara received her designation as a Certified Financial Analyst in 1984. She received a Masters of Economics and Political Science degree from Dalhousie University and completed the Program for Management Development at Harvard Business School. Ms. Gibara has held senior positions with a number of financial service and resource-based companies, including Alcan Automotive Structures, TAL Global Asset Management Inc. and Caisse de 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 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 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.

James H. Sutcliffe is a Fellow of the Institute of Actuaries. He joined Prudential plc, an international retail financial services group, in 1976. During his 21 year career at Prudential, he held progressively more senior positions in actuarial and management functions until he became Chief Operating Officer, UK in 1992 following which he became Chief Executive Officer, UK Home Office from 1993 to 1995 and Chief Executive Officer, UK from 1995 to 1997. Mr. Sutcliffe was the Deputy Chairman of Liberty International in 1998 and 1999. In 2000 he joined Old Mutual plc, an international savings and wealth management company, where from 2001 until his retirement in 2008, he was Group Chief Executive Officer. Mr. Sutcliffe is a director and a member of the audit and risk committee and the remuneration committee of Lonmin plc. He is also a trustee of Buffelshoek Trust, and was a trustee of The Nelson Mandela Legacy Trust (UK) from 2005 to 2008.

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

The following table sets out the Company's Executive Officers at December, 31, 2008.

Name and Province/State and Country of Residence	Position
Donald Stewart Ontario, Canada	Chief Executive Officer
James M. A. Anderson [1] Ontario, Canada	Executive Vice-President and Chief Investment Officer
Thomas A. Bogart Ontario, Canada	Executive Vice-President and General Counsel
Jon A. Boscia Massachusetts, USA	President, Sun Life Financial
Dean A. Connor Ontario, Canada	President, SLF Canada
Kevin P. Dougherty Ontario, Canada	President, Sun Life Global Investments
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 International
Michael P. Stramaglia Ontario, Canada	Executive Vice-President and Chief Risk Officer

1 Mr. Anderson retired on January 1, 2009 and was retained to provide services under a consulting arrangement.

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 his retirement in July 2007, Mr. Boscia was Chairman and Chief Executive Officer of Lincoln Financial Group. 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 September 2006, Mr. McKenney was Senior Vice-President and Chief Financial Officer, Genworth Financial, 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.

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 and Controller. 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 and Conduct Review 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, 2008, SLF Inc.'s directors and executive officers, as a group, owned, directly or indirectly, or had voting control or direction over 230,576 Common Shares of SLF Inc., or less than 1% of the total Common Shares outstanding.

Material Contracts

The following is the only material contract (other than contracts entered into in the ordinary course of business) that Sun Life Financial entered into in its most recently completed financial year or entered into before its most recently completed financial year and which is still in effect:

The Purchase Agreement dated October 5, 2008 between SLF Inc., Sun Life Financial (CI Holdings) Inc. ("CI Holdings") and The Bank of Nova Scotia, as amended by an Amending Agreement dated December 3, 2008 between the Company, CI Holdings, Sun Life Assurance and Scotiabank, pursuant to which Sun Life Financial's 37% interest in CI Financial Income Fund was sold to Scotiabank for $2.2 billion, consisting of $1.55 billion in cash and the balance in common and preferred shares of Scotiabank.

A Copy of these documents 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.

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

	Year Ended December 31		
($ millions)	2008	2007	2006
Audit Services	19.3	20.8	21.1
Audit-Related Services	1.8	2.0	2.5
Tax Services	—	—	0.1
Other Services	0.1	0.2	0.6

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 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, Independent Registered Chartered Accountants and Licensed Public Accountants, are the external auditors of SLF Inc., and independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

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, 2008 and 2007 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 is subject to the MCCSR rules on a consolidated basis. The MCCSR calculation involves using qualifying models or 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) changes in interest rate environment risk, (iv) segregated fund guarantee risk, and (v) off-balance sheet activity exposure. Effective for fiscal years commencing on or after January 1, 2009, a new risk component for foreign exchange risk has been introduced. 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.

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, the participating account, accumulated currency translation account, unamortized deferred realized gains and certain unrealized gains and 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. Effective December 31, 2008 the recognition of unrealized gains and losses on available-for-sale debt securities as capital is being phased out. Life insurance companies have the option to phase them out immediately or over a three year period. Sun Life Assurance has selected the immediate phase out option. 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 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 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 carry on 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. This includes financial institutions notifying customers about their policies and practices relating to their collection and disclosure of customer information and their policies to protect 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, recordkeeping 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 an 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, and require statutory financial statements. The primary purpose of such regulation by the state insurance departments is for the benefit of policyholders and consumers, 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. In addition to the market conduct component of the periodic examinations, states will on occasion perform market conduct reviews that may cover, 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. does not carry on business and is not regulated as an insurance company in the United States but 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. U.S. regulated insurance companies are subject to the insurance holding company laws and regulations in the states in which they are domiciled (or deemed to be commercially domiciled). 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 the state of domicile for Sun Life Assurance's U.S. branch (the U.S. Branch) for purposes of the insurance holding company laws. SLF Inc.'s Vermont insurance subsidiary is not subject to insurance holding company laws. Most states insurance holding company laws generally require 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 with certain reports that include information concerning capital structure, ownership, financial condition, certain intercompany transactions and general business operations. In addition, 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.

The U.S Branch is licensed to transact business 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 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 its surplus notes affect SLF Inc.'s Delaware domestic insurance company's ability to pay dividends by requiring it to maintain certain levels of surplus; SLF Inc.'s Vermont domestic captive insurance company is permitted by the Vermont Insurance Commissioner 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, 2007, the most recent period for which results are available, the U.S. Branch and SLF Inc.'s U.S. life 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 the 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 and results of the investment portfolios of the 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 the 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 the U.S. Branch'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.

Under the NAIC's "Valuation of Life Insurance Policies Model Regulation", the minimum statutory reserves required for certain individual life insurance products such as term life insurance with guaranteed premium periods and universal life with secondary guarantees must be adjusted and/or the guarantee periods must be shortened. These NAIC reserve standards have been enacted by most of the states. The NAIC revised 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

All states have risk-based capital (RBC) requirements for life, health, and property and casualty insurance companies. Regulators use these RBC calculations 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. For purposes of RBC, the AVR is treated as capital. 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 the U.S. Branch and SLF Inc.'s U.S. life insurance subsidiaries as of December 31, 2008, exceeded the levels for any regulatory or corrective action to be required.

Minimum Statutory Surplus and Capital

The 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.

The U.S. Branch, as the branch of a foreign insurer, is required to maintain a certain amount of assets in trust with a financial institution acceptable to the Commissioner of Michigan's Office of Financial and Insurance Regulation (Michigan 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 Commissioner to cover the U.S. Branch's liabilities, plus a portion of its surplus in the United States. These assets are generally only available to meet 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 Commissioner. Management believes that as at December 31, 2008, the U.S. Branch had assets in trust in excess of Michigan's requirements for branches of foreign insurers.

Regulation of Investments

The U.S. Branch and SLF Inc.'s U.S. life 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, foreign investments 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.

Insurance Guaranty Assessments

All states, the District of Columbia and Puerto Rico require insurers to participate in the local insurance guaranty association. The associations may levy assessments for policyholder losses incurred by impaired or insolvent insurers. 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.

Federal legislation has been introduced 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. If similar legislation is introduced and enacted in 2009 it would allow insurers to choose between being regulated by a single federal regulator or to remain regulated by the states.

Under U.S. Federal legislation, including. the *USA PATRIOT Act of 2001* (PATRIOT Act) anti-money laundering and financial transparency laws apply to financial institutions. 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 applicable to the insurance industry. Regulations applicable to the insurance industry require 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 insurance subsidiaries that issue covered products and broker-dealer subsidiaries have implemented anti-money laundering programs to comply with the PATRIOT Act regulations and with the Office of Foreign Assets Control requirements with respect to anti-terrorist financing.

The Internal Revenue Service (IRS) has announced its intention to issue regulations with respect to the computation of the dividends-received deduction (DRD) on separate account assets held in connection with variable annuity contracts. If enacted, these 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, 2008, the Company recorded a benefit of US$18.1 million related to the separate account DRD. Any regulations that the IRS proposes to issue on this matter will be subject to public comment before they are finalized. The timing, substance and effective date of the new regulations are unknown.

Privacy of Customer Information

U.S. federal and state laws require financial institutions and insurers 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 that protect 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 (Advisers Act), and, as such, are regulated by and subject to examination by the SEC. The Advisers Act imposes numerous obligations on registered investment advisors, including fiduciary duties, recordkeeping and reporting requirements, operational requirements and disclosure obligations. The SEC is authorized to institute proceedings and impose sanctions for violations of the 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 investment advisor subsidiaries, including the MFS funds, are registered with the SEC under the *Investment Company Act of 1940*, as amended, (1940 Act) and the *Securities Act of 1933*, as amended (Securities Act). Certain annuity contracts and insurance policies issued by SLF Inc.'s U.S. subsidiaries are also registered under the 1940 Act and the Securities Act, and are regulated as investment companies. The investment companies are qualified for sale as needed in certain states in the United States and the District of Columbia, and in certain foreign countries. Marketing and sales of any securities issued by these investment companies are subject to the Securities Exchange Act of 1934, as amended (Exchange Act), and regulations promulgated by the Financial Industry Regulatory Authority, Inc. (FINRA).

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, FINRA. 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 currently not required to be registered under the Securities Act. The SEC by a 4-1 vote at its meeting on December 17, 2008 adopted Rule 151A to be effective January 12, 2011. Rule 151A requires SEC registration and regulation of these products as securities rather than exclusively as insurance products.

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 rules set out in the FSA 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 request 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 Customers Fairly initiative. All firms must comply with this by the end of 2008, and this will be a major factor within the scope of regulatory reviews in 2009. 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 rules for Solvency II remain in draft, although it is expected that Solvency II will be implemented in 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

Risk factors have an impact on the value of the Company. Effective risk management is one of the ways Sun Life Financial protects and enhances value by providing a risk framework to maximize opportunity, minimize exposure, and limit uncertainty. Risk is not necessarily eliminated, but it needs to be managed to achieve the Company's overall corporate objectives.

Further explanation of Sun Life Financial's risk management approach and the categories of risk relating to Sun Life Financial and its businesses, and the accounting and actuarial assumptions and estimates used by Sun Life Financial in the preparation of its financial statements, can be found in the sections under Risk Management, Accounting Policies and Critical Accounting Estimates sections in SLF Inc.'s 2008 MD&A, available on SEDAR at www.sedar.com and with the SEC at www. sec.gov. and is incorporated herein by reference.

Credit Risk

Credit risk is the uncertainty of receiving amounts Sun Life Financial ise owed from its financial counterparties. Sun Life Financial is subject to credit risk arising from issuers of securities held in the Company's investment portfolio, debtors (e.g. mortgagors), reinsurers, derivative counterparties, other financial institutions (e.g. amounts held on deposit) and other entities. Losses may occur when a counterparty fails to make timely payments pursuant to the terms of the underlying contractual arrangement or when the counterparty's credit rating otherwise deteriorates.

Continued volatility in the capital markets, including deteriorating credit, may also have a significant impact on the value of the fixed income assets in Sun Life Financial's investment portfolio. Events that result in defaults, impairments or downgrades of the securities within the investment portfolio would cause Sun Life Financial to record realized or unrealized losses and increase its provisions for asset default, adversely impacting earnings.

As part of its overall risk management strategy, Sun Life Financial maintains various hedging programs that employ the use of derivatives. Market conditions determine the availability and cost of the derivative protection. Although Sun Life Financial deals primarily with highly rated counterparties, a counterparty's insolvency, inability or unwillingness to make payments under the terms of the derivative agreement could have an adverse effect on Sun Life Financial's business.

Sun Life Financial purchases reinsurance for certain risks underwritten by its various insurance businesses. Reinsurance does not relieve Sun Life Financial's insurance businesses of their direct liability to policyholders and accordingly, the Company bears credit risk with respect to its reinsurers. Although Sun Life Financial deals primarily with highly rated reinsurers, a deterioration in these credit ratings, or reinsurer insolvency, inability or unwillingness to make payments under the terms of its reinsurance agreement could have an adverse effect on the Company's profitability and financial position.

Equity Market Risk

Equity risk is the potential for financial loss arising from price changes or volatility in equity markets. It arises when the market value of assets and liabilities change due to equity market movements without being offset elsewhere.

Equity market price declines and/or volatility impacts both assets and liabilities and, hence, could have an adverse effect on Sun Life Financial's business, profitability and capital requirements in several ways.

Sun Life Financial derives a portion of its revenue from fee income generated by its asset management businesses and on certain insurance and annuity contracts where fee income is levied on account balances that directionally move in line with general equity market levels. Fee income is assessed as a percentage of assets under management and, therefore, varies directly with the value of such assets. Accordingly, adverse fluctuations in the market value of such assets would result in corresponding adverse impacts on the Company's revenue and net income. In addition, declining and volatile equity markets

may have a negative impact on sales and redemptions (surrenders) for this business, resulting in further adverse impacts on the Company's net income and financial position.

Sun Life Financial has direct exposure to equity markets as a result of the investments supporting general account liabilities, surplus and employee benefit plans. These positions would further contribute to the adverse impact that downturns in equity markets have on Sun Life Financial's overall profitability and capital.

Various insurance and annuity products contain guarantees which may be triggered upon death, maturity, withdrawal or annuitization, depending on the market performance of the underlying funds. For example, the Company offers variable annuities with guaranteed minimum death benefits and guaranteed minimum withdrawal benefits. Sun Life Financial has also assumed this risk through reinsurance transactions, with respect to certain variable annuity policies issued by other insurance companies. The cost of providing for these guarantees increases under volatile and declining equity market conditions, resulting in negative impacts on net income and capital.

Sun Life Financial has implemented hedging programs, involving the use of derivative instruments, in order to reduce its exposure to equity risk. These programs are primarily focused on hedging a portion of the costs associated with providing the above referenced variable annuity guarantees. The general availability and cost of these hedging instruments may be adversely impacted by volatile and declining equity and interest rate market conditions. In addition, these hedging programs may themselves expose the Company to other risks such as basis risk (the risk that hedges do not exactly replicate the underlying equity exposure), derivative counterparty credit risk (see Credit Risk section), model risk and other operational risks. These factors may adversely impact the net effectiveness, costs and financial viability of maintaining these hedging programs and therefore adversely impact the Company's profitability and financial position.

Other Market Risks — Sun Life Financial has real estate and private equity investments supporting general account liabilities and surplus. Real estate risk is the risk of financial loss arising from ownership of, or loans on, real property, leasehold interest, ground rents and purchase and leaseback transactions. Real estate risk may arise from external market conditions, inadequate property analysis, inadequate insurance coverage, inappropriate real estate appraisals or from environmental risk exposures. The timing and amount of income from private equity investments is difficult to predict, and therefore investment income from these investments can vary from quarter to quarter. Fluctuations in the value of these asset types will also impact the Company's profitability and financial position.

Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes or volatility in interest rates (including credit spreads), when asset and liability cash flows do not coincide.

Significant changes or volatility in interest rates and/or credit spreads could have a negative impact on sales of certain insurance and annuity products, and adversely impact the expected pattern of redemptions (surrenders) on existing policies. Rapid increases in interest rates and/or widening credit spreads may increase the risk that policyholders will surrender their contracts, forcing the Company to liquidate investment assets at a loss and accelerate recognition of certain acquisition expenses. While Sun Life Financial has established hedging programs and its insurance and annuity products often contain surrender mitigation features, these may not be sufficient to fully offset the adverse impact of the underlying losses on asset sales. Conversely, rapid declines in interest rates and/or narrowing credit spreads may result in increased asset calls, mortgage prepayments and net reinvestment of positive cash flows at lower yields. Any of the events outlined above may have an adverse impact on Sun Life Financial's profitability and financial position.

Lower interest rates and/or anarrowing of credit spreads can also cause compression of the net spread between interest earned on investments and interest credited to policyholders. As well, certain products have explicit or implicit interest rate guarantees (in the form of settlement options, minimum guaranteed crediting rates and guaranteed premium rates) and, if investment returns fall below those guarantee levels, the Company may be required to increase actuarial liabilities, negatively affecting net income and capital. The guarantees attached to these products may be applicable to both past premiums collected and future premiums not yet received.

A sustained low interest rate environment may adversely impact primary demand for a number of our core insurance offerings, requiring a significant repositioning of our product portfolio. This may contribute to adverse developments in revenues and cost trends and, hence, overall profitability.

Credit spreads on corporate bonds and asset-backed securities have widened significantly in 2008. A further (or prolonged) widening of credit spreads may have a material impact on the value of fixed income assets, resulting in further (or prolonged) depressed market values. A decrease in the market value of assets due to credit spread widening may lead to losses in the event of the liquidation of assets prior to maturity. In contrast, credit spread tightening may result in reduced investment income on new purchases of fixed income assets.

Sun Life Financial also has direct exposure to interest rates and credit spreads from investments supporting other general account liabilities (without interest guarantees), surplus and employee benefit plans. Lower interest rates and/or a narrowing of credit spreads will result in reduced investment income on new fixed income asset purchases. Conversely, higher interest rates and/or wider credit spreads will reduce the value of the Company's existing assets.

Sun Life Financial has implemented hedging programs, involving the use of derivative instruments, in order to reduce its exposure to interest rate risk. The general availability and cost of these hedging instruments may be adversely impacted by changes in interest rate levels and volatility. In addition, these hedging programs may themselves expose the Company to other risks such as basis risk (the risk that hedges do not exactly replicate the underlying equity exposure), derivative counterparty credit risk (see Credit Risk section), model risk and other operational risks. These factors may adversely impact the net effectiveness, costs and financial viability of maintaining these hedging programs and therefore adversely impact the Company's profitability and financial position.

Risk of Sustained Economic Downturn

During 2008, global capital markets continued to deteriorate, leading to the current global economic downturn. A sustained global economic downturn characterized by higher unemployment, lower family incomes and corporate earnings, lower consumer spending and business investment could have multiple effects on the Company's business, including reduced demand for Sun Life Financial's financial and insurance products, and an increased likelihood of higher surrenders/redemptions and insurance claims (e.g. increased incidence and reduced termination rates in respect of disability related claims).

Furthermore, a prolonged economic downturn may give rise to a higher level of strategic risks including those associated with industry restructuring and the changing mergers and acquisitions profile, new competitive dynamics and significant changes in the legal, regulatory and tax regime within which Sun Life Financial's businesses operate.

Moreover, the capital market conditions generally associated with a sustained economic downturn increases the risk profile of many of the financial and market risks outlined in other sections of this disclosure. As a result, this risk should be considered in conjunction with other specific risk factors described in this section of the Annual Information Form (AIF) including, in particular, credit risk, equity market risk, interest rate risk and liquidity risk.

Liquidity Risk

Liquidity risk is the risk of not having cash available to fund all commitments as they fall due. This includes the risk of being forced to sell assets at depressed prices resulting in realized losses on sale. For SLF Inc. this risk also includes restrictions on the ability to efficiently allocate required capital among its subsidiaries because of various market and regulatory constraints on the movement of funds. Sun Life Financial's funding obligations arise in connection with the payment of policyholder benefits, expenses, asset purchases, investment commitments, interest on debt and dividends on capital stock. Sources of available cash flow include general fund premiums and deposits, investment related inflows (maturities, investment income and proceeds of asset sales), proceeds generated from financing activities in normal markets and dividends and interest payments from its subsidiaries.

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 engages in various transactions including securities lending, repurchase agreements and other capital markets transactions to meet short-term cash requirements. The cost and the Company's ability to execute these transactions may be negatively impacted by illiquid or volatile markets. Continued disruption in the financial markets may limit the Sun Life Financial's access to capital in the event the Company is required to seek additional liquidity to operate its businesses. This will result in increased costs to raise capital coupled with less desirable terms or maturities which would decrease future profitability and financial flexibility.

Sun Life Financial has various reserve financing transactions under which it may be required to pledge collateral or to make payments to its counterparties for the decline in the market value of specified assets. The amount of collateral or payments may increase under certain circumstances, which could adversely affect the Company's liquidity.

Sun Life Financial currently utilizes capital markets solutions to fund a portion of its statutory reserve requirements. The availability of these reserve funding structures in the current marketplace has become increasingly limited. If capacity remains limited for an extended period of time, the Company's ability to generate additional business in a cost effective manner may be impacted.

Sun Life Financial Inc. is a holding company for its insurance and wealth management subsidiaries and does not have significant operations of its own. Dividends and interest payments from its subsidiaries are its principal sources of cash. If the cash received from its subsidiaries is insufficient, then the Company will be required to raise debt or equity externally or sell some of its assets. The Company is subject to various regulations in the jurisdictions in which it operates. The ability of Sun Life Financial 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.

Capital Adequacy Risk

Capital adequacy risk is the risk that capital is not or will not be sufficient to withstand adverse economic conditions, to maintain financial strength or to allow the Company and its subsidiaries to support ongoing operations and to take advantage of opportunities for expansion.

The strength of Sun Life Financial's capital position depends in part upon the level of and changes in interest rates, credit spreads, equity prices, mortality and morbidity experience, currency rate fluctuations and the overall profitability of the Company.

Declining equity markets, downgrades, lower interest rates coupled with widening credit spreads on corporate bonds and asset backed securities, lower earnings and inability to access the capital markets on a timely basis will result in an increase in required capital and or reductions in available capital, thereby impairing the Company's financial position.

Given the current instability in the capital markets, regulators worldwide have been working to ensure that existing capital regimes appropriately provide for risks assumed while ensuring that the institutions under their jurisdictions have sufficient flexibility to operate in the current environment. Three recent changes by the Office of the Superintendent of Financial Institutions (OSFI) will help mitigate the impact of the current economic environment. The first change reduces volatility in the capital required to support segregated fund guarantees by distinguishing between lower capital required to support distant policyholder payments and higher capital to support near-term policyholder obligations. The second change recognized the long-term nature of a life insurance company's invested assets by allowing life insurance companies to immediately elect to exclude unrealized gains and losses on available-for-sale debt securities from the determination of available capital thus reducing the short-term volatility in the level of available capital. Finally, the requirement to hold capital for interest margin pricing risk was eliminated because OSFI considered that this risk was sufficiently covered through other capital requirements. Regulators in other jurisdictions in which the Company operates have also enacted changes that have provided capital relief where warranted.

Financial Strength and Credit Ratings

Financial strength and credit ratings risk is the risk of a downgrade by rating agencies of Sun Life Financial's financial strength and/or 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 Sun Life Financial 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 materially, the Company's competitive position could be negatively impacted.

In addition, rating agencies also publish issuer credit ratings for certain Sun Life Financial companies, which have an impact on the interest rates paid by those companies on borrowed funds. A material downgrade in the issuer credit ratings could limit the Company's access to capital or increase the cost of borrowing and may have an adverse effect on its financial condition and results of operations through loss of sales, higher levels of surrenders and withdrawals, higher reinsurance and may potentially require the Company to reduce prices for products and services to remain competitive.

Sun Life Financial has established financing arrangements that support medium term note programs and the excess NAIC statutory reserves required for universal life policies issued by Sun Life Assurance in the United States. These financings, in addition to others, are treated as operating leverage by the rating agencies. If, due to a change in rating agency methodology or position, the rating agencies immediately cease to treat these financings as operating leverage, without providing any grandfathering provisions, there may be an adverse impact on the Company and its subsidiaries' ratings.

Mergers Acquisitions and Divestitures

Sun Life Financial regularly explores opportunities to selectively acquire other financial services businesses in support of its growth and strategy goals. These transactions introduce the risk of financial loss due to a potential failure to achieve the expected financial or other strategic objectives.

There is risk that Sun Life Financial may be unable to make an appropriate acquisition in a desired market or business, and consequently this could adversely impact the Company's ability to compete effectively in certain markets due to a lack of scale.

The success of these acquisitions depends on a number of factors. In particular, Sun Life Financial could experience client losses, surrenders or withdrawals that prove to be materially different from those anticipated in pricing the transaction. Anticipated cost synergies or other expected benefits may not materialize due to a failure to successfully integrate the acquired business with the Company's existing operations. There could also be unforeseen liabilities or asset impairments, including goodwill impairments that arise in connection with the past or future acquisitions or divestitures of businesses. Losses could arise from a failure in the due diligence process, failed integration/execution of the transaction, due to the inappropriate choice of acquisition target or due to mis-estimation and/or deterioration in any key experience factors or assumption upon which the transaction was based. There is no assurance that the Company will achieve its financial or strategic objectives or anticipated cost savings following an acquisition.

The purchase and sale agreements that generally support acquisition transactions typically include various indemnifications provided from the seller to the acquiring entity. The Company would therefore be exposed to the credit risk of the selling party with respect to their ability to perform under these contracts if an indemnification trigger were to occur.

The Company may also periodically choose to divest itself of all or part of certain businesses. There is a risk of issues or errors occurring during the process of transitioning the business from Sun Life Financial to a new provider. A failed or ineffectively executed divestiture could impair the financial position of the Company. Further, the Company could also be exposed to potential future obligations if an indemnification trigger were to occur.

Investment Performance

Investment performance risk is the risk that Sun Life Financial fails to achieve the desired return objectives on its investment portfolio, and/or that its asset management businesses fail to achieve competitive returns on products such as mutual funds. Failure to achieve investment objectives may adversely affect the Company's revenue and growth prospects for its asset management businesses, investment income on general account investments and overall profitability.

The performance of Sun Life Financial's investment portfolio depends in part upon the level of and changes in interest rates, credit spreads, 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 the Company's control. Changes in these factors can affect Sun Life Financial's net investment income in any period and such changes could be substantial.

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. In addition, poor investment performance by the Company's wealth management operations could adversely affect net sales and redemptions, and reduce the level of assets under management, potentially adversely impacting the Company's revenues and income.

Mortality and Morbidity

Mortality and morbidity risk is the risk of incurring higher than anticipated mortality and morbidity claim losses. This risk can arise in connection with an increase in frequency and/or average severity of realized claims.

Mortality and morbidity risk can arise in the normal course of business through random fluctuation in realized experience, through catastrophes, or in association with other risk factors such as product development and pricing or model risk. Adverse mortality and morbidity experience could also occur through systemic anti-selection, which could arise due to poor plan design, underwriting process failure or through the development of investor owned and secondary markets for life insurance policies. Sun Life Financial is exposed to the catastrophic risk of natural environmental disasters (e.g. earthquakes), man-made events (acts of terrorism, military actions, inadvertent introduction of toxic elements into the environment) as well as pandemics such as the avian flu.

These factors could result in a significant increase in mortality and/or morbidity experience above the assumptions used in pricing and valuation of products, leading to a material adverse effect on the Company's profitability and financial position.

During economic slowdowns, such as the one currently being experienced, the risk of adverse morbidity experience increases from the impact of the shifting nature of disabilities and cyclical economic outcomes. This introduces the potential for adverse financial volatility in disability results.

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 they are interpreted or enforced, could have an adverse effect on the Company's business and operations.

As a result of the current global financial crisis, there is increasing co-operation between international financial authorities. Potential impacts of new Canadian and/ or International regulatory or legal requirements may adversely affect Sun Life Financial. This, along with the changing role of governments who are participating more directly in the business sector (e.g. equity participation) could adversely impact the Company's business.

Changes in accounting, capital and disclosure standards will impact our business, reporting, accounting processes, decision making and costs. There is also a continued expectation for enhanced transparency and disclosure through international standards such as International Financial Reporting Standards (IFRS), Basel, and Solvency II Pillar 3.

In the U.S. the valuation, capital and accounting rules are regulated by our states of domicile and the other jurisdictions in which Sun Life Financial does business. Model laws and regulations are promulgated by the National Association of Insurance Commissioners (NAIC), but individual jurisdictions can and do have rules that differ, increasing the difficulty of ensuring compliance. As well, NAIC's standards, including those for reserves and capital, are continually in a state of flux. For example, under NAIC rules, U.S. insurance companies are entitled to credit for statutory reserves for various 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 the Company 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 the Company's U.S. operations to increase its NAIC statutory reserves, incur higher operating costs and/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 by either increasing the effective tax rate or by impacting consumer preference for the Company's products.

As a result of the current global financial turmoil, regulators in many countries are reviewing their requirements and considering potential changes. There can be no assurance that changes to regulatory requirements will not adversely affect Sun Life Financial's businesses in certain countries. Further, 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 the Company's products by increasing the number and financial strength of potential competitors.

The life insurance industry is closely regulated, and as new and more complex products are introduced, regulators refine capital requirements and introduce new reserving standards for the industry. These regulations can potentially impact the reserve and capital requirements of Sun Life Financial and result in an adverse impact on the Company's financial flexibility and capital position. For more details please refer to the Capital Risk section in this Annual Information Form (AIF).

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 the Company'sreputation and may lead to regulatory proceedings, penalties and litigation. 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, the Company's products. The Company also faces a significant risk of litigation in the ordinary course of operating its business including the risk of class actions.

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. As well, 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. Investigations have been made 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

Product design and pricing risk arises from deviations in assumptions used in the pricing of products as a result of uncertainty concerning future investment yields, mortality and morbidity experience, policyholder behaviour, sales levels, mix of business, 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 terms of these policies or contracts may not allow for sufficient adjustments to maintain expected profitability. This could have an adverse effect on the Company's results of operations. In addition, some of the Company's products are designed to utilize external funding structures to partially support local statutory reserve requirements. A loss or reduction in external funding capacity could adversely affect the profitability of these products.

Products which offer complex features, options and/or guarantees require increasingly complex pricing models, methods and/or assumptions leading to additional levels of uncertainty. The risk of mis-pricing increases with the number and inherent volatility of assumptions needed to model a product. Past experience data supplemented with future trend assumptions may be poor predictors of future experience. Lack of experience data on new products or new customer segments increases the risk that future actual experience unfolds differently from expected assumptions. External environmental factors may introduce new risk drivers which were unanticipated during product design and have an adverse result on the financial performance of the product. Policyholder sophistication and behaviour in the future may vary from what is assumed at the time the product is designed adversely affecting the financial performance of a product.

Reinsurance Markets

As part of its overall risk management strategy, Sun Life Financial purchases reinsurance for certain risks underwritten by its various insurance businesses. Reinsurance markets risk is the risk of financial loss due to adverse developments in reinsurance market conditions. It also includes credit risk in respect of exposures ceded to reinsurance counterparties (see Credit Risk section).

Changes in reinsurance market conditions may adversely impact the availability and/or cost of maintaining existing or securing new requisite reinsurance capacity, with adverse impacts on profitability. This could also adversely affect the Company's willingness and/or ability to write certain lines of future business.

Reinsurance does not relieve Sun Life Financial's insurance businesses of their direct liability to policyholders and accordingly, the Company bears credit risk with respect to its reinsurers. Although Sun Life Financial deals primarily with highly rated reinsurers, deterioration in these credit ratings, or reinsurer insolvency, inability or unwillingness to make payments under the terms of its reinsurance agreement could have an adverse effect on the Company's profitability and financial position.

Policyholder Behaviour

Policy behaviour risk is the risk of financial loss due to the mis-estimation or deterioration in the behaviour of policyholders with regard to lapse of policies or exercise of other embedded policy options.

Many of Sun Life Financial's products include some form of embedded policyholder option. These could range from simple options relating to surrender/termination to more complex options relating to payment of premiums, or embedded options relating to various benefit and coverage provisions. Changes in the relatively frequency or pattern with which these options are elected (relative to those assumed in the pricing and valuation of these benefits) could have an adverse impact on Sun Life Financial's profitability and financial position.

Systemic forms of policyholder behaviour risk could also arise with the development of investor owned and secondary markets for life insurance policies.

Distribution Channels

The inability of Sun Life Financial to attract and retain intermediaries and agents to distribute the Company's products could materially impact sales and results of operations.

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. The Company 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.

Distribution channels are growing rapidly in some businesses in certain countries, which may heighten the risks of market conduct and channel conflicts or overlaps.

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the potential for financial loss arising from changes or volatility in foreign currency exchange rates. It arises from currency mismatches between the Company's assets and liabilities (inclusive of capital) and from cash flow currency mismatches. This risk may arise from a variety of sources such as foreign currency transactions and services, foreign exchange trading, investments denominated in foreign currencies, investments in foreign subsidiaries and net income from foreign operations.

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, the Company generally maintains the currency profile of its assets so as to match the currency of aggregate liabilities and minimum required surplus. 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. In general, a weakening in the local currency of the Company's foreign operations relative to the Canadian dollar will have a negative impact on Sun Life Financial's net income.

Operations in Asia

The future success of Sun Life Financial's businesses in Asia depends in large part on the Company's ability to compete in disparate markets. Challenges in these markets include Sun Life Financial's ability to attract and retain qualified employees and executives with local experience and critical skills, political, legal or other risks, risks associated with joint venture operations, and asset/ liability management risk.

If Sun Life Financial is unable to attract, retain and engage qualified employees and executives with local experience and critical business skills, its ability to grow its business in Asia as quickly as planned may be limited. Competition for qualified employees in Asian markets continues to be strong and could adversely impact the Company's ability to attract and retain talent.

The Company's international operations may face political, legal, operational or other risks that are not faced in Sun Life Financial's domestic operations. Examples of this type of risk are the risk of discriminatory regulation, nationalization or expropriation of assets, price controls and exchange controls or other restrictions that could prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies the Company holds into Canadian dollars or other currencies.

Capital markets in certain Asian markets do not have the same depth, liquidity or range of investments options generally available in other markets in which the Company operates. In particular, the more limited availability of long-duration assets exposes our Asian operations to higher asset-liability management costs and potential risk.

Sun Life Financial's joint venture operations in India and China have risks generally associated with joint venture relationships. For example, 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 the Company's results of operations.

Competition

Competition from financial services companies, including banks, mutual fund companies, financial planners, insurance companies and other providers is intense, and could adversely affect Sun Life Financial's business in certain countries.

The businesses in which Sun Life Financial engages are highly competitive, with several factors affecting the Company's ability to sell its products, including price and yields offered, e-business capabilities, financial strength ratings, range of product lines and product quality, claims-paying ratings, brand strength and name recognition, investment management performance, historical dividend levels and the ability to provide value added services to distributors and customers. In certain markets, some of our competitors may be superior to Sun Life Financial on one or more of these factors, for example, the strength of distribution arrangements or the ability to offer a broader product array.

Product development and product life cycles have shortened in many product segments, leading to more intense competition with respect to product features. This increases product development and administrative costs and reduces the time frame over which capital expenditures can be recovered. Regulatory and compliance costs also generally rise with increases in the range and complexity of Sun Life Financial's product portfolio.

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. Larger companies have the ability to heavily invest in fundamental activities for sustained profitable growth and superior customer service in the life insurance industry such as brand equity, product development, technology, risk management, and distribution capability. There can be no assurance that this increasing level of competition will not adversely affect Sun Life Financial's businesses in certain countries.

Many of Sun Life Financial's insurance products, particularly those offered by the group segment, are underwritten annually. Given this relatively high frequency of renewal activity, this business may be particularly exposed to adverse persistency through market competitive pressures.

Different accounting bases of reporting (e.g. Canadian GAAP, U.S. GAAP, etc. in different countries) may create differences in reported earnings, and Sun Life Financial may be at a disadvantage compared to some of its competitors in certain of its businesses.

Model Risk

Model risk refers to financial or non-financial losses resulting from the use of financial models. All models are subject to model risk.

The Company makes extensive use of financial models in a wide range of business applications including product development and pricing, capital management, valuation, financial reporting, planning, hedging and risk management.

Model risk can arise from many sources including inappropriate methodologies, inappropriate assumptions or parameters, incorrect use of source data, inaccurate or untimely source data, incorrect application or operator errors. Increasing product complexity due to new features and regulatory expectations is driving more complex models, which may increase the risk of error. If the assumptions are erroneous, or data or calculation errors occur in the models, this could result in a negative impact on the Company's results of profitability and financial position.

Sun Life Financial's reinsurance operations rely on its clients to provide timely and accurate data. Erroneous or untimely reporting of data from these clients may result in inaccurate model calculations and valuations and create volatility in Sun Life Financial's earnings. The nature of the retrocession industry is such that there is reliance on the original underwriting decisions made by Sun Life Financial's clients. It is not possible to provide assurance that these processes or those of Sun Life Financial's clients will adequately control business quality or establish appropriate pricing.

Many of the Company's methods and models for managing risk and exposures are based upon the use of observed historical precedent for financial market behaviour, credit experience and insurance risks. As a result, these methods may not fully predict future risk exposures, which can be significantly greater than the Company's historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophic occurrence or other matters that is publicly available or otherwise accessible to us; however, this information may not always be accurate, complete, up-to-date properly evaluated or necessarily indicative of ultimate realized experience.

Longevity

Longevity Risk is the potential for economic loss, accounting loss or volatility in earnings arising from uncertain ongoing changes in rates of mortality improvement, or a major medical breakthrough extending human life to extremes. Longevity risk affects contracts where benefits are based upon the likelihood of survival, (i.e. annuities, pensions, pure endowments, and specific types of health contracts).

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, thereby requiring a strengthening in policyholder liabilities, resulting in reductions in net income and capital.

Business Continuity

Sun Life Financial's businesses are dependent on operational processes and computer and Internet-enabled technology. This reliance exposes Sun Life Financial to disruption of its systems by power or other utility outages, fires, floods, severe storms, terrorism and other man-made attacks, natural disasters and other events. In addition to system disruption, these unanticipated events, plus others (e.g. disease pandemics) also can directly affect staff, preventing them from getting to work or from operating business processes.

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 the Company's systems interface with and are dependent on third-party systems, the Company could experience service interruptions if third party operations or systems fail or experience interruptions.

Information System Security and Privacy/ System & Control Failure

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 may be vulnerable to physical break-ins, computer viruses, system break-ins by "hackers", programming and/or human errors, fraud or similar disruptive problems. There is also a risk that certain internal controls could fail due to human or system error, which could create and/ or exacerbate the consequences from such events. Such events could have an adverse effect on the Company's results of operations and reputation.

Sun Life Financial retains data used for business transactions, financial reporting, as well as 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 the Company has implemented extensive security measures to safeguard the confidentiality, integrity and availability of information, it is not possible to fully eliminate security and privacy risk.

Sun Life Financial periodically needs to update or change its systems to meet business needs. Although every reasonable precaution to ensure these changes succeed, it is not possible to fully eliminate the risk of business disruption. Some of these changes or upgrades are extremely complex and there is a chance that an undetected technical flaw may be present that, when implemented, stops or disrupts critical information technology systems or business applications.

Dependence on Third Party Relationships

Dependence on Third Party Relationships is the risk that third parties (e.g. key service providers, entities to which the Company has outsourced certain functions etc.) do not provide the contracted service at the cost and quality levels expected.

Sun Life Financial contracts for services with a wide range of third party service providers and has outsourced certain business and information technology functions to third parties in various jurisdictions, including Canada and the United Kingdom. An interruption in the Company's continuing relationship with certain third parties, the impairment of their reputation or creditworthiness, or their 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 the Company would be able to find alternate sources for these outsourcing arrangements in a timely manner.

Attracting and Retaining Talent

Attracting, retaining and maintaining the engagement of qualified employees, including executives, sales representatives and employees with business critical skills, is expected to be challenging in the current environment. If Sun Life Financial is unable to attract, retain and engage qualified employees, sales representatives and executives, its ability to achieve business objectives, including operational, financial and growth goals, could be adversely affected.

Challenging global market conditions and/or actions taken by the Company to reduce expenses may impact employee compensation and engagement, and could decrease Sun Life Financial's ability to attract and retain talent.

Closed Block

Upon demutualization Sun Life Financial established "closed blocks" of assets and liabilities to protect the reasonable expectations of participating policyholders. Closed block risk could result in a loss to the shareholders if overall experience is sufficiently adverse so that the allocated assets can no longer meet the reasonable expectations of policyholders in these blocks.

The assets in the closed blocks were established on a best estimates basis at the time of demutualization. The returns on these assets along with other experience, such as mortality, morbidity and lapse, are reflected in the dividend scales established by the Board of Directors for these policies. Should experience be sufficiently adverse that the funds can no longer meet the reasonable expectations of policyholders in these blocks the Company may have to make additional contributions to these closed blocks resulting in losses to shareholders.

Environmental Risk

Environmental risk is the potential for financial or reputation loss arising from an adverse environmental event (e.g. toxic spills) and may arise from Sun Life Financial's direct ownership of property, or from loans, bonds or stocks in which the Company has invested.

The Company's reputation and, hence, ability to successfully build its business and brand, may be adversely affected if Sun Life Financial, a tenant or a mortgagor contravenes, or is perceived to have contravened, environmental laws, regulations or accepted practice.

Interaction of Risks

The risks outlined above may occur independently or in various combinations. Certain loss events may give rise to multiple risks occurring simultaneously or in relatively rapid chained progression. For example, a major global pandemic would have a material adverse impact on mortality and claims experience. Such an event may also trigger adverse global capital markets developments, including a downturn in equity market levels and interest rates, increased volatility and credit deterioration. Operational risks could also arise due to rising employee absenteeism and potential disruptions in third party service arrangements.

While a number of risk descriptions outlined above have referenced certain risk inter-dependencies and relationships between risk categories or factors, these do not represent a complete inventory. It should be noted that these inter-relationships can continue to develop and change over time, and the combined adverse impact on the Company's profitability and financial position could be significantly greater than the sum of the individual parts.

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 federal, provincial and state securities and insurance regulators in Canada, the United States and other jurisdictions, the SEC, the United States Financial Industry Regulatory Authority and state attorneys general in the United States, 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.

Since January 1, 2008, (a) no penalties or sanctions have been imposed against Sun Life Financial (i) by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or (ii) by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision and (b) Sun Life Financial has not entered into any settlement agreements with a court relating to Canadian securities legislation or with a Canadian securities regulatory authority.

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 Committee

Purpose

The Audit 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 Committee, the Board of Directors and the shareholders.

Membership

The Audit 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 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. The External Auditor 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 Committee

Financial Reporting

1. Reviews with management and the External Auditors and makes recommendations to the Board of Directors on the approval of:
    a) the interim unaudited consolidated financial statements including the notes thereto, Management's Discussion and Analysis and related news release;
    b) the annual audited consolidated financial statements including the notes thereto, Management's Discussion and Analysis and related news release and;
    c) the Annual Information Form with the External Auditors of those matters required to be discussed under generally accepted auditing standards applicable to the Corporation.
2. In conducting its review of the quarterly and annual financial statements:
    (a) discusses with the External Auditors any significant changes that were required in the external audit plan, any significant issues raised with management during the course of the audit or review, including any restrictions on the scope of activities or access to information, and those matters that are required to be discussed under generally accepted auditing standards;
    (b) receives a report from management of their review of financial statements, Management's Discussion and Analysis and related news 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;
    (c) assures itself that the External Auditor is satisfied that the accounting estimates and judgments made by management, and management's selection of accounting principles, reflect an appropriate application of generally accepted accounting principles;
    (d) discusses with the Chief Actuary the parts of the annual audited consolidated financial statements prepared by that officer; and
    (e) reviews with management and the External Auditor the Corporation's principal accounting practices and policies.

External Audit

3. Reviews the independence of 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.
4. 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.
5. 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.
6. 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 Restricting the Use of the External Auditor.
7. 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.
8. Reviews with the External Auditor any regulatory investigations that pertain to the External Auditor.

Internal Control and Audit

9. Requires management to implement and maintain appropriate internal control procedures, and reviews, evaluates and approves the procedures.
10. Reviews management's reports on the effectiveness of Sun Life Financial's disclosure controls and procedures and its internal control over financial reporting.
11. 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.
12. Receives quarterly reports on fraud investigations.
13. Approves procedures established to handle complaints, and anonymous employee submissions, with respect to matters and concerns regarding accounting, internal control and auditing.

Governance

14. 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.
15. 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.
16. Reviews matters within its mandate that are addressed in the regular examination and similar reports received from regulatory agencies.
17. Discusses the qualifications for and determines whether a member of the Committee is a financial expert and in conjunction with the Governance and Conduct Review Committee ensures the ongoing financial literacy of Committee members.

Other

18. 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 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 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 Chief Actuary
- Senior Vice-President and Chief Auditor
- Senior Vice-President and Controller
- Senior Vice-President Financial Planning and Analysis
- Senior Vice-President, Tax
- Vice-President and Chief Accountant
- Vice-President, Treasurer

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©

Deloitte & Touche LLP
Brookfield Place
181 Bay Street,
Suite 1400
Toronto, On M5J 2V1
Canada

Tel: (416) 601 6150
Fax: (416) 601-6151
www.deloitte.ca

Consent of Independent Registered Chartered Accountants

We consent to the incorporation by reference in the Registration Statement Nos. 333-90920, 333-105310 and 333-151733 on Form S-8 and to the use of our reports dated February 11, 2009 relating to the consolidated financial statements of Sun Life Financial Inc. (the "Company") (which report expresses an unqualified opinion and includes a separate report titled Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Differences) and the effectiveness of the Company's internal control over financial reporting appearing in this Annual Report on Form 40-F of the Company for the year ended December 31, 2008.

Independent Registered Chartered Accountants

/s/ "Deloitte & Touche LLP"

Independent Registered Chartered Accountants
Licensed Public Accountants
February 13, 2009

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 11, 2009 on the valuation of the policy liabilities of Sun Life Financial Inc. and its subsidiaries for its consolidated balance sheets at December 31, 2008 and 2007 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.

Dated February 13, 2009

/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, 2008 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.

This certificate has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: February 13, 2009

/S/ "Donald A. Stewart"
Donald A. Stewart
Chief Executive Officer

Date: February 13, 2009

/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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and 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 13, 2009

/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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and 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 13, 2009

/S/ "Richard P. McKenney"
Richard P. McKenney
Chief Financial Officer