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, 2009** 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, 6th Floor, Toronto, Ontario, Canada M5H 1J9 (416) 979-4800
(Address and telephone number of Registrant's principal executive offices)

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

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

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

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

Not Applicable
(Title of Class)

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

Not Applicable
(Title of Class)

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

þ Annual information form þ Audited annual financial statements

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

Common Shares	**564,479,572**
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**
Class A Preferred Shares Series 6R	**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, 2009 (the "**2009 Annual MD&A**"). A copy of the Company's 2009 Annual MD&A is attached hereto as Exhibit 1.

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 report titled "Financial Reporting Responsibilities", with respect to the Company's annual consolidated financial statements for the year ended December 31, 2009 (the "**2009 Annual Financial Statements"**). Copies of the management report titled "Financial Reporting Responsibilities" and the Company's 2009 Annual Financial Statements are attached hereto as Exhibit 2.

Attestation Report of the Registered Public Accounting Firm

The "Report of Independent Registered Chartered Accountants" with respect to the Company's 2009 Annual Financial Statements, which is included in the Company's 2009 Annual Financial Statements.

Changes in Internal Control Over Financial Reporting

The information under the heading "Controls and Procedures" in the Company's 2009 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, 2010 (the “**2009 AIF**”). A copy of the Company’s 2009 AIF is attached hereto as Exhibit 3.

Audit Committee Financial Expert

The information under the heading “Directors and Executive Officers - Audit Committee” in the Company’s 2009 AIF .

Code of Ethics

The information under the heading “Directors and Executive Officers - Code of Ethics” in the Company’s 2009 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 2009 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 2009 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 “Capital and Liquidity Management - Off-balance sheet arrangements” in the Company’s 2009 Annual MD&A.

Tabular Disclosure of Contractual Obligations

The information under the heading “Capital and Liquidity Management - Commitments, Guarantees, Contingencies and Reinsurance Matters” in the Company’s 2009 Annual MD&A.

Comparison with New York Stock Exchange Governance Rules

The Company’s governance processes and practices are consistent with the New York Stock Exchange corporate governance rules for U.S. publicly-listed companies.

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 11, 2010

EXHIBITS:

1. Annual Management's Discussion and Analysis for the year ended December 31, 2009
2. Consolidated Financial Statement for the year ended December 31, 2009
3. Annual Information Form dated February 11, 2010
4. Sun Life Financial Code of Business Conduct
5. Consent of Independent Registered Chartered Accountants
6. Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Difference
7. Consent of Appointed Actuary
8. 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
9. 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, 2009



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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, 2009, and amounts are expressed in Canadian dollars. Where information at and for the year ended December 31, 2009 is not available, information available for the latest period before December 31, 2009 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, 2009, and other documents filed with applicable securities regulators in Canada, which may be accessed at www.sedar.com, and with the United States Securities and Exchange Commission (SEC), which may be accessed at www.sec.gov.

Use of Non-GAAP Financial Measures

Management evaluates the Company's performance on the basis of financial measures prepared in accordance with GAAP and certain non-GAAP financial measures. 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 Sun Life Financial Inc.'s annual and interim MD&A and the Supplementary Financial Information packages that are available on www.sunlife.com under Investors — Financial Results & Reports — Year-end Reports.

Management measures the Company's performance based on operating earnings and financial measures based on operating earnings, including operating EPS and operating ROE, that exclude certain items that are not operational or ongoing in nature. Other non-GAAP measures that management uses include (i) financial performance measures that are prepared on a constant currency basis, which exclude the impact of currency fluctuations; (ii) adjusted revenue, which excludes the impact of currency and fair value changes in held-for-trading assets and derivative instruments from total revenue; (iii) pre-tax operating profit margin ratios for MFS, the denominator of which excludes certain investment income and includes certain commission expenses, as a means of measuring the underlying profitability of MFS; (iv) assets under management, mutual funds, managed funds and other AUM, and (v) the value of new business is used to measure overall profitability, which is based on actuarial amounts for which there are no comparable amounts under GAAP.

Estimated adjusted earnings from operations and market sensitivities are forward-looking non-GAAP financial measures, for which there are no directly comparable measures under GAAP and for which a reconciliation is not possible as they are forward-looking information. Reconciliations of those amounts to the most directly comparable GAAP measures are not accessible on a forward-looking basis because the Company believes it is only possible to provide ranges of the assumptions used in determining those non-GAAP measures, as actual results can fluctuate significantly inside or outside those ranges and from period to period and may have a significant impact on estimated GAAP net income in 2010.

Forward-looking Information

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 information within the meaning of securities laws. Forward-looking information includes 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, Business Profile, Outlook, Medium-Term Financial Objectives, Critical Accounting Policies and Estimates, Changes in Accounting Policies, Financial Performance, SLF Canada, SLF U.S., MFS, SLF Asia, Corporate, Investments, Risk Management and Capital and Liquidity Management. These statements represent the Company's expectations, estimates and projections regarding future events and are not historical facts. The forward-looking information 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 Policies and Estimates on page 11 and Risk Management on page 49 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 creditworthiness of guarantors and counterparties to derivatives; the performance of equity markets; the cost, effectiveness and availability of risk-mitigating hedging programs; interest rate fluctuations; other market risks including movement in credit spreads; possible sustained economic downturn; 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 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 performance of the Company's investments and investment portfolios managed for clients such as segregated and mutual funds; the impact of mergers and acquisitions; insurance risks including mortality, morbidity, including the occurrence of natural or man-made disasters, pandemic diseases and acts of terrorism; risks relating to product design and pricing; risks relating to policyholder behaviour; the inability to maintain strong distribution channels and risks relating to market conduct by intermediaries and agents; risks relating to operations in Asia including risks relating to joint ventures; the impact of competition; currency exchange rate fluctuations; 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; uncertainty in the rate of mortality improvement; the impact of adverse results in the closed block of business; the potential for financial loss related to changes in the environment; the availability, cost and effectiveness of reinsurance; the ineffectiveness of risk management policies and procedures; and the potential for losses from multiple risks occurring simultaneously or in rapid progression. The Company does not undertake any obligation to update or revise its forward-looking information to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required by law.

OVERVIEW

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 for contributing to the full extent of their potential.
Customer Focus	We provide sound financial solutions for our customers and always work with their interests in mind.
Excellence	We pursue operational excellence through our dedicated people, our quality products and services, and our value-based risk management.
Value	We deliver value to the customers and shareholders we serve and to the communities in which we operate.

Strategy

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

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

Generate value-building growth	Sustain profitable top-line growth.
Intensify customer focus	Meet the needs of 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	Continue to 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.

Business Profile

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. The Company's functional currency is the Canadian dollar. Certain financial information for SLF U.S. and MFS is presented in this MD&A in both Canadian and U.S. dollars.

Business Segment	Business Units
SLF Canada	Individual Insurance & Investments Group Benefits Group Wealth
SLF U.S.	Annuities Individual Insurance Employee Benefits Group
MFS Investment Management	-
SLF Asia	-
Corporate	SLF U.K. Corporate Support

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 of its operations in emerging markets against the more established businesses in mature markets. In a similar way, the Company's 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 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

Financial Highlights

($ millions, unless otherwise noted)	**2009**	2008	2007
Common shareholders' net income (loss)			
Operating(1)	**561**	(40)	2,294
Reported	**534**	785	2,219
Basic reported earnings per share (EPS) ($)	**0.95**	1.40	3.90
Diluted EPS			
Operating(1)	**0.99**	(0.10)	3.98
Reported	**0.94**	1.37	3.85
ROE (%)			
Operating(1)	**3.5%**	-0.3%	14.3%
Reported	**3.4%**	5.1%	13.8%
Dividends per common share ($)	**1.44**	1.44	1.32
Dividend payout ratio(2) **(%)**	**152%**	103%	34%
Dividend yield(3) **(%)**	**5.4%**	3.8%	2.5%
MCCSR ratio(4)	**221%**	232%	213%
Total Revenue	**27,572**	15,563	21,188
Premiums, deposits and fund sales			
Premium revenue, including administration services only premium equivalents	**20,004**	18,613	17,037
Segregated fund deposits	**11,060**	10,919	13,320
Mutual fund sales	**24,642**	19,327	21,335
Managed fund sales	**33,525**	20,944	27,613
Total premiums, deposits and fund sales	**89,231**	69,803	79,305
Assets under management (AUM) *(as at December 31)*(5)			
General fund assets	**120,082**	119,833	114,291
Segregated fund assets	**81,305**	65,762	73,205
Mutual fund assets(5)	**96,077**	83,602	101,858
Managed fund assets(5)	**134,121**	110,405	134,297
Other AUM(5)	**1,046**	1,490	1,613
Total AUM(5)	**432,631**	381,092	425,264
Capital *(as at December 31)*			
Subordinated debt and other capital(6)	**4,692**	3,726	2,946
Participating policyholders' equity	**107**	106	95
Total shareholders' equity	**17,307**	17,303	17,122
Total capital	**22,106**	21,135	20,163

(1) Operating earnings, diluted operating EPS and operating ROE are non-GAAP measures and exclude certain items described on page 20 under the heading "Non-GAAP Financial Measures". All EPS measures refer to diluted EPS, unless otherwise stated

(2) The dividend payout ratio represents the ratio of common shareholders' dividends to reported common shareholders' net income

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

(4) Represents the Minimum Continuing Capital Surplus Requirement ratio of Sun Life Assurance Company of Canada

(5) AUM, mutual fund assets, managed fund assets, other AUM and total AUM are non-GAAP Financial Measures. For additional information, see the section under the heading Non-GAAP Financial Measures on page 20.

(6) Other capital refers to Sun Life ExchangEable Capital Securities (SLEECS), which qualify as capital for Canadian regulatory purposes. Additional information is available in the section Capital and Liquidity Management under the heading Capital on page 59

Corporate Developments

The following developments occurred in 2009.

Acquisition of U.K. Business

On October 1, 2009, the Company completed the acquisition of the United Kingdom operations of Lincoln National Corporation (the Lincoln U.K. business) for $387 million. The purchase price is subject to adjustment related to market and business performance prior to October 1, 2009, the final amount of which has not yet been determined. The acquisition increased Sun Life U.K.'s assets under management over 60% to $20 billion and doubled the number of policies in force to 1.1 million. The two complementary operations of SLF U.K. and Lincoln National U.K. each held books of business in life insurance, pensions and annuities. The combined operations carry the Sun Life Financial of Canada name, a brand that has been active in the U.K. for more than a century.

Other Developments

On July 29, 2009, the Company entered into an agreement with the China Everbright Group Company. (China Everbright) to introduce strategic investors to Sun Life Everbright Life Insurance Company Limited (Sun Life Everbright). The restructuring will allow Sun Life Financial and China Everbright to supplement their alliance with strong local partners, providing Sun Life Financial a significant stake in a larger domestic financial services company with greater reach across China's growing financial services sector. Once complete, the Company's ownership is expected to be reduced from 50% to a less than 25% interest in the restructured and repositioned company and the Company will continue to provide its international governance, risk management and actuarial expertise and standards to Sun Life Everbright.

On July 15, 2009, Sun Life Financial and CIMB Group received regulatory approval to form a joint venture to distribute Sun Life Financial's life, accident and health insurance products through the 600-plus retail branches of PT Bank CIMB Niaga in Indonesia.

Common Share Activity

Common shareholder dividends paid in 2009 were $1.44 per common share. This was the same level of dividends paid in 2008.

On May 12, 2009, SLF Inc. amended its Canadian Dividend Reinvestment and Share Purchase Plan (the "Plan"). Under the Plan, Canadian-resident common and preferred shareholders may choose to automatically have their dividends reinvested in additional common shares and may also purchase common shares through the Plan. For dividend reinvestments, SLF Inc. may, at its option, issue common shares from treasury at a discount of up to 5% to the volume weighted average trading price or direct that common shares be purchased on behalf of participants through the Toronto Stock Exchange (TSX) at the market price. Common shares acquired by participants through optional cash purchases may also be issued from treasury or purchased through the TSX at SLF Inc.'s option, in either case at no discount. Prior to the amendments, all common shares acquired on behalf of participants were purchased through the TSX at the market price. In 2009, SLF Inc. issued approximately 4.4 million common shares from treasury at a discount of 2% for dividend reinvestments and issued an insignificant number of common shares from treasury at no discount for optional cash purchases.

Financing Arrangements

On November 20, 2009, Sun Life Capital Trust II issued $500 million principal amount of Sun Life ExchangEable Capital Securities (SLEECS) Series 2009-1 due December 31, 2108. These securities qualify as regulatory capital for Sun Life Assurance and Sun Life Financial.

On June 30, 2009, SLF Inc. issued $300 million principal amount of Series D Senior Unsecured 5.70% Debentures due 2019.

On May 20, 2009, SLF Inc. issued $250 million of Class A Non-Cumulative 5-Year Rate Reset Preferred Shares with an initial yield of 6.00%.

On March 31, 2009, SLF Inc. issued $500 million principal amount of Series 2009-1 Subordinated Unsecured 7.90% Fixed/Floating Debentures (Series 2009-1) due in 2019.

Additional details of these financing arrangements can be found in Notes 11, 13 and 15 to SLF Inc.'s 2009 Consolidated Financial Statements.

Outlook

Market conditions remained volatile throughout 2009. Economic data in the U.S. and globally is beginning to show signs of recovery from the worst recessionary period in more than 60 years. Equity markets performed well in 2009 after hitting lows in the first quarter of 2009, with the S&P 500 and TSX/S&P Composite Index posting gains of 23% and 31% for the year, respectively. Interest rates remain at historical lows. In the U.S., the Federal Reserve kept interest rates unchanged for most of 2009; in a range of 0.0% — 0.25%, while the Bank of Canada has maintained its target overnight rate at 0.25% at its most recent rate setting meeting in January 2010. Treasury rates increased in 2009 with the U.S. 10-year treasury ending the year at 3.84% and the Canadian 10-year at 3.61%, higher by 162 basis points and 73 basis points, respectively. Both the Federal Reserve and the Bank of Canada are expected to keep interest rates at historic lows for much of 2010.

The International Monetary Fund has predicted that global economic growth will increase by 3.9% in 2010, with the U.S. predicted to grow at 2.7% and Canada at 2.6%. Key risks related to economic recovery include high unemployment rates, weak housing and mortgage conditions, and inflation, as central banks globally contemplate the timing and mechanism for removing trillions of dollars of economic stimulus measures.

The Company is affected by a number of factors which are fundamentally linked to the economic environment. Equity market performance, interest rate levels, credit experience, surrender and lapse experience, currency exchange rates, and spreads between interest credited to policyholders and investment returns can have a substantial impact on the profitability of the Company's operations. Furthermore, the regulatory environment is expected to evolve as governments and regulators work to develop the appropriate level of financial regulation required to ensure that capital, liquidity and risk management practices are sufficient to withstand severe economic downturns. In Canada, OSFI is considering new guidelines that would establish stand-alone capital adequacy requirements for operating life insurance companies, such as Sun Life Assurance, and that would update OSFI's regulatory guidance for non-operating insurance companies acting as holding companies, such as SLF Inc. OSFI is also reviewing the use of internally-modeled capital requirements for segregated fund guarantees. The outcome of these initiatives is uncertain and could have a material adverse impact on the Company or on its position relative to that of other Canadian and international financial institutions with which it competes for business and capital.

Medium-Term Financial Objectives

The Company has established medium-term objectives for a three-to-five year period, which are reviewed each year. In 2009, the Company revised its medium-term objectives in light of economic volatility and uncertainty that characterized the environment at that time. Although there have been some signs of stabilization in the economy, much uncertainty remains in the market, including the pace of a widespread economic recovery and regulatory reform in the financial services sector.

The Company's 2009 medium-term objectives were:

- To achieve an operating ROE in the 13-15% range (1)
- To maintain a strong capital position and effective capital deployment.

The Company generated an operating ROE of 3.5% in 2009, well below the medium-term objective. The Company's operating ROE was driven by a lower level of earnings generated in 2009. Net income for the full-year 2009 was impacted primarily from the financial impact of downgrades of $670 million on the Company's investment portfolio, the negative impact of the implementation of equity- and interest rate-related actuarial assumption updates of $513 million in the third quarter of 2009 and net impairments of $431 million. These adverse impacts were partially offset by the favourable impact of improved equity markets of $306 million and increased interest rates of $206 million on the Company's results. Sun Life Assurance Company of Canada (Sun Life Assurance or SLA) ended the year with an MCCSR of 221%, well in excess of OSFI's capital target for life insurance companies.

The 2009 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. The following table summarizes the differences between the assumptions used in establishing Sun Life Financial's medium-term objectives and the actual experience in 2009.

(1) Operating ROE is a non-GAAP measure. For additional information, see the section under the heading on page 20 under the heading "Non-GAAP Financial Measures".

Factor	Assumptions	2009 Experience
Equity Markets	A steady rise in the annual level of equity market indices, primarily the S&P 500, by approximately 7%-8%	The S&P 500 increased by 23%, while the S&P/TSX Composite Index increased by 31%
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	Movements in interest rates on government treasuries in Canada and the U.S. varied, ranging from a decrease of 64 bps at the short end of the curve to an increase of 197 bps at the long end
Credit	A credit environment within historical norms, which reflects the Company's best estimates on credit	Rating agencies maintained an accelerated pace of downgrades, and credit experience worsened
Currency	Stability in exchange rates between the Canadian dollar and foreign currencies, primarily the U.S. dollar and the British pound sterling	Throughout most of 2009, the value of the Canadian dollar strengthened. In particular, the Canadian dollar appreciated by $0.13 against the U.S. dollar in 2009

Economic volatility and uncertainty continues to persist in the early stages of 2010. The operating ROE in the Company's medium-term objective below is significantly dependent on business written in the past and reflects economic conditions, capital requirements, pricing and other assumptions in effect at that time. In recognition of the changing economic landscape, the Company has updated its three-to-five year medium-term objectives, as follows:

- To achieve an operating ROE in the 12 – 14% range
- To 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 business mix, best estimate actuarial assumptions, regulatory and accounting standards in effect as at December 31, 2009.

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 forward-looking information and is based on the assumptions set out and is subject to the risk factors described under Forward-looking Information on page 3. Additional information is provided under the heading Shareholders' Dividends on page 61. The Company currently has no intention of repurchasing common shares.

ACCOUNTING AND CONTROL MATTERS

Critical Accounting Policies and Estimates

SLF Inc.'s significant accounting and actuarial policies are described in Notes 1, 2, 5 and 9 to its 2009 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 actuarial liabilities. The determination of these obligations is fundamental to the Company's financial results and requires management to make assumptions about equity market performance, interest rates, asset default, mortality and morbidity rates, policy terminations, expenses and inflation, and other factors over the life of its products.

The Company uses best estimate assumptions for expected future experience. Some assumptions relate to events that are anticipated to occur many years in the future and are likely to require subsequent revision. Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to 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, their significance to the Company's financial conditions and results of operations, as well as their sensitivity relative to best estimate assumptions are described on the following pages.

The sensitivities presented below are forward-looking information. They are measures of the Company's estimated net income sensitivity to changes in the best estimate assumptions in the actuarial liabilities based on a starting point and business mix as of December 31, 2009. The levels of adverse change used in the table below represent the Company's estimate of changes in market conditions or best estimate assumptions, as applicable, that are reasonably likely based on the Company's and/or the industry's historical experience and industry standards and best practices as at December 31, 2009.

Changes to the starting point for interest rates, equity market prices and business mix will result in different estimated sensitivities. Additional information regarding equity and interest rate sensitivities, including key assumptions, can be found in the Risk Management section of this document under the heading Market Risk Sensitivity.

Critical Accounting Estimate	Determination Methodology and Assumptions	Financial Significance (measured as at December 31, 2009)
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 provisions for 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, investment returns are passed through to policyholders through changes in the amounts of dividends declared or in the rate of interest credited. Changes in equity values are largely offset by changes in actuarial liabilities • Products such as segregated fund and annuity option guarantees are exposed to equity risk. Hedging programs are in place to manage this risk • An immediate 10% increase across all equity markets would result in an estimated increase in net income of $75 million to $125 million. Conversely, an immediate 10% decrease across all equity markets would result in an estimated decrease in net income of $150 million to $200 million • An immediate 25% increase across all equity markets would result in an estimated increase in net income of $150 million to $250 million. Conversely, an immediate 25% decrease across all equity markets would result in an estimated decrease in net income of $475 million to $575 million • A 100 basis point reduction in assumed future equity and real estate returns would result in an estimated decrease in net income of $350 million to $450 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 provisions for 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 actuarial liabilities	• For certain products, 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 through changes in the amount of dividends declared or in the rate of interest credited. As well, these products generally have minimum interest rate guarantees. Hedging programs are in place to manage interest rate movements • An immediate 1% parallel increase in interest rates across the entire yield curve would result in an estimated change in net income between -$50 million and $50 million. An immediate 1% parallel decrease in interest rates would result in an estimated decrease in net income of $150 million to $250 million
Asset default provisions are included in actuarial liabilities for possible future asset defaults 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. The bond assumptions are based on total U.S. market experience. The mortgage assumptions are based on the Company's experience	• Asset default provisions included in actuarial liabilities amounted to $2.9 billion on a pre-tax basis as at December 31, 2009. 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

Critical Accounting Estimate	Determination Methodology and Assumptions	Financial Significance (measured as at December 31, 2009)
Mortality — the rates of death for defined groups of people	• The best estimate assumptions are determined annually by studying the Company's average five-year experience. Industry experience is considered where the Company's experience is not sufficient to be statistically valid • 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 $90 million • For life insurance products for which lower mortality would be financially adverse to the Company, a 2% decrease in the best estimate assumption would decrease net income by about $10 million • For annuity 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 million
Morbidity — both the rates of accident or sickness and the rates of subsequent recovery for defined groups of people	• The best estimate assumptions are determined by studying the Company's average five-year experience. Industry experience is considered where the Company's experience is not sufficient to be statistically valid • Long-term care and critical illness insurance assumptions are 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 the morbidity assumption would reduce net income by about $110 million
Policy termination rates — the rates at which policies terminate prior to the end of the contractual coverage periods	• The best estimate assumptions are determined annually by studying the Company's average five-year experience. Industry experience is considered where the Company's experience is not sufficient to be statistically valid • 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 are required for universal life contracts	• For products for which fewer terminations would be financially adverse to the Company, a 10% decrease in the termination rate assumption would decrease net income by about $170 million • For products for which more terminations would be financially adverse to the Company, a 10% increase in the termination rate assumption would decrease net income by about $130 million
Operating expenses and inflation — actuarial liabilities provide for future policy-related expenses	• The best estimate assumptions are determined annually and based on recent Company experience • 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 would result in a decrease in net income of about $140 million

Fair Value of Investments

As described in Note 1 to SLF Inc.'s 2009 Consolidated Financial Statements, the majority of the Company's financial assets are recorded at fair value.

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 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 value of other invested assets is 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. As a result of the adoption of the amendments to Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 in the fourth quarter of 2009, which are described in Note 2 of SLF Inc.'s 2009 Consolidated Financial Statements, if the fair value of an available-for-sale bond recovers after an impairment loss is recognized and the recovery can be objectively related to an event occurring after the impairment loss is recognized in net income, the impairment loss is reversed, with the amount of the impairment loss reversal recognized into net income. Prior to this amendment, once an impairment loss on an available-for-sale bond was recorded to income, it could not be reversed. During the year ended December 31, 2009, the Company did not have any impairment loss reversals on available-for-sale bonds. Following impairment loss recognition or reversal, available-for-sale bonds continue to be recorded at fair value with changes in fair value recorded to OCI and they are tested quarterly for further impairment loss or reversal. Interest is recognized on previously impaired available-for-sale bonds in accordance with the effective interest rate method.

Available-for-sale stocks are tested for impairment on a quarterly basis. All equity instruments in an unrealized loss position are reviewed quarterly to determine if objective evidence of impairment exists. Objective evidence of impairment for an investment in an equity instrument includes, but is not limited to, the financial condition and near-term prospects of the issuer, including information about significant 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 amount will not be recovered, and a significant or prolonged decline in the fair value of an equity instrument below its cost. If, as a result of this review, the security is determined to be other-than-temporarily impaired, it is written down to its fair value. When this occurs, the loss accumulated in OCI is reclassified to net gains (losses) on available-for-sale assets in the consolidated statements of operations.

During the year ended December 31, 2009, the Company wrote down $185 million of impaired available-for-sale assets as compared to $318 million during the year ended December 31, 2008. Approximately $3 million of the write-down during 2009 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 or the extent and nature of the loss indicated that the fair value would not recover. These write-downs are included in net gains (losses) on available-for-sale assets in the consolidated statements of operations.

During 2009, the net charge to the income statement attributable to impairments of held-for-trading assets backing actuarial liabilities amounted to $522 million, as compared to $608 million in 2008**.**

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 occurs, 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.

As at December 31, 2009, the Company had net allowances for losses of $116 million on impaired mortgages and corporate loans as compared to $23 million during the year ended December 31, 2008. These allowances for losses were recognized since there was no longer reasonable assurance over collection of the estimated future cash flows. These allowances for losses are included in the other net investment income in the consolidated statement of operations.

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 reporting unit 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 2009, none of the goodwill was written down due to impairment.

The Company had a carrying value of $6.4 billion in goodwill as at December 31, 2009. The goodwill consisted primarily of $3.7 billion arising from the 2002 Clarica acquisition, $1.3 billion arising from the acquisition of Keyport Life Insurance Company in the United States in 2001, $463 million arising from the acquisition of CMG Asia Limited (CMG Asia) in Hong Kong in 2005, $281 million arising from the acquisition of the Genworth EBG business in the United States in 2007, and $180 million from the Lincoln UK acquisition in the United Kingdom in 2009.

Identifiable intangible assets consist of finite-life and indefinite-life intangible assets. Finite-life intangibles are amortized, while 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 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 2009, 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 $252 million as at December 31, 2009. These indefinite-life intangible assets reflected fund management contracts and state licenses.

As at December 31, 2009, the Company's finite-life intangible assets had a carrying value of $674 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.

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. Effective January 1, 2009, all new employees in Canada participate in a defined contribution plan. Existing employees continue to accrue future benefits in the prior defined benefit plan. In general, the pension plan open to new entrants is a defined contribution plan. 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 2009 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, 2009. 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 information and are based on the assumptions set out and subject to the risk factors described under Forward-looking Information on page 3.

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	$ 358	$ 36	$ 32	$ 2
Increase in assumption	(309)	(34)	(29)	(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	(44)	(10)	—	—
Increase in assumption	46	10	—	—

Changes in Accounting Policies

Changes in Accounting Policies in 2009

In 2009, SLF Inc. adopted the following accounting standards and policies. Additional information is provided in Note 2 to SLF Inc.'s 2009 Consolidated Financial Statements.

Goodwill and Intangible Assets

On January 1, 2009, the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets. Section 3064 replaces Section 3062, Goodwill and Other 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 (IFRS). The adoption of this Section did not have a material impact on the Company's 2009 Consolidated Financial Statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective January 1, 2009, the Company adopted the CICA Emerging Issues Committee (EIC) Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC 173). EIC 173 clarifies how an entity's own credit risk and that of the relevant counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The new guidance did not have a material impact on the Company's 2009 Consolidated Financial Statements.

Effective Interest Method for Financial Instruments Subsequent to Recognition of an Impairment Loss

In June 2009, the Company retroactively adopted amendments to CICA Handbook Section 3855, Financial Instruments — Recognition and Measurement. The amendments clarify that, subsequent to the recognition of an impairment loss, the rate used to determine the impairment loss is used to calculate interest income on the impaired debt security. The amendments make the application of the effective interest method under Section 3855 consistent with the application of this method under IFRS. The adoption of these amendments did not have a material impact on the Company's 2009 Consolidated Financial Statements.

Impairment of Financial Assets

In the third quarter of 2009, the CICA issued amendments to CICA Handbook Section 3855. The amendments include a revision of the definition of loans and receivables. As a result of the amended definition, debt instruments with fixed and determinable payments that are not quoted in an active market may be classified as loans and receivables and impairment of these loans would be assessed following CICA Handbook Section 3025, Impaired Loans, which assesses and measures impairment losses on an incurred credit loss basis. Impairment of held-to-maturity investments will also be measured on this basis. Loans and receivables that an entity intends to sell immediately or in the near term must be classified as held-for-trading and those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available-for-sale. The amendments also require the reversal of impairment losses on available-for-sale debt instruments through profit and loss in a subsequent period when the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income. The amendments also permit reclassifications from available-for-sale and held-for-trading to loans and receivables under certain circumstances. The Company adopted these amendments in the fourth quarter of 2009 effective as of January 1, 2009. The adoption of these standards did not have a material impact on the Company's 2009 consolidated financial statements.

Financial Instrument Disclosures

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, Financial Instruments — Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments are effective for annual consolidated financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. The Company included these additional disclosures in Notes 5 and 6 of SLF Inc.'s 2009 Consolidated Financial Statements.

International Financial Reporting Standards

In accordance with the requirements of the Canadian Accounting Standards Board, Sun Life Financial will adopt International Financial Reporting Standards (IFRS) as of January 1, 2011 with comparatives for the prior year. The Company's IFRS changeover plan addresses key elements of conversion to IFRS including:

- Education and training
- Accounting policy changes and financial reporting
- Information technology and data systems
- Impacts on business activities
- Internal controls over financial reporting

The transition to IFRS is progressing according to plan and is in the detailed implementation phase, which includes the establishment of an IFRS general ledger. Standards and interpretations under IFRS continue to evolve and the Company will amend its changeover plan where appropriate.

The measurement differences between Canadian GAAP and IFRS will have an impact on the opening financial position of the Company at transition. As well, the results of operations under IFRS will differ from Canadian GAAP. The Company, together with other industry participants, is discussing the impact of IFRS adoption with OSFI.

Significant areas of impact that have been identified to date are summarized below.

- Investment Contracts — The Company expects minor measurement differences to arise on those insurance contacts classified as investment contracts under IFRS. Measurement of insurance contracts (representing more than 90% of existing insurance contracts) will remain the same and continue to be valued under the Canadian Asset Liability Method, the current Canadian GAAP methodology.
- Real estate — All properties (other than owner-occupied properties), will be classified as investment property and measured at fair value under IFRS. Owner-occupied properties will be classified as property, plant and equipment and measured at cost less depreciation.

- Consolidation and Presentation — The concept of control under IFRS will require the consolidation of certain structured entities currently not consolidated under current Canadian GAAP. In addition, reinsurance recoverable may no longer be netted against insurance contract liabilities under IFRS. The impact of these changes will result in certain asset and liability balances being presented on a gross basis.
- Goodwill — Impairment testing will be conducted at a more granular level known as the "cash generating unit" under IFRS compared to the testing at a "reporting unit" level for Canadian GAAP. The Company anticipates that the amount of goodwill carried under IFRS will be lower than under Canadian GAAP.
- Re-designations — Certain financial instruments designated as "held for trading" under Canadian GAAP will require re-designation as "available for sale" or "loans and receivables".
- Hedge Accounting — IFRS does not permit the use of the short-cut method or the critical terms match method for the assessment of hedge effectiveness. As a result, the Company expects additional ineffectiveness from hedging relationships to be reported under IFRS.
- Stock-based Compensation — Certain awards granted by a subsidiary of the Company that were treated as equity settled awards and measured at fair value at the date of grant will be considered cash settled liabilities under IFRS and be re-measured at fair value at each reporting date until the awards are settled in cash, which may impact the Company's operating expenses under IFRS.

IFRS 1 is a financial reporting standard that stipulates the requirements for an entity that is preparing IFRS compliant statements for the first time, and applies at the time of changeover. IFRS 1 provides for optional exemptions to the general rule of retrospective application of IFRS. While the Company has not finalized decisions, it currently expects to elect the following exemptions to retrospective application:

- Employee benefits — The Company expects to recognize unamortized actuarial gains and losses in retained earnings on transition to IFRS instead of deferring and amortizing these balances in future earnings.
- Foreign currency — The Company expects to reset the cumulative translation gains and losses to nil at transition (reverse against retained earnings) instead of computing the translation gain and loss amounts retrospectively under IFRS.
- Business Combinations — The relevant standard under IFRS may be applied retrospectively or prospectively on transition. The Company expects to elect not to restate acquisitions prior to the IFRS transitional date of January 1, 2010.

There are other key standards impacting insurers that are currently under development at the International Accounting Standards Board, and are likely to be effective in 2013 or later. These include the development of standards for the measurement of insurance contracts, as well as, the review and replacement of the standard on financial instruments. The release of the exposure draft on measurement changes to insurance contracts is expected in mid 2010 and as a result the impact of these future developments is unknown at this time.

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, 2009, 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, 2009.

Management's Report on 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.

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 of procedures may deteriorate.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting, as of December 31, 2009, 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, 2009.

The Company's internal control over financial reporting as of December 31, 2009, 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, 2009. 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, 2009.

Changes in Internal Control over Financial Reporting

No changes were made in the Company's internal control over financial reporting for the period beginning January 1, 2009 and ended December 31, 2009 that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

Non-GAAP Financial Measures

Management evaluates the Company's performance on the basis of financial measures prepared in accordance with GAAP and certain non-GAAP financial measures. 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 Sun Life Financial Inc.'s annual and interim MD&A and the Supplementary Financial Information packages that are available on www.sunlife.com under Investors — Financial Results & Reports — Year-end Reports.

Management measures the Company's performance based on operating earnings and financial measures based on operating earnings, including operating EPS and operating ROE, that exclude certain items that are not operational or ongoing in nature. Other non-GAAP measures that management uses include (i) financial performance measures that are prepared on a constant currency basis, which exclude the impact of currency fluctuations; (ii) adjusted revenue, which excludes the impact of currency and fair value changes in held-for-trading assets and derivative instruments from total revenue; (iii) pre-tax operating profit margin ratios for MFS, the denominator of which excludes certain investment income and includes certain commission expenses, as a means of measuring the underlying profitability of MFS; (iv) assets under management, mutual funds, managed funds and other AUM, and (v) the value of new business is used to measure overall profitability, which is based on actuarial amounts for which there are no comparable amounts under GAAP.

Estimated adjusted earnings from operations and market sensitivities are forward-looking non-GAAP financial measures, for which there are no directly comparable measures under GAAP and for which a reconciliation is not possible as they are forward-looking information. Reconciliations of those amounts to the most directly comparable GAAP measures are not accessible on a forward-looking basis because the Company believes it is only possible to provide ranges of the assumptions used in determining those non-GAAP measures, as actual results can fluctuate significantly inside or outside those ranges and from period to period and may have a significant impact on estimated GAAP net income in 2010.

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

In the first quarter of 2009, the Company incurred an after-tax charge of $27 million for restructuring costs taken as part of the Company's actions to reduce expense levels and improve operational efficiency.

In the fourth quarter of 2008, the Company sold its 37% interest in CI Financial 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.

The impact of the items described above on the Company's operating earnings and operating EPS is shown in the following tables.

Reconciliation of Operating Earnings

($ millions)	**2009**	2008	2007
Reported Earnings (GAAP)	**534**	785	2,219
After-tax gain (loss) on special items			
Clarica brand write-off	**—**	—	(43)
Re-branding expenses in Canada	**—**	—	(10)
EBG integration costs	**—**	—	(4)
Premium paid to redeem Partnership Capital Securities	**—**	—	(18)
Gain on sale of interest in CI Financial		825	—
Restructuring costs to reduce expense levels	**(27)**	—	—
Total special items	**(27)**	825	(75)
Operating earnings	**561**	(40)	2,294

Impact of special items on diluted operating EPS

($ per share)	**2009**	2008	2007
EPS — Reported (GAAP)	**0.94**	1.37	3.85
Net gains (losses) on special items	**(0.05)**	1.47	(0.13)
EPS — Operating	**0.99**	(0.10)	3.98

FINANCIAL PERFORMANCE

2009 Consolidated Results of Operations

Common Shareholders' Net Income

Common shareholders' net income of $534 million in 2009 decreased by $251 million from $785 million in 2008. Operating earnings for the twelve months ended December 31, 2009 were $561 million, compared to an operating loss of $40 million for the same period in 2008. Operating earnings for the full-year 2009 excluded after-tax charges of $27 million for restructuring costs taken as part of the Company's efforts to reduce expense levels and improve operational efficiency. Operating earnings for the full-year 2008 excluded an after-tax gain of $825 million related to the sale of the Company's interest in CI Financial.

($ millions, unless otherwise noted)	**2009**	2008	2007
Total net income	**622**	857	2,290
Less:			
Participating policyholders' net income	**9**	2	2
Dividends paid to preferred shareholders	**79**	70	69
Common shareholders' net income	**534**	785	2,219
Adjusted for special items[1]	**27**	(825)	75
Operating earnings (loss)	**561**	(40)	2,294
Basic EPS ($) from:			
Common shareholders' net income	**0.95**	1.40	3.90
Operating earnings (loss)[1]	**1.00**	(0.07)	4.03
Diluted EPS ($) from:			
Common shareholders' net income	**0.94**	1.37	3.85
Operating earnings (loss)[1]	**0.99**	(0.10)	3.98
Common shareholders' net income (loss) by segment			
SLF Canada	**866**	645	1,050
SLF U.S.	**(465)**	(1,016)	581
MFS	**152**	194	281
SLF Asia	**76**	33	123
Corporate	**(95)**	929	184
Total	**534**	785	2,219

(1) The items not included in operating earnings are described on page 20 under the heading Non-GAAP Financial Measures.

Common shareholders' net income for the twelve months ended December 31, 2009 was $534 million, compared to $785 million in the same period in 2008. Net income for the full-year 2009 was impacted primarily from downgrades of $670 million on the Company's investment portfolio, the negative impact of the implementation of equity- and interest rate-related actuarial assumption updates in the third quarter of $513 million and net impairments of $431 million. These adverse impacts were partially offset by the favourable impact of improved equity markets of $306 million and increased interest rates of $206 million on the Company's results. Results for the twelve months ended December 31, 2008 included the $825 million after-tax gain on sale of CI Financial, which was more than offset by the impact of a steep decline in equity markets of $1,051 million, asset impairments and credit-related losses of $1,264 million, including changes to asset default assumptions in anticipation of higher future credit-related losses of $164 million, and the impact of spread widening.

Impact of Economic Environment

Volatile economic conditions continued throughout 2009. The S&P 500 increased by almost 65% from its March 2009 low, while reporting a return for the full year of 23%. In Canada, the S&P/TSX Composite Index was up 31%. Interest rates increased in 2009 with the U.S. 10-year treasury ending the year at 3.84% and the Canadian 10-year at 3.61%. While numerous economic indicators began to provide some signs of recovery, the credit environment remained difficult throughout the year. Credit rating agencies continued to accelerate the pace of downgrades and the pressure continued on certain asset classes. The impact of these and other significant items affecting 2009 results is shown below.

Significant Items Impacting 2009 Results	Net Income ($ millions)	EPS ($)
Downgrades on the Company's investment portfolio	(670)	(1.19)
Implementation of equity- and interest rate-related actuarial assumption updates	(513)	(0.91)
Net impairments	(431)	(0.77)
Equity markets (net of hedging)	306	0.54
Interest Rates	206	0.37
Total	(1,102)	(1.96)

Return on Equity

ROE based on common shareholders' net income was 3.4% in 2009, down from 5.1% in 2008 mostly due to lower earnings. Operating ROE in 2009, which does not include after-tax charges of $27 million for restructuring costs taken as part of the Company's efforts to reduce expense levels and improve operational efficiency, was 3.5% in 2009, compared with negative 0.3% in 2008. The negative operating ROE in 2008 resulted from the 2008 fully diluted operating loss per share of $0.10 arising from the operating losses as noted above.

Assets Under Management

The Company's AUM consist of general funds, segregated funds and other AUM (1). Other AUM includes mutual and managed funds which include institutional and other third-party assets managed by the Company.

Total AUM were $432.6 billion as at December 31, 2009, compared to $381.1 billion as at December 31, 2008. The increase of $51.5 billion between December 31, 2008 and December 31, 2009 resulted primarily from:

(i) positive market movements of $47.5 billion;

(ii) net sales of mutual, managed and segregated funds of $25.6 billion;

(iii) an increase of $4.9 billion from the change in value of held-for-trading assets;

(iv) an increase of $6.6 billion in segregated funds and $1.3 billion in general funds arising from the acquisition of the Lincoln U.K. business; and

(v) business growth of $2.7 billion, mostly in the wealth businesses; partially offset by

(vi) a decrease of $37.1 billion from a strengthening Canadian dollar against foreign currencies compared to the prior period exchange rates.

The Company's general fund assets were $120.1 billion at December 31, 2009, up $249 million, from the December 31, 2008 level. The increase in general fund assets resulted primarily from:

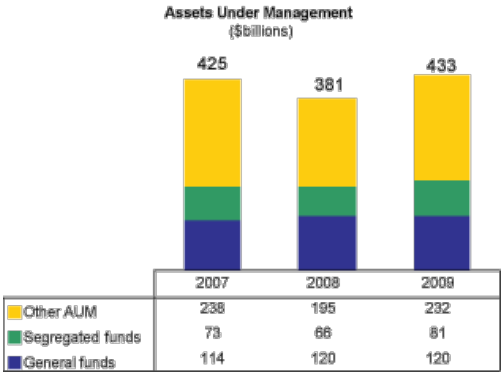
(i) an increase of $4.9 billion from the change in value of held-for-trading assets;

(ii) a gain of $2.7 billion from business growth; and

(iii) an increase of $1.3 billion from the acquisition of the Lincoln U.K. business; partially offset by

(iv) a decrease of $8.7 billion from the strengthening of the Canadian dollar against foreign currencies.

(1) AUM, mutual fund assets, managed fund assets, other AUM and total AUM are Non-GAAP Financial Measures. See the section under the heading Non-GAAP Financial Measures on page 20.



Segregated fund assets were $81.3 billion as at December 31, 2009, compared to $65.8 billion as at December 31, 2008. The increase in segregated fund assets was due to an increase of $11.1 billion from equity market improvements, $6.6 billion from the acquisition of the Lincoln Financial business in the United Kingdom and net sales of $2.2 billion, partially offset by an unfavourable currency impact of $4.4 billion.

Other AUM, which includes MFS assets under management of $197.2 billion, grew to $232.0 billion, $35.8 billion higher than as at December 31, 2008. Improving market conditions increased values by $36.4 billion and net sales for the year further increased the AUM by $23.4 billion. These increases were partially offset by the unfavourable Impact of $24.0 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). Under Canadian GAAP, 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 11 of this MD&A under the heading, Critical Accounting Policies and Estimates.

Total Revenue

($ millions)	**2009**	2008	2007
Premiums			
Annuities	**4,795**	3,592	3,530
Life insurance	**6,380**	5,928	6,010
Health insurance	**4,335**	4,067	3,584
Total premiums	**15,510**	13,587	13,124
Net investment income (loss)	**9,392**	(767)	4,852
Fee Income	**2,670**	2,743	3,212
Total	**27,572**	15,563	21,188

The Company's total revenue for the year ended December 31, 2009 increased to $27.6 billion, up $12.0 billion from 2008 primarily from higher net investment income. Net investment income was $9.4 billion for the twelve months ended December 31, 2009, compared to net investment losses of $767 million for the same period in 2008. The increase was primarily due to the improved market conditions that resulted in fair value gains on held-for-trading assets and non-hedging derivatives during 2009 of $4.0 billion compared to losses of $7.6 billion in 2008. The improvement 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. Premium income was also higher by $1.9 billion in 2009 with business growth in all categories. Revenue growth also included the benefit of $886 million from favourable currency fluctuations.

Annuity premiums of $4.8 billion in 2009 were up $1.2 billion from the same period in 2008, with an increase of $668 million in SLF U.S., mostly from higher fixed annuity sales and a favourable benefit of $194 million from currency fluctuations. SLF Canada annuity premiums were higher by $559 million mostly due to growth in the Individual Wealth business.

Life insurance premiums of $6.4 billion were higher by $452 million in 2009 compared to 2008. SLF US life premiums were up by $296 million mainly due to increased deposits from the core insurance products and a favourable benefit of $156 million from currency. SLF Asia Hong Kong premiums were also higher by $126 million including gains of $35 million from currency fluctuations.

Health insurance premiums increased $268 million, to $4.3 billion in 2009, mainly attributable to growth in the Group Health business in SLF Canada and SLF US. The increase of $160 million in SLF US also included $103 million from the positive impacts of currency fluctuations.

Net investment income in 2009 was $9.4 billion compared to net investment losses of $767 million in 2008. The increase was mainly due the net improvement in the value of held-for-trading assets and higher fair value of non-hedging derivatives of $11.5 billion. These items were largely offset by a corresponding increase in actuarial liabilities. The increases 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, increased asset provisions and earnings on equity investments, mostly from due to sale of the Company's interest in CI Financial in 2008.

Fee income of $2.7 billion earned during 2009 was down by $73 million from 2008. The decrease was mostly a result of a reduction of $137 million in MFS due to decreased fees on lower average net assets. The decrease was partly offset by increased fee income in both SLF Canada and SLF U.S.

Adjusted Revenue(1)

($ millions)	**2009**	2008
SLF Canada	**11,407**	7,927
SLF U.S.	**11,714**	3,817
MFS	**1,251**	1,381
SLF Asia	**1,813**	498
Corporate	**1,387**	1,940
Total as reported	**27,572**	15,563
Impact of currency changes and changes in the value of held-for-trading assets and derivative instruments	**3,251**	(8,117)
Total adjusted revenue	**24,321**	23,680

(1) Adjusted revenue is a non-GAAP Measure.

After adjusting for the impact of currency and fair value changes in held-for-trading assets (adjusted revenue), 2009 revenue of $24.3 billion was $641 million higher than in 2008. Premium income was up $1.4 billion excluding the impact of currency and gains on sale of available for sale assets were higher by $236 million. These increases were partly offset by a reduction of $1.0 billion arising from the pre-tax gain on the sale of the Company's interest in CI Financial in the fourth quarter of 2008 investment income.

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 2009 were $13.5 billion, down $318 million from 2008. The main reason for the reduction was a lower level of maturities and surrenders, mostly in the SLF US annuity business partly offset by higher benefit payments from growth in group health businesses in both SLF Canada and SLF US.

Policy Benefits

($ millions)	**2009**	2008	2007
Payments to policyholders, beneficiaries and depositors	**13,457**	13,775	14,244
Net transfers to segregated funds	**860**	539	952
Increase (decrease) in actuarial liabilities	**7,697**	(4,429)	(2,515)
Total	**22,014**	9,885	12,681

Changes in actuarial liabilities reflected an increase of $7.7 billion in 2009 compared to a decrease of $4.4 billion in 2008. The change of $12.1 billion included an increase of $11.5 billion related to the corresponding change in market values of held-for-trading assets and lower releases from related policyholder payments.

Review of actuarial methods and assumptions

Management makes judgments involving assumptions and estimates relating to the Company's obligations to policyholders, some of which relate to matters that are inherently uncertain. The determination of these obligations is fundamental to the Company's financial results and requires management to make assumptions about equity market performance, interest rates, asset default, mortality and morbidity rates, policy terminations, expenses and inflation, and other factors over the life of its products. The Company'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 actuarial liabilities. The Company reviews these assumptions each year, generally in the third and fourth quarters, and revises these assumptions, if appropriate.

In 2009, the net impact of the review and update of actuarial method and assumption changes resulted in a net increase in actuarial liabilities of $1,239 million. Details of changes in assumptions made in 2009 by major category are provided below.

Assumption **($ millions)**	**Increase (Decrease) in actuarial liabilities**	**Comments**
Mortality/Morbidity	(137)	Improved mortality experience on both life insurance and savings products
Lapse and other policyholder behaviour	375	Updates to policyholder behaviour assumptions in the Company's individual insurance business.
Expense	119	Impact of reflecting recent experience studies in several of the Company's businesses
Investment Returns	987	Driven primarily from negative impact of the implementation of equity- and interest rate-related actuarial assumption updates in the third quarter of 2009 and cumulative changes in Conditional Tail Expectation levels related to changes in equity market levels experienced during 2009.
Other	(105)	
Total	1,239	

Additional information on estimates relating to the Company's obligation to policyholders, including the methodology and assumptions used in their determination, can be found in the Accounting and Control Matters section of this MD&A under the heading Critical Accounting Policies and Estimates and Note 9 to SLF Inc.'s 2009 Consolidated Financial Statements.

Expenses and Other

Commission expenses increased by $117 million, in 2009 from the 2008 amount of $1.5 billion mainly from commissions related to sales increases in SLF US. Individual Life and Annuities.

Expenses & Other

($ millions)	**2009**	2008	2007
Commissions	**1,662**	1,545	1,811
Operating expenses	**3,142**	2,979	3,183
Intangibles amortization	**34**	24	77
Premium taxes	**222**	227	240
Interest expenses	**403**	366	349
Income taxes	**(542)**	(343)	522
Non-controlling interests in net income of subsidiaries	**15**	23	35
Participating policyholders' net income	**9**	2	2
Dividends to preferred shareholders	**79**	70	69
Total	**5,024**	4,893	6,288

Operating expenses of $3.1 billion in 2009 were $163 million higher than 2008. The year over year weakening of the Canadian dollar relative to the US currency accounted for $102 million of the increase. Without the effect of currency fluctuations the expense increase of $61 million resulted from an increase of $30 million in SLF UK., mostly related to the acquisition of the Lincoln UK business and an increase in Corporate expenses related to restructuring costs of $38 million reported in the first quarter of 2009, increased expenditure from marketing initiatives and infrastructure renewal costs for information technology. These increases were partly offset by reductions in SLF Canada and MFS from cost saving initiatives. Interest expenses rose by $37 million over 2008 to $403 million in 2009, reflecting the increased cost from additional debt issuances in 2009.

Income Taxes

The Company has a statutory tax rate of 32%, which is reduced by a relatively steady stream of tax benefits, such as lower tax in foreign jurisdictions, a range of tax exempt investment income sources and other sustainable tax benefit streams that, in combination with a normal level of pre-tax income, decrease the Company's effective tax rate to an expected range of 18 to 22%.

During 2009, the Company had a tax recovery of $542 million on income before taxes and non-controlling interest of $95 million, leading to a negative effective tax rate of 571%. This compares to a tax recovery of $343 million in 2008 on income before income taxes and non-controlling interest of $537 million in 2008, and a negative effective tax rate of 64% in 2008.

The Company's effective tax rates in 2009 and 2008 were significantly affected by lower pre-tax income levels in those years. While the total of the Company's non-temporary differences in 2009 was consistent with 2008, its pre-tax income was lower which amplified the impact of non-temporary differences on the 2009 effective tax rate.

Furthermore, a tax benefit recorded in the consolidated statements of operations as a result of the enactment of the Canadian tax rules relating to CICA Handbook Section 3855 increased the income tax recovery in 2009 by $174 million. This tax benefit was partially offset by an increase in actuarial liabilities of $135 million, resulting in a net increase in total net income of $39 million in 2009. In addition, a release of the valuation allowance on future tax assets relating to investment impairment losses previously recorded in SLF U.S. increased the tax recovery in 2009 by $101 million. The impact of the above items, combined with losses in higher taxed jurisdictions, most notably in the United States, contributed to the income tax recovery in 2009.

Impact of Currency

The Company has operations in key markets worldwide, including the United States, the United Kingdom, Ireland, Hong Kong, the Philippines, Indonesia, India, China and Bermuda, and generates earnings in local currencies in these jurisdictions, which are translated into Canadian dollars. The bulk of the Company's exposure to movements in foreign exchange is to the U.S. dollar.

Items impacting the Company's consolidated statement of operations are translated back to Canadian dollars using average exchange rates for the respective period. For items impacting the consolidated balance sheet, period end rates are used for currency translation purposes.

In general, the Company's net income benefits from a weakening Canadian dollar and is adversely affected by a strengthening Canadian dollar as net income from the Company's international operations is translated back to Canadian dollars. In a period of net losses, the weakening of the Canadian dollar can exacerbate losses. The relative impact of currency in any given period is driven by the movement of currency rates as well as the proportion of earnings generated in the Company's foreign operations. The Company generally expresses the impact of currency on net income on a year-over-year basis. During the fourth quarter of 2009 and for the full year 2009, the Company's overall reported net income decreased by $12 million and $28 million, respectively, as a result of movements in foreign exchange rates.

Fourth Quarter 2009 Performance

The Company reported net income attributable to common shareholders of $296 million for the quarter ended December 31, 2009, compared with net income of $129 million in the fourth quarter of 2008. The Company reported operating income of $296 million for the fourth quarter of 2009 compared with an operating loss of $696 million in the fourth quarter of 2008.

Net income in the fourth quarter of 2009 reflected a return to more favourable market conditions including the positive impact of asset liability rebalancing, improvements in equity markets and increased interest rates. Net income in the fourth quarter also benefited from an overall tax recovery. These impacts were partially offset by net impairments, downgrades on the Company's investment portfolio and lower asset reinvestment gains from changes in credit spreads.

Results in the fourth quarter of 2008 included an after-tax gain of $825 million related to the sale of the Company's interest in CI Financial, which was more than offset by the unfavourable impact of a steep decline in equity markets of $682 million, changes to asset default assumptions in anticipation of higher future credit-related losses of $164 million, asset impairments of $155 million, the impact of spread widening of $155 million and reserve increases for downgrades on the investment portfolio of $55 million. Return on equity (ROE) for the fourth quarter of 2009 was 7.6% compared with 3.3% for the fourth quarter of 2008. The increase in ROE resulted from earnings per share of $0.52 compared to $0.23 in the fourth quarter of 2008.

Performance by Business Group

SLF Canada had net income of $243 million in the fourth quarter of 2009 compared to a loss of $55 million in the fourth quarter of 2008. Earnings in the fourth quarter of 2009 benefited from improved equity markets, the favourable impact of asset liability rebalancing, increased interest rates, and various tax-related items, including a one-time benefit of the tax rate reductions enacted in Ontario. Results in the fourth quarter of 2008 included charges of $203 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. These decreases were partially offset by the favourable impact of asset liability rebalancing as well as the impact of favourable morbidity experience. Earnings in the fourth quarter of 2008 also included $17 million from the Company's 37% ownership interest in CI Financial, which the Company sold in the fourth quarter of 2008.

SLF U.S. had a loss of US$8 million in the fourth quarter of 2009 compared to a loss of US$576 million in the fourth quarter of 2008. Results in the fourth quarter of 2009 were driven primarily by losses in Annuities partially offset by favourable results in Individual Insurance and the Employee Benefits Group. The losses in the fourth quarter were attributable primarily to net credit impairments, reserve increases for downgrades on the investment portfolio, and lower asset reinvestment gains from changes in credit spreads. These losses were partially offset by the favourable impact of asset liability rebalancing, equity markets and increased interest rates. Results in the fourth quarter of 2008 were driven mainly by an increase in annuity reserves required by the impact of declining equity markets, the negative impact of credit spreads, reserve increases for downgrades on the investment portfolio, asset impairments and changes to asset default assumptions in anticipation of higher future credit-related losses.

MFS had net income of US$47 million in the fourth quarter of 2009, compared to net income of US$25 million in the fourth quarter of 2008. The increase in earnings from the fourth quarter of 2008 was primarily due to higher average net assets, which increased to US$181 billion in the fourth quarter of 2009 from US$133 billion in the fourth quarter of 2008 as a result of strong net sales and asset appreciation.

Fourth quarter net income for SLF Asia was $27 million compared to net income of $16 million in the fourth quarter of 2008. The increase in earnings from the fourth quarter of 2008 was primarily due to improved market conditions and favourable mortality and credit experience in Hong Kong.

The Corporate segment had a loss of $14 million in the fourth quarter of 2009 compared to net income of $817 million in the fourth quarter of 2008. SLF U.K. had a net income of $9 million in the fourth quarter of 2009 compared to net income of $40 million in the fourth quarter of 2008. The decrease of $31 million in SLF U.K. earnings was primarily as a result of the adverse impact of changes in interest rates and equity values, including hedge impacts. In Corporate Support, net losses in the fourth quarter of 2009 were $23 million compared to earnings of $777 million one year earlier. Corporate Support results in the fourth quarter of 2009 reflect favourable mortality experience in the Company's life retrocession reinsurance business, offset by updates to policyholder behaviour in the run-off reinsurance business. Results in Corporate Support for the fourth quarter of 2008 include an after-tax gain of $825 million related to the sale of the Company's interest in CI Financial.

Additional Financial Disclosure

Revenues for the fourth quarter of 2009 were $5.0 billion, up $287 million from the comparable period a year. An improvement of $2.0 billion from the increase in fair value of held for trading assets was partly offset by a reduction of $720 million from derivative income and a reduction in other investment income of $1.2 billion which included a pretax gain of $1.0 billion on the sale of the company's interest in CI Financial in the fourth quarter of 2008. Fee income was also higher by $141 million in the fourth quarter of 2009 than 2008. Excluding the impact of currency and fair value changes in held-for-trading assets, fourth quarter 2009 revenue of $5.9 billion was $628 million lower than the same period a year ago with a reduction of $1.0 billion due to the gain on the sale of the company's interest in CI Financial in the further quarter of 2008 partly offset by an increase in fee income of $219 million and premiums of $245 million mostly from increased life and annuity premiums

Premium revenue was down by $5 million in the fourth quarter of 2009 compared to the same period one year ago, with a reduction of $250 million arising from the strengthening of the Canadian dollar against the U.S. dollar. The increase of $245 million, excluding the effect of currency, mostly arose from higher annuity premiums in SLF Canada and Life premiums in SLF US.

Net investment income of $742 million was $151 million higher in the fourth quarter of 2009 compared to the same period a year ago. The changes in fair market value of held-for-trading assets and derivatives improved net investment income of $1.3 billion in the fourth quarter of 2009 compared to the same period in 2008. This improvement was partly offset by the reduction of $1.0 billion arising from the sale of the company's interest in CI Financial included in the fourth quarter of 2008 investment income.

Fee income of $771 million in the fourth quarter of 2009 was up by $141 million compared to the same period in the previous year with a decrease of $78 million from the strengthening of the Canadian dollar relative to the U.S. dollar more than offset by increased fees in most of the Company's operations.

AUM were $432.6 billion as at December 31, 2009, compared to $411.9 billion as at September 30, 2009. AUM increased $20.7 billion, primarily from:

(i) net sales of mutual, managed and segregated funds of $7.1 billion;

(ii) positive market movements of $9.8 billion; and

(iii) an increase of $6.6 billion in segregated funds and $1.3 billion in general funds arising from the acquisition of the Lincoln Financial business in the United Kingdom; partially offset by

(iv) a decrease of $4.2 billion from the strengthening of the Canadian dollar against foreign currencies.

Quarterly Information

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

($ millions, unless otherwise noted)	**2009**				2008			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Common shareholders' net income (loss)								
Operating(1)	**296**	**(140)**	**591**	**(186)**	(696)	(396)	519	533
Reported	**296**	**(140)**	**591**	**(213)**	129	(396)	519	533
Diluted EPS (in dollars)								
Operating(1)	**0.52**	**(0.25)**	**1.05**	**(0.33)**	(1.25)	(0.71)	0.91	0.93
Reported	**0.52**	**(0.25)**	**1.05**	**(0.38)**	0.23	(0.71)	0.91	0.93
Basic Reported in EPS (in dollars)	**0.53**	**(0.25)**	**1.06**	**(0.38)**	0.23	(0.71)	0.92	0.95
ROE annualized								
Operating(1)	**7.6%**	**-3.5%**	**14.9%**	**-4.7%**	-17.9%	-10.2%	12.9%	13.4%
Reported	**7.6%**	**-3.5%**	**14.9%**	**-5.5%**	3.3%	-10.2%	12.9%	13.4%
Common shareholders' net income (loss) by segment								
SLF Canada	**243**	**219**	**210**	**194**	(55)	157	296	247
SLF U.S.	**(9)**	**(413)**	**364**	**(407)**	(679)	(533)	83	113
MFS	**49**	**43**	**32**	**28**	30	49	56	59
SLF Asia	**27**	**13**	**19**	**17**	16	(8)	12	13
Corporate	**(14)**	**(2)**	**(34)**	**(45)**	817	(61)	72	101
Total	**296**	**(140)**	**591**	**(213)**	129	(396)	519	533
Total revenue	**4,993**	**8,831**	**8,720**	**5,028**	4,706	2,560	4,411	3,886
Total AUM ($ billions)	**433**	**412**	**397**	**375**	381	389	413	415

(1) Operating earnings, diluted operating EPS and operating ROE are non-GAAP measures and exclude the items described under the heading "Non-GAAP Financial Measures" on page 20.

Third Quarter 2009

The Company reported a loss attributable to common shareholders of $140 million for the third quarter of 2009. The net loss in the quarter was largely as a result of the implementation of equity- and interest rate-related actuarial assumption updates of $513 million and reserve increases of $194 million for downgrades on the Company's investment portfolio, partially offset by reserve releases of $161 million as a result of favourable equity markets.

Following the second quarter of 2009, the Company announced that it would review and update the equity and interest rate assumptions used to value its variable annuity, segregated fund and certain fixed annuity and individual life liabilities in the third quarter (equity and interest rate assumption updates). Equity related assumption updates, which are part of an annual process to update the Company's economic assumptions with recent data, were driven by the pronounced equity market volatility experienced over the previous year. The Company's interest rate-related assumption updates in the third quarter of 2009 were driven primarily by new criteria provided by a committee of the Canadian Institute of Actuaries.

Second Quarter 2009

Sun Life Financial reported net income of $591 million in the second quarter of 2009. Results in the quarter were favourably impacted by reserve releases as a result of higher equity markets, increased interest rates and the positive impact of narrowing credit spreads. Strong results from improvements in capital markets in the quarter were partially offset by increased reserves for downgrades on the Company's investment portfolio, changes in asset default assumptions in anticipation of future credit-related losses, and credit impairments.

First Quarter 2009

An operating loss of $186 million was reported for the first quarter of 2009. This operating loss did not include after-tax charges of $27 million for restructuring costs taken as part of the Company's actions to reduce expense levels and improve operational efficiency. Including these restructuring costs, the Company reported a loss of $213 million. Results in the quarter were impacted by reserve strengthening, net of hedging, related to equity market declines, reserve increases for downgrades on the Company's investment portfolio, and credit and equity impairments.

Fourth Quarter 2008

Sun Life Financial had net income of $129 million in the fourth quarter of 2008. 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. Results for the quarter were most significantly impacted by the continued deterioration in global capital markets and 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.

Third Quarter 2008

A loss of $396 million was reported in the third quarter of 2008. The Company's results were significantly impacted by a deterioration in global capital markets and included asset impairments and credit-related losses of $636 million, and $326 million of charges related to equity market impacts.

Second Quarter 2008

The Company reported common shareholders' net income of $519 million in the second quarter of 2008. Net income in the quarter was affected by a decline in equity markets in the Company's U.S.-based businesses, the unfavourable impact of interest rate movements and associated hedges, wider credit spreads and credit-related allowances on actuarial reserving requirements, and credit-related losses on asset sales in SLF U.S., as well as the impact of higher interest rates and increased investment in growth in SLF Asia. These decreases were partially offset by favourable morbidity experience as well as the favourable impact of equity markets and higher interest rates in SLF Canada and changes in income tax liabilities in Corporate Support.

First Quarter 2008

Sun Life Financial reported common shareholders' net income of $533 million for the first quarter of 2008. Net income in the quarter was adversely affected by the decline in equity markets in the Company's North American businesses, the unfavourable impact of wider credit spreads in SLF U.S. and SLF Asia as well as credit-related allowances in SLF U.S. These decreases were partially offset by gains in SLF U.S., including positive interest rate and hedge experience in Annuities, reduced new business strain in Individual Insurance, and business growth in the Company's U.S. Employee Benefits Group and the positive effect of income tax-related items in Corporate Support and SLF U.K.

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 Profile

SLF Canada is a market leader with a client base representing one in five Canadians. Its distribution breadth, strong service and technology infrastructure and brand recognition provide an excellent platform for growth. SLF Canada's three business units —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.

Strategy

SLF Canada helps clients achieve lifetime financial security throughout their life stages by providing products and advice on insurance and investments through multiple distribution touch points. SLF Canada strengthens 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 client service.

SLF Canada will grow its business organically by leveraging its strong brand recognition and client base of six million to offer additional value added products and services. The Company will continue to build strategic partnerships to rapidly build capabilities to capitalize on opportunities.

2009 Business Highlights

- Individual life and health insurance sales grew by 2% to $163 million and reflected a more profitable product mix. Sales of Individual fixed interest investment products, including accumulation annuities, GICs and payout annuities, grew by 83% to $1.0 billion for the full year 2009 over 2008.
- Group Retirement Services (GRS) continued to build on its leadership position in the Defined Contribution (DC) industry capturing 41% of the total DC market activity in the first nine months of 2009, as recently reported by LIMRA. Pension rollover sales increased by 16% to $855 million, achieving a record level retention rate of 51% in 2009. GRS continued to deliver strong results, with overall sales increasing to $4.1 billion, an increase of 5% over 2008.
- Group Benefits delivered strong sales results, with sales up 29% to $331 million for 2009. Group Benefits was also successful in retaining the federal Public Service Health Care Plan contract, the largest group plan in Canada. Sun Life also introduced the new My Life and My Health Choices program, easy-to-buy life and health insurance coverage for plan members retiring or terminating from their group benefit plans.
- Significant innovation took place during the year to broaden the Individual life, health, and wealth product suite as well as re-pricing and de-risking of segregated funds. In GRS, the new Defined Benefit Solutions business was launched, which offers de-risking solutions to defined benefit pension plan sponsors.
- Operating expenses were reduced by 1% from 2008 levels, through a program of productivity improvements, while achieving sales growth and client satisfaction targets.

Financial and Business Results

Summary statement of operations

($ millions)	**2009**	2008	2007
Premiums	**6,952**	6,273	6,004
Net investment income	**3,757**	966	2,586
Fee income	**698**	688	695
Total revenue	**11,407**	7,927	9,285
Client disbursements and change in actuarial liabilities	**8,777**	4,986	6,149
Commissions and other expenses	**1,803**	1,846	1,868
Income taxes	**(54)**	435	200
Non-controlling interests in net income of subsidiaries and par policyholders' income	**15**	15	18
Common shareholders' net income (1)	**866**	645	1,050

(1) Earnings in 2007 and 2008 included income of $146 and $117, respectively, from the Company's 37% ownership interest in CI Financial, which the Company sold in the fourth quarter of 2008

Full year earnings for SLF Canada were $866 million compared to $645 million for the same period last year. The increase in earnings of $221 million was mainly attributable to the improved equity markets, credit experience and product changes. This increase was partially offset by the negative impact of the implementation of equity- and interest rate-related actuarial assumption updates in the third quarter, lower gains from asset liability rebalancing and less favorable morbidity. Earnings in 2008 also included $117 million from the Company's 37% ownership interest in CI Financial, which the Company sold in the fourth quarter of 2008.

Revenue for 2009 was $11.4 billion, an increase of 44% from 2008, with growth of $2.8 billion in net investment income and $679 million in premiums.

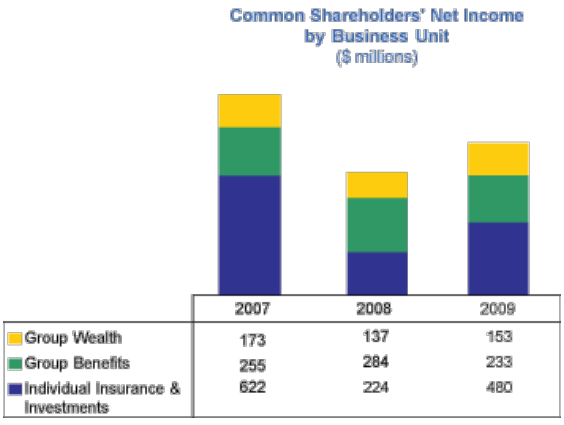
SLF Canada's total AUM were $125.4 billion at the end of 2009, an increase of 12% from 2008 levels. Positive market performance was the primary contributor to the growth in AUM.

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 portfolio of products and services across both insurance and wealth, catering to the needs of clients 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. The Sun Life Financial Advisor Sales Force also distributes mutual funds. Selected products including accidental death insurance and personal health insurance are marketed directly to the Individual client base in partnership with the advice channels.



Individual Insurance & Investments' earnings increased to $480 million in 2009 from $224 million in 2008 mainly due to the improvement of equity markets and product changes. These were partly offset by the implementation of equity and interest rate-related assumption updates in the third quarter of 2009, lower gains from asset liability rebalancing and lower earnings due to the sale of the Company's ownership interest in CI Financial.

Despite challenging economic conditions, Individual life and health insurance sales increased by 2% to $163 million for the year ended December 31, 2009. The Sun Life Financial Advisor Sales Force grew to over 3,550 advisors, managers, and specialists.

Individual Wealth sales, excluding mutual funds, increased by $46 million, or 2%, to $3.1 billion in 2009 from higher guaranteed sales. Sales of guaranteed interest products (payout annuities, accumulation annuities, GIC's) increased 83% over 2008 to $1.0 billion. Segregated fund sales decreased by $408 million, or 16%, over 2008. Mutual fund sales decreased by $277 million, or 24% over 2008.

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 13,000 employers with a market share of 22% (based on in-force premiums and premium equivalents for the year ended December 31, 2008). Group Benefits provides life, dental, drug, extended health care, disability and critical illness benefit programs to employers of all sizes, as well as post employment life and health plans to individual plan members. Group Benefits leads in innovation, competing on the strength of an industry-leading technology platform, a unique Total Benefits offering and integrated health, wellness and disability management capabilities (Healthy ReturnsTM). Group Benefits products are marketed and distributed across Canada by experienced sales representatives in collaboration with independent advisors and benefits consultants.

Group Benefits 2009 net income of $233 million decreased by $51 million over 2008 primarily due to less favourable morbidity experience. Based on the 2008 Fraser Study, Group Benefits retained the number two market share position for overall business in-force in Canada and continues to focus on customer service and productivity.

New annualized premiums and premium equivalents, increased by $75 million to $331 million in 2009. Client retention remained strong, with cancellation rates at 4% of premium and premium equivalents. This led to business in-force increasing by 5% from December 31, 2008, to $6.9 billion as at December 31, 2009.

Group Wealth

SLF Canada's Group Wealth business unit consists of the GRS operation as well as the Company's 66% economic interest in McLean Budden Limited, a premier institutional provider of investment management services in Canada. With a 36% market share(1), GRS is the leading provider of defined contribution plans in Canada, serving over one million plan participants at the end of 2009. GRS also offers other group retirement services and products, including investment-only segregated funds and fixed rate annuities, stock plans, group life annuities, pensioner payroll services and solutions for de-risking defined benefit pension plans.

GRS's solutions meet the complex plan and service requirements of medium to large organizations, while providing 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 teams dedicated to the rollover sector and defined benefit solutions.

Group Wealth net income increased to $153 million in 2009 from $137 million in 2008 primarily from the favourable impact of capital markets, partially offset by lower gains from asset liability rebalancing. GRS sales increased 5% in 2009, exceeding the $4 billion mark. The strong sales growth in 2009 included the GRS Defined Benefit (DB) Solutions area, which had a successful first full year of operation, contributing to a 57% increase in payout annuity sales to $427 million.

GRS sales also continued to benefit from the offering of rollover products to members leaving defined contribution plans as rollover sales reached $855 million in 2009 and the asset retention rate reached a record level of 51%.

GRS assets under administration of $43.8 billion in 2009 grew by 21% over 2008 with strong sales results, ongoing member contributions and improved equity markets.

(1) As measured by Benefits Canada magazine's 2009 Defined Contribution Plan Survey released in December 2009.

2010 Outlook and Priorities

Three large Canadian insurers, including SLF Canada, account for over 60% of the life, health and annuity segments in Canada as measured by premiums. 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 client service.

Improved equity markets with continued volatility as well as narrower credit spreads characterized the business environment in 2009. Ongoing financial market volatility, historically low interest rates and higher unemployment rates will create a challenging operating environment in 2010.

In 2010, SLF Canada will continue to focus on growing its operations, strengthening distribution capabilities and providing value added products and services to its diverse client base.

In Individual Insurance and Investments, the Company will increase profitable sales through the Sun Life Financial Advisor Sales Force and Wholesale distribution partners with a focus on lifetime relationships, holistic advice and product development.

SLF Canada's group businesses will grow profitability by increasing sales in the small and medium-sized case markets.

Additional sales growth will be achieved by leveraging product and service capabilities and the relationships with group plan members through voluntary benefit offerings, by building on the success of the rollover business in both GRS and Group Benefits, and by continuing to develop alternative distribution methods.

SLF Canada will continue to emphasize risk management including further re-design of its segregated fund products, by maintaining and enhancing its hedging strategies, and by actively managing its disability income business. SLF Canada will continue to focus on improvements in productivity through disciplined expense management while maintaining a high level of client satisfaction.

SLF U.S.

Business Profile

SLF U.S. delivers protection, wealth accumulation and retirement income products to individuals and businesses through its three business units. The Annuities business unit offers variable annuities, fixed 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.

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. SLF U.S. supports its strategy by investing in distribution, product development, brand development, advertising and marketing campaigns as well as through continuous improvements in operational efficiency.

SLF U.S. provides valued-added products to help its customers achieve lifetime financial security. These products leverage SLF U.S.'s investment and risk management expertise to meet customers' changing needs.

SLF U.S. distributes these products through a wholesale distribution force supported by a centralized relationship management model that continues to increase sales penetration by firm and channel. SLF U.S. builds strong partnerships with its distributors, providing them with a broad range of product solutions, exceptional service, and marketing support and tools to grow their business and increase SLF U.S.'s market share.

SLF U.S. has aligned its operating model to increase organic growth and achieve additional scale through focused acquisitions. While pursuing its strategy, SLF U.S. is committed to controlling expenses and improving operational efficiency. In addition, SLF U.S. continues to monitor and respond to the economic environment.

2009 Business Highlights

- Recommendations from a strategic review initiated in the fourth quarter of 2008 have been implemented, and have resulted in a greater focus in SLF U.S.'s core businesses and a centralized distribution and marketing platform to drive top-line growth.
- Focused execution, as well as increased distributor and customer focus has resulted in sales in core lines well above industry growth rates. Total domestic sales in 2009 were up more than 35% compared to 2008, with domestic variable annuities up almost 60% and domestic individual life sales up 6%. Variable annuities market share increased from 1.46% at the end of the fourth quarter of 2008 to 3.53% at the end of the third quarter of 2009.
- Substantial changes were implemented throughout 2009 to further improve SLF U.S. variable annuity products' overall risk profile and profitability, including modifications to product design, investment allocation and price.
- SLF US initiated its first brand awareness campaign. The multi-media campaign employs television, print, and on-line advertising to increase awareness of the Sun Life Financial brand in the United States, including sponsorship of "Cirque du Soleil" and the "Frozen Fenway" ice hockey event.
- SLF U.S. maintained its focus on expense management and operational efficiency, holding overall expenses relatively flat in 2009 while engaging in significant talent recruitment, technology upgrades, distribution improvements, marketing campaigns and brand development.

Financial and Business Results

Summary statement of operations

(US$ millions)	**2009**	2008	2007
Premiums	**5,989**	5,395	5,163
Net investment income	**3,773**	(2,279)	1,422
Fee income	**508**	522	691
Total revenue	**10,270**	3,638	7,276
Client disbursements and change in actuarial liabilities	**9,397**	3,404	4,664
Commissions and other expenses	**1,745**	1,678	1,914
Income taxes	**(435)**	(561)	142
Non-controlling interests in net income of subsidiaries and par policyholders' income	**3**	—	3
Common shareholders' net income	**(440)**	(883)	553
Selected financial information in Canadian dollars			
Total revenue	**11,714**	3,817	7,830
Common shareholders' net income (loss)	**(465)**	(1,016)	581

For the year ended December 31, 2009, SLF U.S. reported a loss of $465 million, compared to a loss of $1,016 million reported in 2008.

On a U.S. dollar basis, SLF U.S. had a loss of US$440 million in 2009 compared to a loss of US$883 million in 2008. Losses were lower primarily due to reserve releases attributable to favourable equity markets during 2009 and a lower level of net credit impairments relative to 2008, offset by increases in reserves for downgrades on the investment portfolio, reserve strengthening in Individual Insurance for updates to policyholder behavior assumptions, and the implementation of equity- and interest rate-related assumption updates in the third quarter of 2009. Results in 2009 also included a tax benefit based on the domestic U.S. tax rate of 35%, adjusted for the release of a valuation allowance against deferred tax assets associated with investment losses, as well as other tax benefits.

Total revenue for the year ended December 31, 2009 was US$10.3 billion, an increase of US$6.6 billion from 2008 primarily due to increases in net investment income and premiums. Improvement in net investment income was largely due to fair value gains on held-for-trading assets and non-hedging derivatives during 2009 of US$2.1 billion, compared to a US$4.1 billion decrease in 2008. The increase in premiums was due predominantly to strong fixed annuity sales in 2009.

SLF U.S.'s 2009 sales were US$6.4 billion, up 33% from 2008. Growth initiatives and enhanced distribution resulted in improved Annuities sales performance. Domestic variable annuity sales were US$3.2 billion in 2009, an increase of 61% from 2008. Sales of core products in Individual Insurance were up 10% over 2008. However, total sales in Individual Insurance were down 23% for 2009 due to lower sales of non-core products, primarily bank-owned life insurance (BOLI).

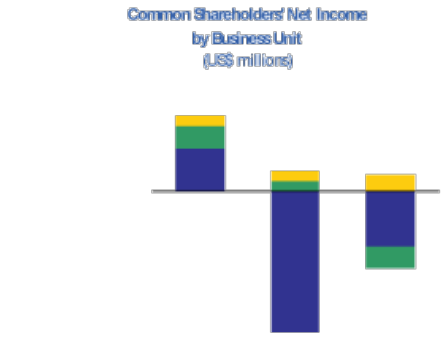
Total assets under management were US$66.9 billion as at December 31, 2009, up 9% from 2008 on equity market improvement and positive net sales.

Results by Business Unit

Annuities

The SLF U.S. Annuities business unit provides variable and fixed annuity products and investment management services. Through the end of 2009, Annuities also provided fixed index annuity products. The Annuities business unit is an integral part of the SLF U.S. growth platform. Extensive distribution, strong brand development, effective risk management and industry-leading customer service capabilities support its suite of products.

Annuities had a loss of US$403 million for the year ended December 31, 2009 compared to a loss of US$1,031 million for the full year 2008. Losses were lower largely due to a decrease in annuity reserves as a result of favourable equity markets, a lower level of net credit impairments relative to 2008 and the positive impact of narrower credits spreads on fixed annuity reserves, partially offset by reserve increases for downgrades on the investment portfolio and the implementation of equity and interest rate-related assumption updates in the third quarter of 2009.



	2007	2008	2009
Employee Benefits Group	70	75	122
Individual Life	167	73	(159)
Annuities	316	(1,031)	(403)

Annuity sales were US$5.5 billion during 2009 compared to US$3.9 billion in 2008. The increase was primarily due to strong variable annuity sales driven by a disciplined sales force and competitive product offerings.

Individual Insurance

SLF U.S.'s Individual Insurance business unit offers protection products to affluent individuals and small to mid-sized business owners, including single and joint universal life and variable universal life. In addition to these core products, Individual Insurance offers corporate owned life insurance (COLI). The business unit accesses its target customers through brokerage general agents and third-party intermediaries.

Individual Insurance incurred a loss of US$159 million in 2009 compared to earnings of US$73 million in 2008. The decrease in earnings was largely due to an increase in Individual Life reserves attributable to narrowing reinvestment rates, the implementation of equity and interest related assumption updates in the third quarter of 2009, and reserve strengthening for updates to policyholder behaviour assumptions. The decrease was partially offset by favourable interest rate movements.

Sales of Individual Insurance core products increased by 10% as a result of a focus on core business. Overall sales in Individual Insurance were US$238 million, a decrease of 23% as compared to 2008 largely due to lower sales of non-core products, primarily BOLI.

Employee Benefits Group

SLF U.S.'s EBG 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 10 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. The business unit's group insurance products are marketed and distributed by more than 180 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 2009 were US$122 million compared to earnings of US$75 million in 2008. The increase was primarily due to the favourable impact of increasing interest rates and claims experience.

Business in-force of US$2.1 billion as at December 31, 2009 was unchanged relative to the prior year as positive net sales were offset by reductions in the block due to the impact of a challenging economic environment on wage rates and employment levels.

2010 Outlook and Priorities

SLF U.S. operates in the highly competitive U.S. life insurance industry in which the top ten companies hold over 50% of the overall market share in all markets in which SLF U.S. competes. The importance of operational scale has increased in the current business environment, and insurers are more likely to pursue scale through acquisition or consolidation in the near term. Insurers also are likely to take advantage of organic growth opportunities presented as a result of recent demographic and economic trends. Factors such as global economic weakness, high unemployment, low interest rates, and volatile financial markets are expected to continue to impact the U.S. business environment through 2010.

Several key trends provide unique opportunities for SLF U.S. to grow its core businesses. The trend to place more responsibility for retirement savings and income with individuals combined with increased market volatility and uncertainty provides opportunities to grow the Annuities business unit, which provides wealth accumulation and guaranteed retirement income solutions. The longer-term needs of baby boomers to transfer wealth to their children in a tax efficient manner will provide growth opportunities for Individual Insurance. As employers continue to shift the costs of providing benefits to employees to stem rising heath care costs, EBG has an opportunity to increase its voluntary benefits business.

To capitalize on the current business environment and trends, SLF U.S. will drive sustainable and profitable organic growth by developing new products that satisfy consumer needs while effectively managing risk. SLF U.S. will maintain its focus on strengthening distribution capabilities and investing in marketing and brand development to support the growth of all of its businesses. Effective risk management and continuous improvements in operational efficiency remain ongoing top priorities.

MFS Investment Management

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.

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.

2009 Business Highlights

- MFS had a record year for sales, with gross sales totaling US$48.5 billion.
- MFS had its strongest net flows in domestic retail mutual funds since 2001, including nine consecutive months of net inflows which led to US$3.6 billion of net inflows in 2009.
- Managed fund gross sales of US$26.7 billion in 2009 were 50% higher than in 2008.
- U.S. retail investment performance continued to be strong during 2009, with 83% of MFS's fund assets ranking in the top half of their respective three-year Lipper categories at December 31, 2009.

Financial and Business Results

Summary statement of operations

(US$ millions)	**2009**	2008	2007
Total revenue	**1,106**	1,308	1,573
Commissions and other expenses	**875**	985	1,123
Income taxes	**89**	128	173
Non-controlling interests in net income of subsidiaries	**6**	9	15
Common shareholders' net income	**136**	186	262
Sales (US$ billions)			
Gross	**48.5**	36.0	42.7
Net	**18.9**	(5.8)	(4.0)
Pre-tax operating profit margin ratio	**26%**	30%	36%
Average net assets (US$ billions)	**153**	172	198
Selected financial information in Canadian dollars			
Total revenue	**1,251**	1,381	1,687
Common shareholders' net income	**152**	194	281

MFS common shareholders' net income of $152 million for 2009 declined $42 million, or 22%, from $194 million in 2008. Despite ending assets under management at December 31, 2009 that were US$53 billion higher than December 31, 2008, lower average net assets of US$19 billion for the year impacted MFS's margin by 4%.

On a U.S. dollar basis, earnings fell by US$50 million, or 27%, to US$136 million in 2009 mostly due to lower fee income earned on lower average net assets.

Fee income of US$1.1 billion in 2009 fell by US$210 million from 2008 levels on lower average net assets. The advisory revenue portion of fee income fell by 12% to US$855 million, consistent with the percentage drop in average net assets during 2009. Other sales and servicing revenues declined, primarily due to the impact of both a lower distribution effective fee rate and lower average net assets.

AUM ended 2009 at US$187 billion, an increase of 40% for the year mainly due to favourable market performance of US$34.1 billion and net inflows of US$18.9 billion (inflows of US$4.8 billion and US$14.1 billion, respectively, for retail mutual funds and managed funds) during 2009.



2010 Outlook and Priorities

There are a number of factors in 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.

Lingering effects from the credit crisis kept investors on the sidelines through the first part of 2009. As signs of a recovery surfaced, investors gradually moved back into the market, first into conservative investments and, by year's end, into equities. It is expected that this trend will continue into 2010 with investors showing a renewed appetite for traditional long-only investment management.

The institutional market continues to become more price sensitive, though willing to pay a premium for concentrated strategies and those that can deliver greater absolute returns. In the retail market, the migration to intermediary platforms continues to amplify the importance of investment performance and service quality. The increase in platform sales reduces traditional distribution fees, further pressuring the smaller participants in the retail market.

In 2010, MFS will continue to focus on its investment, distribution and service platforms. MFS will invest in its global research capabilities to help expand into long-short and regional investment products. MFS will broaden its distribution in international markets while adding client relationship resources globally. Finally, MFS will invest in technology and service, making its existing clients its highest priority.

SLF Asia

Business Profile

SLF Asia operates through subsidiaries in the Philippines, Hong Kong and Indonesia as well as joint ventures with local partners in India, Indonesia and China. These five markets hold about 70% of the total Asian population. The Regional Office in Hong Kong facilitates the sharing of best practices and resources throughout the SLF Asia operations.

Individual life and health insurance products are offered in all five markets, with group life insurance being offered in India and Hong Kong. Pensions and retirement products are offered in the Philippines, Hong Kong, China and India, and mutual funds are sold in the Philippines and India. These protection and wealth products are distributed to middle-and upper-income individuals, groups and affinity clients through multi-distribution channels, with agency remaining the largest distribution channel.

Strategy

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

2009 Business Highlights

- In Indonesia, a new bancassurance joint venture with CIMB Group was established. CIMB Niaga Bank is one of the largest banks in Indonesia, with over 600 branches and three million customers. Since its launch in July 2009, the operation has recorded strong sales through the in-branch and telemarketing channels.
- On July 29, 2009, the Company announced the restructuring of its insurance joint venture in China. The repositioning of Sun Life Everbright as a domestic insurer will help drive expansion in China's financial services market and enable the Company to fully leverage China Everbright Bank's broad distribution.
- Sun Life Hong Kong expanded its alternative distribution channels, with bancassurance sales increasing by 118% in 2009 compared to 2008 and contributing 25% of total individual life sales in 2009 compared to 11% in 2008. Sales from financial intermediaries were also up by 65% in 2009 compared to 2008.
- In India, Birla Sun Life Asset Management Company Limited was awarded the industry's prestigious "Mutual Fund House of the Year" award for the second consecutive year, a first in the Indian Mutual Fund Industry. The business continued to have strong momentum with assets under management and gross sales growth of 48% and 72% in 2009, respectively, over 2008 on a local currency basis.

Financial and Business Results

Summary statement of operations

($ millions)	**2009**	2008	2007
Premiums	**848**	726	629
Net investment income	**846**	(318)	255
Fee income	**119**	90	93
Total revenue	**1,813**	498	977
Client disbursements and change in actuarial liabilities	**1,314**	64	501
Commissions and other expenses	**402**	379	330
Income taxes	**21**	22	23
Common shareholders' net income	**76**	33	123

Full year 2009 earnings of SLF Asia were $76 million compared to $33 million for last year. The increase in earnings was mainly due to improved market conditions in 2009 and favourable mortality and credit experience in Hong Kong.

SLF Asia's total revenue increased by 264% to $1,813 million in 2009 compared to $498 million in 2008, reflecting the favourable impact of $486 million in fair value changes on held-for-trading assets and non-hedging derivatives in 2009 as compared to an unfavourable impact of $646 million in 2008.

Despite the challenging market conditions, SLF Asia's individual life insurance sales for 2009 grew by 4% over 2008 in Canadian dollars, driven by continued growth in India and China, partly offset by a slowdown of sales in other markets. Customers are still cautious about investment-linked products due to the market volatility, though the slower sales in these products were compensated by the growing demand for traditional insurance products. To capture the opportunities created by the economic challenges, the 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 full 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.

Impacted by the change in economic conditions, total individual life sales were down by 6% in 2009 compared to 2008, on a local currency basis. The mandatory provident fund and pension administration net sales increased by 39% over 2008 and assets under management grew by 44% over 2008.

Philippines

Sun Life Financial's Philippines operations, established in 1895, distribute a diverse range of protection and savings products largely through their proprietary career agency sales force. The Company offers individual life and health insurance products, savings products as well as mutual funds to individuals and institutions. Sun Life Financial's Philippines operations are considered one of the strongest and most stable insurance companies in the market.

Individual insurance sales were down by 11% compared to 2008, on a local currency basis, as market volatility reduced demand for investment-linked products.

Indonesia

SLF Asia's Indonesian operations provide both individual life and health insurance to individuals through the Company's wholly-owned subsidiary P.T. Sun Life Financial Indonesia and the Company's joint venture CIMB Sun Life. P.T. Sun Life Indonesia distributes nationwide through its career agency sales force, bancassurance partners and telemarketing; while the joint venture company, CIMB Sun Life serves CIMB Niaga Bank's customers on an exclusive basis for most insurance products.

Amid the difficult market conditions and weaker demands for insurance products, total individual insurance sales were down 22% compared to 2008. However, there was a strong growth in total telemarketing sales, where sales in 2009 increased by 76% over the same period last year.

India

Birla Sun Life Insurance Company Limited (Birla Sun Life Insurance), 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 agency sales force, bancassurance distribution, brokers and worksite marketing.

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

Birla Sun Life Insurance's individual insurance sales were up 10% in 2009 compared to 2008, on a local currency basis. Despite the market downturn, Birla Sun Life Asset Management Company Limited grew its assets under management by INR 182 million, or 48%, reaching INR 562 million at December 31, 2009.

China

Sun Life Everbright Insurance Company Limited, the Company's joint venture with the China Everbright Group, 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. The Company operates with 7 branches and in 18 cities.

Sales of individual insurance products were up 10% compared to 2008 on a local currency basis, with the bancassurance and telemarketing channels experiencing strong sales growth of 24% and 126% respectively.

On July 29, 2009, the Company entered into an agreement with the China Everbright Group to introduce strategic investors to Sun Life Everbright. Once the restructuring is complete, the Company's ownership is expected to be reduced from 50% to a less than 25% interest in the restructured and repositioned company.

2010 Outlook and Priorities

The life insurance markets in which SLF Asia operates range from the developing and increasingly competitive markets, such as India and China, to the more mature markets of the Philippines and Hong Kong. Overall, the life industry at both the regional and country level continued to evolve rapidly, with a number of players exiting selected markets in 2009, but many more increasing their investment and commitment to the region, such as Sun Life. While agency continued to be the primary distribution channel in Asia, the bancassurance channel has been increasingly gaining market share with strong growth potential.

The global financial crisis and the equity markets' downturn have driven consumer demand from investment-linked to traditional protection products. Along with this shift, regulatory oversight on consumer protection has increased primarily related to investment-linked products and their sales practices, as well as insurer's capital adequacy. While the market significantly recovered during 2009, the Company continues to expect a challenging operating environment in 2010, but with opportunities for prepared and quality players to significantly outperform their peers.

SLF Asia will continue to leverage the Customer Journey initiative to create a consistent and high-quality customer experience that reflects the Company's brand promises through every touchpoint and to launch innovative products reflecting each market's specific and evolving needs over time, and further enhance its Internet services platform to create better customer experiences. SLF Asia will continue to enhance and diversify distribution management, implementing best practices in such areas as agency recruitment and training, and further expanding alternative channels such as bancassurance and telemarketing. Continued enhancement of risk management and operational efficiency will also remain a priority to further streamline the operations and enhance the platform that supports future growth across the region.

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.

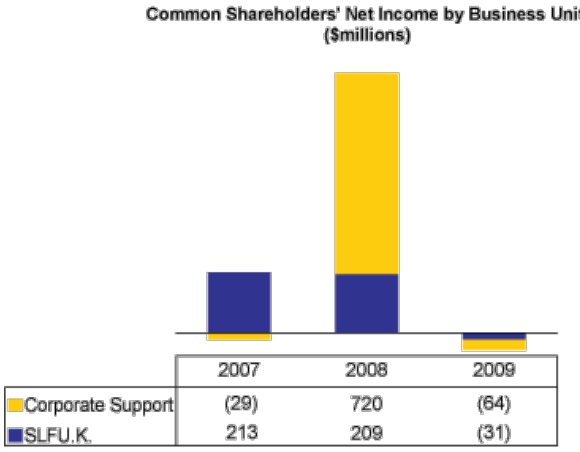
The Company's reinsurance businesses consist of life retrocession and run-off reinsurance. The life retrocession business consists primarily of reinsurance of individual life, with additional coverage including critical illness, group, corporate owned life insurance, and longevity. Run-off reinsurance is a closed block of reinsurance assumed from other insurers. Coverage includes individual disability income, long-term care, group long-term disability and personal accident & medical on the health side, as well as guaranteed minimum income benefit and guaranteed minimum death benefit coverage.

Financial and Business Results

Summary statement of operations(1)

($ millions)	**2009**	2008	2007
Premiums	**849**	851	963
Net investment income	**504**	1,056	421
Fee income	**34**	33	25
Total revenue	**1,387**	1,940	1,409
Client disbursements and change in actuarial liabilities	**1,231**	1,138	974
Commissions and other expenses	**280**	87	209
Income taxes	**(108)**	(285)	(28)
Non-controlling interests in net income of subsidiaries	**—**	1	1
Dividends paid to preferred shareholders	**79**	70	69
Common shareholders' net income	**(95)**	929	184
Special items(2)	**27**	(825)	61
Operating earnings	**(68)**	104	245

For the year ended December 31, 2009, Corporate reported a loss of $95 million compared to net income of $929 million in 2008. Net income in Corporate Support in 2009 was $784 million lower than the prior year, which benefited from an after-tax gain of $825 million related to the sale of the Company's interest in CI Financial in the fourth quarter of 2008. Corporate Support results were favourably impacted in 2009 by investment related gains and improved performance in the Company's life retrocession business.



SLF U.K.

SLF U.K. has approximately 1 million in-force life and pension policies, which constitute a run-off block of business, together with a nascent capability to sell new business. Most administrative functions have been outsourced to external service providers, which are managed by an in-house management team.

For the year ended December 31, 2009, SLF U.K. had a net loss of $31 million compared with net income of $209 million in 2008. The decrease in SLF U.K. earnings was primarily the result of reserve increases for downgrades on the investment portfolio and the adverse impact of changes in interest rates and equity values and the negative impact of the implementation of equity- and interest rate-related actuarial assumption updates in the third quarter of 2009.

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

(2) See "Non-GAAP Financial Measures" on page 20.

On October 1, 2009, the Company completed the acquisition of the U.K. operations of Lincoln National Corporation. The combined operations have doubled SLF U.K.'s policies in-force and carry the Sun Life Financial of Canada name, a brand that has been active in the U.K. for more than a century.

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 Risk Review Committee of the SLF Inc. Board of Directors 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. The Investment Oversight Committee of the SLF Inc. Board of Directors oversees investment policies, practices, procedures and controls related to management of the general fund investments portfolio, the approval and monitoring of the annual Investment Plan and monitoring of the investment performance of enterprise pension and savings plans.

Investment Profile

The Company had total general fund invested assets of $108.2 billion as at December 31, 2009. 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 86% of the general funds in cash and fixed income investments. Stocks and real estate comprised 5% and 4% of the portfolio, respectively. The remaining 5% of the portfolio is comprised of policy loans, derivative assets, and other invested assets.

Additional details on the Company's investments are provided in Notes 5 and 6 to SLF Inc.'s 2009 Consolidated Financial Statements.

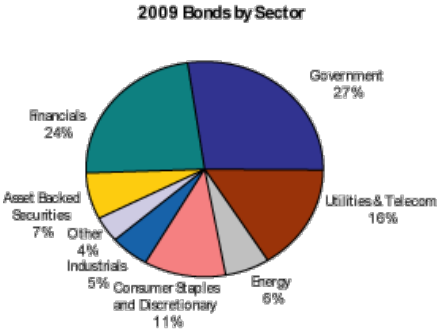
Investments

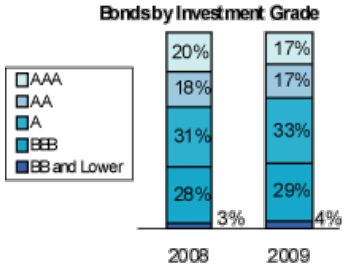
	2009			2008		
($ millions)	Carrying Value	Fair Value	% of total carrying value	Carrying Value	Fair Value	% of total carrying value
Held-for-trading bonds	51,634	51,634	48	48,458	48,458	45
Available-for-sale bonds	9,673	9,673	9	10,616	10,616	10
Mortgages and corporate loans	19,449	19,941	18	22,302	22,485	21
Held-for-trading stocks	4,331	4,331	4	3,440	3,440	3
Available-for-sale stocks	635	649	1	1,018	1,020	1
Real estate	4,877	5,124	4	4,908	5,812	5
Policy loans	3,303	3,303	3	3,401	3,401	3
Cash, cash equivalents and short-term securities	11,868	11,868	11	8,879	8,879	8
Derivative assets	1,382	1,382	1	2,669	2,669	3
Other invested assets including held-for-trading and other available-for sale invested assets	1,077	1,109	1	1,187	1,230	1
Total invested assets	108,229	109,014	100	106,878	108,010	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, 2009, the Company held $61.3 billion of bonds, which constituted 57% of the Company's overall investment portfolio. Consistent with the credit environment, the overall quality of the bond portfolio deteriorated during 2009 as a result of downgrades across the credit quality spectrum. The deterioration in quality was partially mitigated by portfolio repositioning. Bonds with an investment grade of "A" or higher represented 67%, and bonds rated "BBB" or higher represented 96% of the total bond portfolio as at December 31, 2009, down from 97% at December 31, 2008.

As at December 31, 2009, the Company held $13.2 billion of non-public bonds, which constituted 22% of the Company's overall bond portfolio, compared with $12.7 billion, or 21%, as at December 31, 2008. Corporate bonds that are not issued or guaranteed by sovereign, regional and municipal governments represented 73% of the total bond portfolio as at December 31, 2009, compared to 75% as at December 31, 2008.





The Company's bond portfolio as at December 31, 2009 included $14.5 billion in the financial sector, representing approximately 24% of the Company's bond portfolio, or 13% of the Company's total invested assets. This compares to $15.5 billion as at December 31, 2008. The $1 billion decrease in the value of financial sector bond holdings was the combined result of the strengthening Canadian dollar, sales and maturities, and higher interest rates, partially offset by narrowing credit spreads.

The Company's bond portfolio as at December 31, 2009 included $4.2 billion of asset-backed securities reported at fair value, representing approximately 7% of the Company's bond portfolio, or 4% of the Company's total invested assets. This compares to $5.1 billion as at December 31, 2008. The $0.9 billion decrease in the value of asset-backed securities was primarily the result of net sales and maturities, the strengthening Canadian dollar and higher interest rates partially offset by narrowing credit spreads. Over the course of 2009, the credit quality of the Company's asset-backed securities deteriorated as a result of downgrades.

Asset-backed securities

	2009			2008		
($ millions)	Amortized Cost	Fair value	BBB and higher	Amortized Cost	Fair value	BBB and higher
Commercial mortgage-backed securities	2,219	1,772	92.9%	2,820	1,889	99.7%
Residential mortgage-backed securities						
Agency	735	768	100.0%	1,108	1,138	100.0%
Non-agency	1,318	886	80.2%	1,773	1,092	98.4%
Collateralized debt obligations	243	169	34.9%	449	215	80.8%
Other*	729	571	80.6%	983	754	97.3%
Total	5,244	4,166	87.5%	7,133	5,088	98.3%

* Other includes sub-prime, a portion of the Company's exposure to Alt-A and other asset-backed securities.

The Company determines impairments on asset-backed securities by using discounted cash flow models that consider losses under current and expected economic conditions, and a set of assumed default rates and loss given default expectations for the underlying collateral pool. Assumptions used include macro economic factors, such as commercial and residential property values and unemployment rates. Assumed default rates and loss given default expectations for the underlying collateral pool are assessed on a security by security basis based on factors such as the seasoning of the underlying assets, whether the underlying assets are fixed or adjustable rate loans and the likelihood of refinancing at reset dates. If the cash flow modelling projects an economic loss and the Company believes the loss is probable of occurring, an impairment is recorded.

Due to the complexity of these securities, different sets of assumptions regarding economic conditions and the performance of the underlying collateral pools can fall into a reasonable range but lead to significantly different loss estimates. The Company's asset-backed portfolio is highly sensitive to fluctuations in macro economic factors, assumed default rates for the underlying collateral pool and loss given default expectations. In addition, the Company's asset-backed portfolio has exposure to lower rated securities that are highly leveraged, with relatively small amounts of subordination available below the Company's securities to absorb losses in the underlying collateral pool. For these securities, if a relatively small percentage of the underlying collateral pool defaults, the Company may lose all of its principal investment in the security.

Further write-downs on previously impaired securities may result from continued deterioration in economic factors, such as property values and unemployment rates, or changes in the assumed default rate of the collateral pool or loss given default expectations.

The fair value of the Company's asset-backed securities reported as bonds is further broken down in the tables below to reflect ratings and vintages of the assets within this portfolio.

As at December 31, 2009 (based on fair value)	CMBS	RMBS – Agency	RMBS – Non-agency	CDOs	Other
Rating					
AAA	67.3%	**100.0%**	29.9%	7.5%	55.1%
AA	7.9%	**0.0%**	28.4%	21.6%	5.6%
A	8.0%	**0.0%**	11.5%	0.2%	10.2%
BBB	9.7%	**0.0%**	10.4%	5.6%	9.7%
BB & Below	7.1%	**0.0%**	19.8%	65.1%	19.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Vintage					
2005 & Prior	80.9%	57.7%	87.9%	68.6%	55.6%
2006	14.7%	8.6%	10.0%	11.4%	17.1%
2007	4.3%	13.0%	1.5%	20.0%	1.5%
2008	0.0%	15.9%	0.0%	0.0%	25.8%
2009	0.1%	4.8%	0.6%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

As at December 31, 2008 (based on fair value)	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%**

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

As at December 31, 2009, the Company had indirect exposure to residential sub-prime and Alternative-A (Alt-A) loans of $137 million and $109 million, respectively, together representing approximately 0.2% of the Company's total invested assets. Of these investments, 89% either were issued before 2006 or have an "AAA" rating. Alt-A loans generally are residential loans made to borrowers with credit profiles that are stronger than sub-prime but weaker than prime.

Mortgages and Corporate Loans

The recovery of the commercial real estate market will more than likely lag behind the overall economic recovery. The recovery will largely be dependent on macroeconomic factors such as job growth and consumer confidence. The majority of the credit concerns the Company has experienced have been in the retail sector in states such as Arizona, Colorado and Florida. The Company has also experienced some difficulties with owner occupied industrial properties in Ohio, Michigan and Indiana. With anticipated decreases in property values, borrowers will continue to experience reduced cash flows.

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. The Company's commercial portfolio has a weighted average loan to value of approximately 60%. The estimated weighted average debt service coverage is 1.60 times. As at December 31, 2009, the mix of the Company's mortgage portfolio was, 81% non-residential and 19% residential, and approximately 40% of mortgage loans will mature by December 31, 2014. As at December 31, 2009, the Company's mortgage portfolio consisted mainly of commercial mortgages with a carrying value of $13.5 billion, spread across approximately 4,000 loans. Included in the Company's residential mortgage portfolio are multi-family rental properties that are classified as commercial mortgages.

In the fourth quarter of 2009, the Company established a sectoral allowance of $55 million against potential commercial mortgage impairments.

As at December 31, 2009, the Company held $5.7 billion in corporate loans as compared to $6.0 billion in 2008.

Mortgages by type and location

($ millions)	Residential	Non-residential	Total
2009			
Canada	2,341	5,193	7,534
United States	280	5,905	6,185
United Kingdom	—	57	57
Total mortgages	2,621	11,155	13,776
Corporate loans			5,673
Total mortgages and corporate loans			19,449
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

The distribution of mortgages and corporate loans by credit quality as at December 31, 2009 and December 31, 2008 is shown in the tables below. Impaired mortgages increased by $161 million to $252 million mainly due to deteriorating conditions in commercial real estate. Approximately 75% of the impaired loans are in the United States.

December 31, 2009

	Gross Carrying Value			Allowance for losses		
($ millions)	Mortgages	Corporate loans	Total	Mortgages	Corporate loans	Total
Not past due	$ 13,600	$ 5,649	$ 19,249	$ —	$ —	$ —
Past due:						
Past due less than 90 days	30		30	—	—	—
Past due 90 to 179 days	—	—	—	—	—	—
Past due 180 days or more	—	1	1	—	—	—
Impaired	252	33	285	106	10	116
Balance, December 31, 2009	$ 13,882	$ 5,683	$ 19,565	$ 106	$ 10	$ 116

December 31, 2008

	Gross Carrying Value			Allowance for losses		
($ millions)	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, 2008	$ 16,280	$ 6,045	$ 22,325	$ 13	$ 10	$ 23

Stocks

The Company's equity portfolio is diversified, and approximately 60% of this portfolio is invested in exchange-traded funds (ETFs). The main ETF holdings are in the S&P/TSX 60 Index Fund, Standard & Poor's Depositary Receipts and MSCI EAFE Index Funds. As at December 31, 2009, $2.4 billion, or 49%, of the Company's equity portfolio consisted of Canadian issuers; $1.6 billion, or 32%, of U.S. issuers; $511 million, or 10%, of U.K. issuers; and $469 million, or 9%, 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 ($250 million of preferred shares, or 5%,), no single issuer exceeded 1% of the portfolio as at December 31, 2009.

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, 2009. Real estate investments are diversified by country, with 67% of the portfolio located in Canada, 28% in the United States and 5% in the United Kingdom as at December 31, 2009.

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 $225 million in deferred net realized gains on real estate as at December 31, 2009.

Derivative Financial Instruments and Risk Mitigation

The fair value of derivative assets held by the Company was $1.4 billion, while the fair value of derivative liabilities was $1.3 billion as at December 31, 2009. 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 2009 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	Options, swaps and spreadlocks on interest rates; 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 indices; 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; swaps and futures on interest rates
Currency exposure in relation to asset/liability management	To reduce the sensitivity to currency fluctuations by matching the value and cash flows of specific assets denominated in one currency with the value and cash flows of the corresponding liabilities denominated in another currency	Currency swaps and forwards

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

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.

The total notional amount decreased to $47.3 billion as at December 31, 2009, from $50.8 billion at the end of 2008, primarily due to a decrease in interest rate contracts partially offset by an increase in equity contracts. The net fair value increased to $0.1 billion in 2009 from the 2008 year-end amount of ($0.6) billion. The change was primarily due to an increase in the market value of foreign exchange contracts resulting from the strengthening of the Canadian dollar relative to other foreign currencies partially offset by decreases in equity contracts resulting from stronger equity markets.

($ millions)	2009	2008
As at December 31		
Net fair value	125	(550)
Total notional amount	47,260	50,796
Credit equivalent amount	1,010	1,260
Risk-weighted credit equivalent amount	7	28

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, 2009, the credit equivalent amounts for interest rate contracts, foreign exchange contracts, and equity and other contracts were $221 million, $634 million and $155 million, respectively. The corresponding risk-weighted credit equivalent amounts were $2 million, $4 million and $1 million, respectively. Additional details in respect of derivatives are included in Notes 5 and 6 to SLF Inc.'s 2009 Consolidated Financial Statements.

Impaired Assets

Financial assets that are classified as held-for-trading, which represented 52% of the 2009 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. The invested asset values and ratios presented in this section are based on the carrying value of the respective asset categories. Carrying values for available-for-sale and held-for-trading invested assets are equal to fair value. In the event of default, if the amounts recovered are insufficient to satisfy the related actuarial liability cash flows that the assets are intended to support, credit exposure may be greater than the carrying value of the asset.

Net impaired assets for mortgages and corporate loans, net of allowances, amounted to $169 million as at December 31, 2009, $42 million higher than the December 31, 2008 level for these assets.

In addition to allowances reflected in the carrying value of mortgages and corporate loans, the Company has provided $2.9 billion for possible future asset defaults for financial assets included in its actuarial liabilities as at December 31, 2009. To the extent an asset is written off, or disposed of, any corresponding amounts set aside for possible future asset defaults in actuarial liabilities in respect of that asset will be released into income. The $2.9 billion for possible future asset defaults excludes the portion of the provision that can be passed through to participating policyholders and provisions for possible 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 represented $3.6 billion and the associated unrealized losses amounted to $0.4 billion as at December 31, 2009. The Company's gross unrealized losses as at December 31, 2009 for available-for-sale bonds and held-for-trading bonds were $0.4 billion and $2.4 billion, respectively, compared with $1.9 billion and $7.1 billion, respectively as at December 31, 2008. The decrease in gross unrealized losses was largely due to the narrowing of credit spreads, primarily in the financial and securitization sectors, and the strengthening Canadian dollar, which were partially offset by movements in interest rates.

In the aggregate, the Company recognized impairment-related pre-tax losses of $824 million during the year. Approximately 40% of the pre-tax losses were due to impairments taken on the Company's asset-backed securities. Tax recoveries of $241 million on these impairments and related actuarial reserve adjustments in connection with these impairments resulted in the Company recording an after-tax loss of $431 million on the impairments during the year.

Additional details concerning impaired assets are found in Note 6 to SLF Inc.'s 2009 Consolidated Financial Statements.

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 (credit risk, market risk, insurance risk, operational risk and strategic risk) of risks facing the Company and sets out key processes for their management in the areas of 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 Board Committees, the Company's executive officers, 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 proposition. Effective risk taking and risk management are critical to the overall profitability, competitive market positioning and long-term financial viability of the Company. The company seeks to instil into the management practices of all business segments and company leaders, a disciplined approach to balancing between risk taking and risk management.

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 aligned to the Company's overall vision, mission and business goals. This alignment is obtained by the consideration of which risks are deemed 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 to "help customers achieve lifetime financial security," and business objectives. These core risks include equity, interest rate, mortality, morbidity, asset/liability management and credit risks. The Company has established a range of explicit risk appetite limits and 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 and return optimization of core risks. Operational risks often fall into this category. Management endeavours to mitigate collateral risks to the extent that the benefit of risk reduction is commensurate with the cost of mitigation.

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 and reward perspectives and investment horizons of these stakeholders. In particular, risk appetite framework 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 compromised. Sun Life Financial's risk management approach is designed to support long-term credit and financial strength ratings, strong capital levels, ongoing favourable access to capital markets and the continuing enhancement of Sun Life Financial's overall franchise value and brand.

Sun Life Financial's executive compensation philosophy recognizes the importance and contribution of a highly effective and motivated leadership team to pursuing sustainable growth in shareholder value. The Company remains committed to ensuring that the design and governance of overall compensation practices are aligned with Sun Life Financial's risk philosophy, principles and policies.

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 seeks to allocate its risk-taking capacity in a manner that optimizes the overall level of risk-adjusted returns and stakeholder value creation. Budgeting of risk taking capacity is managed through the application of prescribed risk tolerance limits and the embedding of strong risk management discipline into a wide range of key management decision making processes.

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 their 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. The Company recognizes the increasingly important and high profile role that a strong enterprise-wide risk management discipline can play in this regard. 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.

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 Sun Life Financial's risk reporting and ongoing oversight, the SLF Inc. Board of Directors ensures 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, which is a standing committee of the Board of Directors. It is comprised of independent directors, whose primary functions are to assist the Board of Directors with its oversight role with respect to the review and approval of risk management policies, ensuring the identification of major areas of risk facing the Company and ensure the development of strategies to manage those risks, and to review compliance with risk management policies implemented by the Company. To support the oversight of risks within the Company, the Board of Directors has established two additional dedicated committees of the Board, the Investment Oversight Committee, which is responsible for oversight of the Company's investments, and the Governance and Conduct Review Committee, which is responsible for oversight of the Company's compliance with laws and regulations.

Primary accountability for risk management is delegated by the Board to the Chief Executive Officer of SLF Inc. (CEO), and the CEO further delegates responsibilities throughout Sun Life Financial through a framework of management authorities and responsibilities. The CEO delegates line accountability for the various classes of risk management to the Company's executive officers , 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 Company's Chief Risk Officer 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 Company's global risk/return profile. In addition, the Chief Risk Officer provides independent functional oversight of the Company's enterprise-wide risk management programs by ensuring that effective risk management processes are in place for risk identification, risk measurement and assessment, risk response development, risk 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 its processes and operational requirements in the form of a comprehensive series of risk management policies and operating guidelines. These polices promote the application of a consistent approach to managing risk exposures across Sun Life Financial's global business platform. These risk management policies are reviewed and approved annually by the Risk Review Committee, Investment Oversight Committee and Governance and Conduct Review Committee. The Committees also receive 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 by 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), structured securities, 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 and/or when the counterparty's credit rating or risk profile otherwise deteriorates. Credit risk can also arise in connection with deterioration in the value of or ability to realize on any underlying security that may be used to collateralize the debt obligation (e.g. real estate property values in the case of mortgage obligations). Credit risk can occur at multiple levels; as a result of broad economic conditions, challenges within specific sectors of the economy, or from issues affecting individual companies. Events that result in defaults, impairments or downgrades of the securities in its investment portfolio would cause Sun Life Financial to record realized or unrealized losses and increase its provisions for asset default, adversely impacting earnings.

Credit Risk Management Governance and Control

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

- Detailed credit risk management policies
- Specific investment diversification requirements such as investing by asset class, geography and industry
- Credit portfolio, counterparty and sector exposure limits
- Target capital levels that exceed regulatory minimums
- Credit quality ratings for portfolio investments are established and reviewed regularly
- Comprehensive due diligence processes and ongoing credit analysis
- Reserve provisions are established in accordance with standards set forth by the Canadian Institute of Actuaries
- Use of stress-testing techniques, such as Dynamic Capital Adequacy Testing, which measure the effects of large and sustained adverse credit developments
- Comprehensive compliance monitoring practices and procedures including reporting against pre-established investment limits
- Active credit risk governance including independent monitoring and review and reporting to senior management and the Board

Additional information concerning credit risk can be found in Note 6 to SLF Inc.'s 2009 Consolidated Financial Statements.

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:

- Establishment of an enterprise-wide risk appetite and stress testing policy
- Product development and pricing policies that require detailed risk assessment and pricing provisions for material market risks
- Hedging and asset-liability management programs are maintained in respect of key selected market risks
- Target capital levels that exceed regulatory minimums
- The effects of large and sustained adverse market movement are measured through stress testing techniques such as Dynamic Capital Adequacy Testing
- Reserve provisions are established in accordance with standards set forth by the Canadian Institute of Actuaries
- Ongoing monitoring and reporting of market risk sensitivities against pre-established risk tolerance limits

Sources of Equity Market Risk

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 from certain insurance and annuity contracts where fee income is levied on account balances that directionally move in line with general equity market levels. 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 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's primary exposure to equity risk is through its segregated fund products and variable annuities which provide benefit guarantees linked to underlying fund performance. These benefit guarantees may be triggered upon death, maturity, withdrawal or annuitization, depending on the market performance of the underlying funds. Approximately 70 to 80% of the Company's sensitivity to equity market risk is derived from segregated fund products in SLF Canada, variable annuities in SLF U.S. and run-off reinsurance in the Company's Corporate business segment.

	December 31, 2009		
($ millions)	Fund Value	Amount at Risk	Actuarial Liabilities
SLF Canada	10,796	539	215
SLF U.S.	21,069	3,006	675
Run-off reinsurance	3,049	811	452
Total	34,915	4,356	1,342

	December 31, 2008		
($ millions)	Fund Value	Amount at Risk	Actuarial Liabilities
SLF Canada	7,940	1,373	616
SLF U.S.	18,115	6,490	1,726
Run-off reinsurance	3,675	1,200	694
Total	29,730	9,063	3,036

The amount at risk shown in the above tables represents the excess of guaranteed values over fund values on all policies where the guaranteed value exceeds the fund value. The amount at risk is not currently payable as the amount payable is contingent on future fund performance, deaths, deposits and withdrawals. The actuarial liabilities represents management's provision for future costs associated with these guarantees in accordance with accounting guidelines and includes a provision for adverse deviation in accordance with valuation standards.

Guaranteed benefits are contingent and only payable upon death, maturity, withdrawal or annuitization if fund values remain below guaranteed values. The amount at risk and actuarial liabilities at December 31, 2009 decreased from December 31, 2008 primarily due to improvements in equity markets and the strengthening of the Canadian dollar. The increase in the fund value is the result of improvements in equity markets and net business growth offset by the strengthening of the Canadian dollar.

The Company's run-off reinsurance business includes risks assumed through reinsurance of variable annuity products issued by various North American insurance companies between 1997 and 2001. This line of business has been discontinued and is part of a closed block of reinsurance which is included in the Corporate business segment.

The ultimate cost of providing for the guarantees in respect of the Company's segregated fund and variable annuity products is uncertain, and will depend upon a number of factors including general capital market conditions, policyholder behaviour and mortality experience, as described in the Risk Factors section in the Company's 2009 AIF, which may result in negative impacts on net income and capital. The Company has implemented hedging programs, involving the use of derivative instruments, in order to help mitigate a portion of the equity market-related volatility in the cost of providing for these guarantees, thereby reducing its exposure to this particular class of equity market risk.

Hedging of Guarantees

As at December 31, 2009 approximately 90% of the Company's total segregated fund and variable annuity contracts, as measured by associated fund values, were included in an equity hedging program. While these contracts are included in our hedging program, for the reasons described below and under the heading Sources of Equity Market Risk, not all of the equity exposure associated with these contracts is hedged. The Company's net equity exposure related to guarantees associated with these contracts is included in the market sensitivity table below. For those segregated fund and variable annuity contracts in the equity hedging program, the Company only hedges the guaranteed portion of the contract. As noted below the equity hedging program generally does not extend to include the fee income or the future stream of fee income levied on account balances in these contracts. These programs are primarily focused on hedging the expected economic costs associated with providing the above-mentioned segregated fund and variable annuity guarantees. Since the economic value of benefits being hedged will generally differ from the financial statement value (due to different valuation methods and the inclusion of valuation margins in respect of financial statement values), this approach will result in residual volatility to equity market shocks in reported income and capital. The general availability and cost of these hedging instruments may be adversely impacted by a number of factors, including volatile and declining equity and interest rate market conditions.

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 (i.e. frequent rebalancing of short-dated equity derivative contracts) hedging techniques.

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, and increased levels of liquidity risk, model risk, and other operational risks as described in the Risk Factors section in the Company's 2009 AIF. 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. 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 primarily with highly rated counterparties and transacting through ISDA agreements that generally include applicable credit support annexes), residual risk and potential reported earnings and capital volatility remain.

The Company actively monitors its overall equity market exposure and may implement tactical hedge overlay strategies (primarily in the form of equity futures contracts) in order to align expected earnings sensitivities with enterprise risk management objectives.

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.

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 2009 Consolidated Financial Statements- Financial Instruments Risk Management under Section c) Market Risk.

Market Risk Sensitivity

The Company's earnings are dependent on the determination of its policyholder obligations under its annuity and insurance contracts. These amounts are determined using internal valuation models and are recorded in the Company's financial statements, primarily as actuarial liabilities. The determination of these obligations requires management to make assumptions about the future level of equity market performance, interest rates and other factors over the life of its products. The following table sets out the estimated immediate impact or sensitivity of the Company's net income and MCCSR ratio to certain instantaneous changes in interest rates and equity market prices as at December 31, 2009.

	Interest Rates(1)		Equity Markets(2)		Equity Markets(2)	
	1% increase	1% decrease	10% increase	10% decrease	25% increase	25% decrease
Net income impact ($millions)	(50) – 50	(150) – (250)	75 – 125	(150) – (200)	150 – 250	(475) – (575)
MCCSR ratio(3)	up to 8 percentage points increase	up to 12 percentage points decrease	up to 5 percentage points increase	up to 5 percentage points decrease	up to 5 percentage points increase	up to 15 percentage points decrease

(1) Represents a 100 basis point parallel shift in assumed interest rates across the entire yield curve as at December 31, 2009

(2) Represents the respective change across all equity markets as at December 31, 2009. Assumes that actual equity exposures consistently and precisely track the broader equity markets. Since in actual practice equity related exposures generally differ from broad market indices (due to the impact of active management, basis risk, and other factors), realized sensitivities may differ significantly for from those illustrated above

(3) The sensitivities provided are relative to the MCCSR ratio for Sun Life Assurance of 221%

The Company used a 10% increase or decrease in equity markets and a 1% change in interest rates in its market sensitivity because it believed that such changes in equity markets and interest rates were reasonably possible as at December 31, 2009. The Company has also disclosed the impact of a 25% increase or decrease in its equity market sensitivity to illustrate that changes in equity markets in excess of 10% may result in other than proportionate impacts.

The equity market risk sensitivities disclosed in the table above includes the impact of providing for the guarantees associated with the segregated fund and variable annuity contracts and are net of the expected mitigation impact of the Company's hedging programs in effect as at December 31, 2009. Increased sales, de-risking initiatives such as product simplification and pricing changes, as well as the Company's hedging program are reflected in the Company's market sensitivity disclosure.

The Company's market risk sensitivities are forward-looking estimates and are non-GAAP measures. These are measures of the Company's estimated net income and capital sensitivity to the changes in interest rate and equity market levels described above, based on interest rates, equity market prices, and business mix in place as of December 31, 2009. These sensitivities are calculated independently for each risk factor generally assuming that all other risk variables remain constant. Actual results can differ materially from these estimates for a variety of reasons including differences in the pattern or distribution of the market shocks illustrated above, the interaction between these factors, model error, or changes in other assumptions such as business mix, effective tax rates and the valuation allowance required for future tax assets, policyholder behaviour, currency exchange rates, and other market variables relative to those underlying the December 31, 2009 calculation date for these sensitivities. These sensitivities also assume that a change to the current valuation allowance on future tax assets is not required.

These sensitivities reflect the composition of the Company's assets and liabilities as of December 31, 2009. Changes in these positions due to new sales or maturities, asset purchases/sales or other management actions could result in material changes to these reported sensitivities. In particular, these sensitivities reflect the expected impact of hedging activities based on the hedging programs and portfolios in place as of the December 31, 2009 calculation date. The actual impact of these hedging activities can differ materially from that assumed in the determination of these indicative sensitivities due to ongoing hedge rebalancing activities, changes in the scale or scope of hedging activities, changes in the cost or general availability of hedging instruments, basis risk (the risk that hedges do not exactly replicate the underlying portfolio experience), model risks and other operational risk in the ongoing management of the hedge programs or the potential failure of hedge counterparties to perform in accordance with expectations.

Similarly, the sensitivities are based on financial reporting methods and assumptions in effect as of December 31, 2009. Changes in accounting or actuarial valuation methods, models or assumptions, including the prospective equity and interest rate actuarial assumption changes described earlier, could result in material changes to these reported sensitivities. Changes in interest rates and equity market prices in excess of the ranges illustrated may result in other than proportionate impacts.

For the reasons outlined above, these sensitivities should only be viewed as directional estimates of the underlying sensitivities of each factor under these specialized assumptions, and should not be viewed as predictors of the Company's future net income and capital sensitivities. Given the nature of these calculations, the Company cannot provide assurance that those actual earnings and capital impacts will be within the indicated ranges.

Information related to market risk sensitivities and guarantees related to variable annuity and segregated fund products should be read in conjunction with the information contained in the "Outlook", "Critical Accounting Policies and Estimates" and "Risk Management" sections in the Company's 2009 annual MD&A and "Risk Factors" and "Regulatory Matters" in the Company's AIF for the year ended December 31, 2009, copies of which are available on its website at www.sunlife.com and at www.sedar.com and www.sec.gov.

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
- Reserve provisions are established in accordance with standards set forth by the Canadian Institute of Actuaries
- Target capital levels established that exceed regulatory minimums
- Board-approved maximum retention limits (amounts issued in excess of these limits are reinsured)
- 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
- Diversification and risk pooling is managed by aggregation of broad exposures across product lines, geography, distribution channels, etc.
- Experience studies (both Company specific and industry level) and Source of Earnings analysis are periodically monitored and factored into ongoing valuation, renewal and new business pricing processes
- Effects of large and sustained adverse market movement are measured through Dynamic Capital Adequacy Testing and other stress-testing techniques
- 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 finances or 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

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

- Enterprise-wide policies for all significant operational risks
- 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.
- An enterprise-wide compliance framework has been established consisting of policies and operating guidelines, supported by a network of compliance officers
- Privacy policies, privacy officers and processes have been established to provide guidance on handling private and confidential information and for reporting privacy issues to appropriate management for response and resolution
- Ongoing monitoring and reporting of all significant operational risks, including regular briefings to senior management and Board Committees
- 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 structural or other large 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 SLF Inc. Board of Directors, which 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 approval of the Board of Directors. The Company develops and maintains a register of enterprise key risks, which represent a key input into the business planning process. Appropriate Board committees receive regular updates of the enterprise key risks.

Capital and Liquidity Management

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.

The regulatory environment is expected to evolve as governments and regulators work to develop the appropriate level of financial regulation required to ensure that capital, liquidity and risk management practices are sufficient to withstand severe economic downturns. In Canada, OSFI is considering new guidelines that would establish stand-alone capital adequacy requirements for operating life insurance companies, such as Sun Life Assurance, and that would update OSFI's regulatory guidance for non-operating insurance companies acting as holding companies, such as SLF Inc. OSFI is also reviewing the use of internally-modeled capital requirements for segregated fund guarantees. In addition, it is expected that OSFI will change the definition of available regulatory capital for determining regulatory capital to align insurance definitions with any changed definitions that emerge for banks under the proposed new Basel Capital Accord. The outcome of these initiatives is uncertain and could have a material adverse impact on the Company or on its position relative to that of other Canadian and international financial institutions with which it competes for business and capital.

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, 2009, the Company maintained cash, cash equivalents and short-term securities totalling $11.9 billion, of which 2% were held in relation to certain derivative strategies and bond repurchase agreements. The corresponding percentage was 3% at the end of 2008. 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 $3.0 billion in 2009. Cash flows generated by operating activities increased by $1.8 billion in 2009 from 2008 mainly from increased annuity premiums of $1.2 billion and lower maturities and surrenders of $744 million mostly in SLF U.S.'s Annuities business unit. Net cash provided by financing activities increased by $1.5 billion over 2008 mainly from issuance of additional levels of debt and preferred shares during 2009. Investing activities decreased cash by $3.5 billion during 2009 compared to 2008. The increased investing activities arose mainly from higher levels of investment in short term securities and derivative investments. The strengthening of the Canadian dollar against the U.S. dollar decreased cash balances by $802 million in 2009 compared to an increase of $642 million in 2008.

($ millions)	**2009**	2008	2007
Net cash provided by operating activities	**3,548**	1,737	1,068
Net cash provided by (used in) financing activities	**1,052**	(499)	(92)
Net cash provided by (used in) investing activities	**(3,451)**	35	(2,010)
Changes due to fluctuations in exchange rates	**(802)**	642	(299)
Increase (decrease) in cash and cash equivalents	**347**	1,915	(1,333)
Cash and cash equivalents, beginning of year	**5,518**	3,603	4,936
Cash and cash equivalents, end of year	**5,865**	5,518	3,603
Short-term securities, end of year (1)	**6,003**	3,361	1,897
Cash, cash equivalents and short-term securities, end of year	**11,868**	8,879	5,500

(1) Includes a restatement of $1,745 million of short term securities as at December 31, 2008 that were previously included as cash equivalents. As a result, cash flows provided by (used in) investing activities have been adjusted by $1,745 million in the 2008 amounts above.

Liquidity

The Company generally maintains an overall asset liquidity profile that exceeds requirements to fund potential demand liabilities under prescribed adverse liability demand scenarios. 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 appropriately funded and maintain adequate liquidity to meet obligations, both individually and in aggregate.

The Company maintains various credit facilities for general corporate purposes. As at December 31, 2009, the Company had three U.S. dollar denominated committed credit facilities totalling US$1.7 billion, of which US$596 million was utilized. In addition, the Company had uncommitted credit facilities (denominated in Canadian dollars) totalling $185 million, of which $76 million was utilized. As at December 31, 2008, the Company had two committed credit facilities totalling US$1.5 billion, of which US$856 million was utilized, and uncommitted credit facilities for $308 million, of which $194 million was utilized. All utilization of these facilities was in respect of letters of credit. As at December 31, 2009, the maturity of these credit facilities ranged from one year to three years.

The agreements relating to the Company's committed credit facilities contain typical covenants for investment grade companies regarding solvency, credit ratings and other such matters, all of which were met as at December 31, 2009. 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, 2009.

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 collateralize 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. Sun Life Financial'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 group level under the principles appropriate to the jurisdiction in which it operates. Sun Life Financial manages capital for all of its subsidiaries in a manner commensurate with their individual risk profiles.

Sun Life Financial, including all of its business groups, conducts a rigorous capital plan annually where capital options, fundraising alternatives and dividend policies are presented to the Board. Capital reviews are regularly conducted which consider the potential impacts under various business, interest rate and equity market scenarios. Relevant components of the capital reviews are presented to the Board on a quarterly basis. The Board of Directors is also 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 innovative capital instruments issued by Sun Life Capital Trust and Sun Life Capital Trust II.

In 2009 Sun Life Capital Trust II (Trust II), an unconsolidated subsidiary of the Company, issued $500 million of Sun Life ExchangEable Securities (SLEECS) Series 2009-1. Pursuant to the share exchange agreement with Sun Life Assurance and Sun Life Financial, if Trust II 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. Trust II is expected to continue to pay the indicated yield at each distribution date.

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 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.

Notes 10, 11, 13 and 15 to SLF Inc.'s 2009 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)	2009	2008	2007
Subordinated debt	3,048	2,576	1,796
Trust Securities(1)	1,644	1,150	1,150
Equity			
Participating policyholders' equity	107	106	95
Preferred shareholders' equity	1,741	1,495	1,495
Common shareholders' equity (2)	15,566	15,808	15,627
Total Equity	17,414	17,409	17,217
Total Capital	22,106	21,135	20.163
Ratio of debt to total capital	21.2%	17.6%	14.6%
Ratio of debt plus preferred shares to total capital	29.1%	24.7%	22.0%

(1) Includes SLEECS net of associated transaction costs

(2) Certain components of accumulated other comprehensive income, namely unrealized gain and losses on cash flow hedges and available-for-sale debt securities, (effective 2008) are excluded from regulatory capital

Common shareholders' equity was $15.6 billion, as at December 31, 2009 compared with 15.8 billion as at December 31, 2008, a decrease of $0.2 billion. Unfavourable credit and the negative impact on Other Comprehensive Income of the appreciation of the Canadian dollar against the US dollar only partially offset positive changes in Other Comprehensive Income from the gains on available-for-sale assets.

On March 31, 2009, SLF Inc. issued $500 million principal amount of Series 2009-1 Subordinated Unsecured 7.90% Fixed/Floating Debentures (Series 2009-1) due in 2019.

On May 20, 2009, SLF Inc. issued $250 million of 6.00% Class A Non-Cumulative 5-Year Rate Reset Preferred Shares yielding 6.00% annually until June 30, 2014.

On June 30, 2009, SLF Inc. issued $300 million principal amount of Series D Senior Unsecured 5.70% Debentures due 2019.

On November 20, 2009, SLF Inc., through Sun Life Capital Trust II, issued $500 million principal amount of SLEECS Series 2009-1 due December 31, 2108.

As at December 31, 2009, the Company's debt capital consisted of $3.1 billion in subordinated debentures with maturity dates between 2015 and 2042 and $1.6 billion of SLEECS with maturity dates between 2031 and 2108. 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 $2.2 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 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 4.4% over the past year to 29.1% as at December 31, 2009.

In 2009, SLF Inc. did not repurchase or cancel any of its common shares.

SLF Inc. grants stock options to certain employees and directors, which may be exercised at the closing price of SLF Inc.'s common shares on the trading day preceding the grant date. As at February 5, 2010, 12.8 million options to acquire SLF Inc. common shares and 564.6 million common shares of SLF Inc. were outstanding.

Number of Common Shares Outstanding

(in millions)	2009	2008	2007
Balance, beginning of year	559.7	564.1	571.8
Stock options exercised	4.7	0.4	2.1
Shares repurchased	—	(4.8)	(9.8)
Balance, end of year	564.4	559.7	564.1

Number of Stock Options Outstanding

(in millions)	2009	2008	2007
Balance, beginning of year	10.0	8.2	9.1
Options issued	4.3	2.3	1.3
Options exercised or cancelled	(1.1)	(0.5)	(2.2)
Balance, end of year	13.2	10.0	8.2

Shareholder Dividends

SLF Inc. maintained its quarterly common shareholders' dividend at $0.36 per share throughout 2009. Total common shareholder dividends declared in 2009 were $1.44 per share, consistent with 2008 levels.

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 quarterly basis.

Under the SLF Inc. Canadian Dividend Reinvestment and Share Purchase Plan, Canadian-resident common and preferred shareholders may choose to have their dividends automatically reinvested in additional common shares and may also purchase common shares through the Plan. For dividend reinvestments, SLF Inc. may, at its option, issue common shares from treasury at a discount of up to 5% to the volume weighted average trading price or direct that common shares be purchased on behalf of participants through the TSX at the market price. Common shares acquired by participants through optional cash purchases may also be issued from treasury or purchased through the TSX at SLF Inc.'s option, in either case at no discount.

Dividends declared for 2009

	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	$ 1.112500
Series 6R	6.00%	May 20, 2009	$ 0.921580

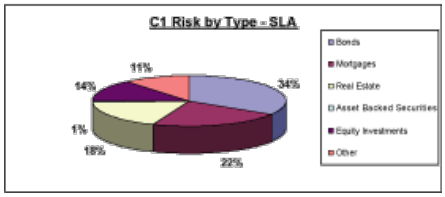
Capital Adequacy

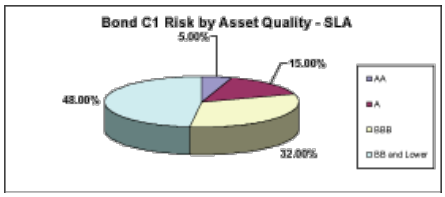
SLF Inc. is subject to the guidelines regarding capital framework for regulated insurance holding companies and non-operating life insurance companies (collectively, Insurance Holding Companies) issued by OSFI. Under these guidelines, Insurance Holding Companies, such as SLF Inc., and certain of their significant life insurance company subsidiaries are not subject to the MCCSR ratio that applies 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 OSFI deems necessary to reflect. SLF Inc. was well above its minimum internal targets as at December 31, 2009.

Sun Life Assurance is subject to the MCCSR capital rules for a life insurance company in Canada. The Company generally expects to maintain an MCCSR ratio for Sun Life Assurance at or above 200%. From time to time, during adverse economic conditions and periods of high market volatility, Sun Life Assurance may maintain an MCCSR ratio in the range of 180% to 200%. With an MCCSR ratio of 221%, Sun Life Assurance exceeded minimum regulatory levels as at December 31, 2009. 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 as outlined on page 53 of this document.

A key risk component is asset default risk, which is also referred to as C-1 risk, covers losses resulting from asset defaults, loss of market value of equities, and related reductions in income. To compute the C-1 component, factors are applied to the balance sheet value of the Company's assets (on-balance sheet) or exposure amount (off-balance sheet). The factors used to compute required capital are based on the nature of the asset in combination with its use or the rating assigned to the asset or obligor. The charts below summarize the split of the Sun Life Assurance's C-1 risk by type of asset. In addition, a second chart splits the C-1 risk associated with the bond portfolio by rating. While over 70% of Sun Life Assurance's bonds are rated A or higher, such bonds account for only about 20% of C-1 risk reflecting the relatively low factors attributed to bonds rated A or higher. Bonds rated A or higher also include the obligations of certain qualifying entities, including the Canadian government and other OECD countries, that are eligible for a 0% factor.





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

Sun Life Assurance MCCSR

($ millions)	2009	2008	2007
Capital available			
Retained earnings and contributed surplus	9,733	10,117	9,957
Other comprehensive income	(1,510)	(841)	(1,521)
Common and preferred shares	2,596	1,996	1,446
Innovative instruments and subordinated debt	3,094	2,600	2,400
Other	269	219	531
Less:			
Goodwill and intangibles in excess of limit	1,859	1,893	1,607
Non-life investments and other	1,660	1,585	1,555
Total capital available	10,663	10,613	9,651
Required capital			
Asset default and market risks	2,699	2,620	2,497
Insurance risks	1,397	1,279	1,276
Interest rate risks	735	683	861
Other	—	—	(110)
Total capital required	4,831	4,582	4,524
MCCSR ratio	221%	232%	213%

Sun Life Assurance's MCCSR ratio declined from 232% as at December 31, 2008 to 221% as at December 31, 2009, reflecting ongoing credit deterioration and the impact of the update of equity and interest assumptions used to value its segregated fund and individual life liabilities, partially offset by earnings. Available capital remained relatively flat as earnings, the net proceeds of $494 million from the issuance of $500 million of SLEECS and contributions from SLF Inc. were substantively offset by the unfavourable impact of the weakening of the U.S. dollar against the Canadian dollar and dividends to SLF Inc. Additional details concerning the calculation of available capital and MCCSR are included in SLF Inc.'s 2009 AIF under the heading Regulatory Matters.

OSFI is considering new guidelines that would establish stand-alone capital adequacy requirements for operating life insurance companies, such as Sun Life Assurance, and that would update OSFI's regulatory guidance for non-operating insurance companies acting as holding companies, such as SLF Inc. OSFI is also reviewing the use of internally-modeled capital requirements for segregated fund guarantees.

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 (RBC) rules issued by the National Association of Insurance Commissioners, which measures the ratio of the company's total adjusted capital to the minimum capital required by the RBC formula. The RBC formula for life insurance companies' measures exposures to investment risk, insurance risk, interest rate and other market risks and general business risk. A company's RBC is normally expressed in terms of the company action level (CAL). If a life insurance company's total adjusted capital is less than or equal to the CAL (100% of CAL or less), a comprehensive financial plan must be submitted to its state regulator. Sun Life (U.S.) has established an internal target range for its RBC ratio of 300-350% of the CAL.

The Company provides periodic capital contributions to Sun Life (U.S.) in order to maintain its RBC ratio in the target range of 300-350%. It is expected that Sun Life Financial will need to make a contribution in early 2010 to Sun Life (U.S.) to maintain the 2009 RBC ratio in the target range. A portion of this contribution could potentially be funded by Sun Life Assurance, which would decrease its MCCSR ratio.

The investment, interest rate, and market risk components of Sun Life (U.S.)'s statutory and risk based capital are sensitive to equity and interest rate levels as well as the overall economic environment. Declining equity and interest markets and unfavourable credit experience will negatively impact its RBC ratio. The insurance and business risk components of Sun Life (U.S.)'s statutory and risk based capital are sensitive to operating experience. Unfavourable operating experience could also negatively impact the RBC ratio.

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, 2009.

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.

($ millions)	2009	2008
As at December 31		
Securitized assets under management	1,882	2,269
The Company's retained interest	35	70
For the year ended December 31		
Cash flow received on retained interests and servicing fees	11	12

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 2009 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 2009 Consolidated Financial Statements.

The following table summarizes the Company's significant financial liabilities and contractual obligations as at December 31, 2009.

Financial Liabilities and Contractual Obligations

($ millions)	Total	Within 1 year	1-3 years	3-5 years	Over 5 years
Senior debentures and unsecured financing(1)	10,805	233	459	459	9,654
Subordinated debt(1)	5,510	191	383	383	4,553
Bond repurchase agreements and securities lending transactions	1,266	1,266	—	—	—
Accounts payable and accrued expenses	1,927	1,927	—	—	—
Borrowed funds(1)	385	98	142	83	62
General fund policy liabilities(2)	196,763	12,365	11,504	11,543	161,351
Total liabilities	216,656	16,080	12,488	12,468	175,620
Contractual commitments(3)					
Contractual loan, equity and real estate	804	419	197	119	69
Operating leases	332	90	138	65	39
Total contractual commitments	1,136	509	335	184	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 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 policyholder liabilities. These amounts are undiscounted and do not reflect recoveries from reinsurance agreements. The actuarial and other policy liability amounts included in the 2009 SLF Inc.'s 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.

Exhibit 2

Consolidated Financial Statements

Sun Life Financial Inc.

For the Year Ended December 31, 2009



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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.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting, as of December 31, 2009, 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, 2009.

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. The report of the Appointed Actuary accompanies these consolidated financial statements.

The Company's external auditors, Deloitte & Touche LLP, Independent Registered Chartered Accountants, have audited the Company's internal control over financial reporting as of December 31, 2009 in addition to auditing the Company's Consolidated Financial Statements for the year ended December 31, 2009. Their reports to the Board and Shareholders express an unqualified opinion and accompany these consolidated financial statements. Deloitte & Touche meet separately with both management and the Audit Committee to discuss the results of their audit.



Donald A. Stewart
Chief Executive Officer



Colm J. Freyne
Executive Vice-President and Chief Financial Officer

Toronto, February 10, 2010

Consolidated Statements of Operations

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

	2009	2008	2007
REVENUE			
Premium income:			
Annuities	**$ 4,795**	$ 3,592	$ 3,530
Life insurance	**6,380**	5,928	6,010
Health insurance	**4,335**	4,067	3,584
	15,510	13,587	13,124
Net investment income (loss) *(Note 5)*:			
Change in fair value of held-for-trading assets	**4,878**	(7,399)	(1,558)
Income (loss) from derivative investments	**(943)**	(220)	86
Net gains (losses) on available-for-sale assets	**(5)**	(241)	101
Other net investment income	**5,462**	6,078	6,223
Gain on sale of equity investment *(Note 3)*	**—**	1,015	—
	9,392	(767)	4,852
Fee income	**2,670**	2,743	3,212
	27,572	15,563	21,188
POLICY BENEFITS AND EXPENSES			
Payments to policyholders, beneficiaries and depositors:			
Maturities and surrenders	**4,566**	5,310	6,250
Annuity payments	**1,367**	1,380	1,398
Death and disability benefits	**2,997**	2,844	2,620
Health benefits	**3,210**	2,938	2,616
Policyholder dividends and interest on claims and deposits	**1,317**	1,303	1,360
	13,457	13,775	14,244
Net transfers to segregated funds	**860**	539	952
Increase (decrease) in actuarial liabilities *(Note 9)*	**7,697**	(4,429)	(2,515)
Commissions	**1,662**	1,545	1,811
Operating expenses *(Note 16)*	**3,176**	3,003	3,260
Premium taxes	**222**	227	240
Interest expense *(Notes 11, 12 and 13)*	**403**	366	349
	27,477	15,026	18,341
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	**95**	537	2,847
Income taxes expense (benefit) *(Note 19)*	**(542)**	(343)	522
Non-controlling interests in net income of subsidiaries *(Note 14)*	**15**	23	35
TOTAL NET INCOME	**622**	857	2,290
Less: Participating policyholders' net income	**9**	2	2
SHAREHOLDERS' NET INCOME	**613**	855	2,288
Less: Preferred shareholder dividends	**79**	70	69
COMMON SHAREHOLDERS' NET INCOME	**$ 534**	$ 785	$ 2,219
Average exchange rates:			
U.S. dollars	***1.14***	*1.07*	*1.07*
U.K. pounds	***1.78***	*1.96*	*2.15*
Earnings per share			
Basic	**$ 0.95**	$ 1.40	$ 3.90
Diluted	**$ 0.94**	$ 1.37	$ 3.85
Weighted average shares outstanding in millions *(Note 17)*			
Basic	**561**	561	569
Diluted	**562**	562	572

The attached notes form part of these Consolidated Financial Statements.

Consolidated Balance Sheets

AS AT DECEMBER 31 (in millions of Canadian dollars)

	2009	2008
ASSETS		
Bonds — held-for-trading *(Note 6)*	**$ 51,634**	$ 48,458
Bonds — available-for-sale *(Note 6)*	**9,673**	10,616
Mortgages and corporate loans *(Note 6)*	**19,449**	22,302
Stocks — held-for-trading *(Note 6)*	**4,331**	3,440
Stocks — available-for-sale *(Note 6)*	**635**	1,018
Real estate *(Note 5)*	**4,877**	4,908
Cash, cash equivalents and short-term securities	**11,868**	8,879
Derivative assets *(Notes 5 and 6)*	**1,382**	2,669
Policy loans and other invested assets	**3,503**	3,585
Other invested assets — held-for-trading *(Note 6)*	**425**	380
Other invested assets — available-for-sale *(Note 6)*	**452**	623
Invested assets	**108,229**	106,878
Goodwill *(Note 7)*	**6,419**	6,598
Intangible assets *(Note 7)*	**926**	878
Other assets *(Note 8)*	**4,508**	5,479
Total general fund assets	**$120,082**	$119,833
Segregated funds net assets	**$ 81,305**	$ 65,762
LIABILITIES AND EQUITY		
Actuarial liabilities and other policy liabilities *(Note 9)*	**$ 84,638**	$ 81,411
Amounts on deposit	**4,181**	4,079
Deferred net realized gains *(Note 5)*	**225**	251
Senior debentures *(Note 11)*	**3,811**	3,013
Derivative liabilities *(Notes 5 and 6)*	**1,257**	3,219
Other liabilities *(Note 12)*	**5,466**	7,831
Total general fund liabilities	**99,578**	99,804
Subordinated debt *(Note 13)*	**3,048**	2,576
Non-controlling interests in subsidiaries *(Note 14)*	**42**	44
Total equity	**17,414**	17,409
Total general fund liabilities and equity	**$120,082**	$119,833
Segregated funds contract liabilities	**$ 81,305**	$ 65,762
Exchange rate at balance sheet date:		
U.S. dollars	***1.05***	*1.22*
U.K. pounds	***1.70***	*1.78*

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	2009	2008	2007
PREFERRED SHARES					
Balance, beginning of year	**$ —**	**$ 1,495**	**$ 1,495**	$ 1,495	$ 1,250
Preferred shares issued *(Note 15)*	**—**	**250**	**250**	—	250
Issuance costs, net of taxes *(Note 15)*	**—**	**(4)**	**(4)**	—	(5)
Balance, end of year	**—**	**1,741**	**1,741**	1,495	1,495
COMMON SHARES					
Balance, beginning of year	**—**	**6,983**	**6,983**	7,033	7,082
Stock options exercised *(Note 18)*	**—**	**7**	**7**	10	66
Shares issued under dividend reinvestment and share purchase plan *(Note 15)*	**—**	**136**	**136**	—	—
Common shares purchased for cancellation *(Note 15)*	**—**	**—**	**—**	(60)	(115)
Balance, end of year	**—**	**7,126**	**7,126**	6,983	7,033
CONTRIBUTED SURPLUS					
Balance, beginning of year	**—**	**118**	**118**	62	72
Stock-based compensation *(Note 18)*	**—**	**16**	**16**	58	1
Stock options exercised *(Notes 15 and 18)*	**—**	**(1)**	**(1)**	(2)	(11)
Balance, end of year	**—**	**133**	**133**	118	62
RETAINED EARNINGS					
Balance, beginning of year	**111**	**11,101**	**11,212**	11,391	10,309
Net income	**9**	**613**	**622**	857	2,290
Dividends on common shares	**—**	**(796)**	**(796)**	(809)	(752)
Dividends on preferred shares	**—**	**(79)**	**(79)**	(70)	(69)
Common shares purchased for cancellation *(Note 15)*	**—**	**—**	**—**	(157)	(387)
Balance, end of year	**120**	**10,839**	**10,959**	11,212	11,391
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes					
Balance, beginning of year	**(5)**	**(2,394)**	**(2,399)**	(2,764)	(978)
Total other comprehensive income (loss)	**(8)**	**(138)**	**(146)**	365	(1,786)
Balance, end of year	**(13)**	**(2,532)**	**(2,545)**	(2,399)	(2,764)
Total retained earnings and accumulated other comprehensive income	**107**	**8,307**	**8,414**	8,813	8,627
Total equity	**$ 107**	**$ 17,307**	**$ 17,414**	$ 17,409	$ 17,217
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes					
Balance, end of year, consists of:					
Unrealized gains (losses) on available-for-sale assets	**$ —**	**$ 30**	**$ 30**	$ (1,429)	$ 25
Unrealized foreign currency translation gains (losses), net of hedging activities	**(13)**	**(2,624)**	**(2,637)**	(1,049)	(2,821)
Unrealized gains (losses) on derivatives designated as cash flow hedges	**—**	**62**	**62**	79	32
Balance, end of year	**$ (13)**	**$ (2,532)**	**$ (2,545)**	$ (2,399)	$ (2,764)

Consolidated Statements of Comprehensive Income

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)

	2009	2008	2007
Total net income	**$ 622**	$ 857	$ 2,290
Other comprehensive income (loss), net of taxes *(Note 20):*			
Unrealized foreign currency translation gains (losses), excluding hedges	**(1,908)**	2,162	(1,781)
Unrealized foreign currency gains (losses), net investment hedges	**314**	(396)	282
Net adjustment for foreign exchange losses *(Note 23)*	**6**	6	3
Unrealized gains (losses) on available-for-sale assets	**1,492**	(1,653)	(238)
Reclassifications to net income for available-for-sale assets	**(33)**	199	(84)
Unrealized gains (losses) on cash flow hedging instruments	**(18)**	24	40
Reclassifications to net income (loss) for cash flow hedges	**1**	23	(8)

Total other comprehensive income (loss)	**(146)**	365	(1,786)
Total comprehensive income	**476**	1,222	504
Less: Participating policyholders' net income	**9**	2	2
Participating policyholders' foreign currency translation gains (losses), excluding hedges	**(8)**	9	(5)
Shareholders' comprehensive income	**$ 475**	$ 1,211	$ 507

The attached notes form part of these Consolidated Financial Statements.

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)

	2009	2008	2007
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Total net income	**$ 622**	$ 857	$ 2,290
Items not affecting cash:			
Increase (decrease) in actuarial and other policy-related liabilities	**7,707**	(4,392)	(2,328)
Unrealized (gains) losses on held-for-trading assets and derivatives	**(4,644)**	7,383	2,447
Amortization of:			
Net deferred realized and unrealized gains on investments	**(76)**	(136)	(121)
Deferred acquisition costs and intangible assets	**82**	74	89
Write-down of intangible asset	**—**	—	52
(Gain) loss on foreign exchange *(Note 5)*	**10**	22	(37)
Future income taxes	**(737)**	(489)	453
Provisions for losses (recoveries) on investments	**117**	4	2
Stock-based compensation *(Note 18)*	**96**	31	96
Accrued expenses and taxes	**86**	(424)	(109)
Investment income due and accrued	**26**	6	(7)
Other changes in other assets and liabilities	**(276)**	(560)	(649)
Gain on sale of equity investment (Note 3)	**—**	(1,015)	—
Realized (gains) losses on held-for-trading and available-for-sale assets	**618**	410	(1,065)
New mutual fund business acquisition costs capitalized	**(99)**	(56)	(69)
Redemption fees of mutual funds	**16**	22	24
Net cash provided by operating activities	**3,548**	1,737	1,068
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Borrowed funds	**(5)**	(17)	113
Issuance of senior financing *(Note 12)*	**223**	118	929
Collateral on senior financing *(Note 12)*	**231**	(258)	—
Issuance of senior debentures *(Note 11)*	**799**	—	250
Redemption of senior debentures *(Note 11)*	**—**	—	(727)
Issuance of subordinated debt *(Note 13)*	**496**	746	398
Redemption and maturity of subordinated debt *(Note 13)*	**—**	—	(28)
Issuance of preferred shares *(Note 15)*	**250**	—	250
Payments to underwriters *(Note 15)*	**(6)**	—	(9)
Issuance of common shares on exercise of stock options	**6**	8	55
Common shares purchased for cancellation *(Note 15)*	**—**	(217)	(502)
Dividends paid on common shares	**(864)**	(809)	(752)
Dividends paid on preferred shares	**(78)**	(70)	(69)
Net cash provided by (used in) financing activities	**1,052**	(499)	(92)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Sales, maturities and repayments of:			
Bonds	**17,583**	15,697	21,091
Mortgages and corporate loans	**5,285**	5,624	6,279
Stocks	**1,535**	1,715	3,456
Real estate	**48**	109	221
Purchases of:			
Bonds	**(18,548)**	(15,706)	(20,896)
Mortgages and corporate loans	**(3,738)**	(5,746)	(7,159)
Stocks	**(1,228)**	(1,915)	(3,298)
Real estate	**(164)**	(320)	(628)
Policy loans	**(153)**	(162)	(69)
Short-term securities *	**(2,998)**	(1,530)	(658)
Cash cost of acquisition *(Note 3)*	**(387)**	—	(725)
Cash and cash equivalents acquired on acquisition *(Note 3)*	**402**	—	132
Net cash from sale of equity investment *(Note 3)*	**—**	1,546	—
Other investments	**(1,088)**	723	244
Net cash provided by (used in) investing activities	**(3,451)**	35	(2,010)
Changes due to fluctuations in exchange rates	**(802)**	642	(299)
Increase (decrease) in cash and cash equivalents	**347**	1,915	(1,333)
Cash and cash equivalents, beginning of year	**5,518**	3,603	4,936
Cash and cash equivalents, end of year	**5,865**	5,518	3,603
Short-term securities, end of year *	**6,003**	3,361	1,897
Cash, cash equivalents and short-term securities, end of year	**$ 11,868**	$ 8,879	$ 5,500

Supplementary Information

Cash and cash equivalents:			
Cash	**$ 1,191**	$ 745	$ 399
Cash equivalents *	**4,674**	4,773	3,204
	$ 5,865	$ 5,518	$ 3,603
Cash disbursements made for:			
Interest on borrowed funds, debentures and subordinated debt	**$ 384**	$ 381	$ 319
Income taxes, net of refunds	**$ 212**	$ 467	$ 499

* Includes a restatement of $1,745 of short-term securities as at December 31, 2008 that were included as cash equivalents in error previously. As a result, cash flows provided by (used in) investing activities have been adjusted by $1,745 in the 2008 column above.

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)

	2009	2008	2007
ADDITIONS TO SEGREGATED FUNDS			
Deposits:			
Annuities	**$ 10,135**	$ 9,236	$ 9,921
Life insurance	**925**	1,683	3,399
	11,060	10,919	13,320
Net transfers (to) from general funds	**860**	539	952
Net realized and unrealized (losses) gains	**10,324**	(17,772)	(210)
Other investment income	**1,995**	2,481	3,813
	24,239	(3,833)	17,875
DEDUCTIONS FROM SEGREGATED FUNDS			
Payments to policyholders and their beneficiaries	**9,708**	7,843	8,793
Management fees	**925**	861	867
Taxes and other expenses	**268**	188	189
Effect of changes in currency exchange rates	**4,424**	(5,282)	5,610
	15,325	3,610	15,459
Net additions (reductions) to segregated funds for the year	**8,914**	(7,443)	2,416
Acquisition *(Note 3)*	**6,629**	—	—
Segregated funds net assets, beginning of year	**65,762**	73,205	70,789
Segregated funds net assets, end of year	**$ 81,305**	$ 65,762	$ 73,205

Consolidated Statements of Segregated Funds Net Assets

AS AT DECEMBER 31(in millions of Canadian dollars)

	2009	2008
ASSETS		
Segregated and mutual fund units	**$ 64,265**	$ 49,392
Stocks	**7,832**	5,178
Bonds	**7,813**	9,771
Cash, cash equivalents and short-term securities	**1,647**	863
Real estate	**319**	153
Mortgages	**34**	43
Other assets	**1,905**	2,068
	83,815	67,468
LIABILITIES	**2,510**	1,706
Net assets attributable to segregated funds policyholders	**$ 81,305**	$ 65,762

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 summary of 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, which are the dates 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 in the consolidated statements of operations. As a result of the adoption of the amendments to Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 in the fourth quarter of 2009, which are described in Note 2, if the fair value of an available-for-sale bond recovers after an impairment loss is recognized and the recovery can be objectively related to an event occurring after the impairment loss is recognized in net income, the impairment loss is reversed with the amount of the reversal recognized in net income. Prior to this amendment, once an impairment loss on an available-for-sale bond was recorded to income, it could not be reversed. Following impairment loss recognition or reversal, available-for-sale bonds continue to be recorded at fair value with changes in fair value recorded to OCI, and they are tested quarterly for further impairment loss or reversal. Interest is recognized on previously impaired available-for-sale bonds in accordance with the effective interest rate method.

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, which are the dates 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 and interest income earned are recorded in 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 generally established to adjust the carrying value of the asset to its net recoverable amount. Allowances are not established when either the fair value of the collateral or the discounted expected future cash flows exceed the carrying value of the mortgage or corporate loan. 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.

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. The majority of held-for-trading equities are held to support products where investment returns are passed through to policyholders, hence equity market movements are largely offset by changes in actuarial liabilities. 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, which are the dates 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 in the consolidated statements of operations.

All equity instruments in an unrealized loss position are reviewed quarterly to determine if objective evidence of impairment exists. Objective evidence of impairment for an investment in an equity instrument includes, but is not limited to, the financial condition and near-term prospects of the issuer, including information about significant 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 amount will not be recovered, and a significant or prolonged decline in the fair value of an equity instrument below its cost. If, as a result of this review, the security is determined to be other-than-temporarily impaired, it is written down to its fair value. When this occurs, the loss accumulated in OCI is reclassified to net gains (losses) on available-for-sale assets in the consolidated statements of operations.

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, in accordance with risk management objectives. 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 hedge designation 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 effective portion of the hedged risk is recorded in other net investment income to offset the change in fair value on the hedging derivatives. 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.

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. All income producing properties receive an annual appraisal verified by an external valuator at least once every two years. The Company monitors the values of these properties and if, in aggregate, the carrying value is greater than the fair values, it records a write-down for other than temporary impairment.

Real estate held for sale: Properties held for sale are usually acquired through foreclosure, but may also be classified as held for sale based on management's intent to sell. They are measured initially at fair value less the cost to sell and subsequently at the lower of carrying value and fair value less the cost to sell. When the amount at which the foreclosed or reclassified asset is initially measured is different from the carrying amount of the loan or property, a gain or loss is recorded at the time of foreclosure or reclassification.

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 three months or less, while short-term securities have a term to maturity exceeding three months but less than one year. 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.

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.

1. Accounting Policies (Cont'd)

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

Other invested assets designated as held-for-trading are primarily investments in segregated funds and mutual funds. These 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.

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.

SEGREGATED FUNDS

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

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

1. Accounting Policies (Cont'd)

ACTUARIAL LIABILITIES 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 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, mortality, policy administration and surrender charges on segregated funds, and is recognized on an accrual basis.

FOREIGN CURRENCY TRANSLATION

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

1. Accounting Policies (Cont'd)

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. The cumulative excess of funding contributions over the amount recorded as an expense is reported as an accrued benefit asset in other assets. The cumulative excess of expense over contributions is reported as an accrued liability in other liabilities.

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 2009

GOODWILL AND INTANGIBLE ASSETS

On January 1, 2009, the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets. Section 3064 replaces Section 3062, Goodwill and Other 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 (IFRS). The adoption of this Section did not have a material impact on the consolidated financial statements.

CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Effective January 1, 2009, the Company adopted the CICA Emerging Issues Committee (EIC) Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC 173). EIC 173 clarifies how an entity's own credit risk and that of the relevant counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The new guidance did not have a material impact on the consolidated financial statements.

2. Changes in Accounting Policies (Cont'd)

EFFECTIVE INTEREST METHOD FOR FINANCIAL INSTRUMENTS SUBSEQUENT TO RECOGNITION OF AN IMPAIRMENT LOSS

In June 2009, the Company retroactively adopted amendments to CICA Handbook Section 3855, Financial Instruments — Recognition and Measurement (Section 3855). The amendments clarify that, subsequent to the recognition of an impairment loss, the rate used to determine the impairment loss is used to calculate interest income on the impaired debt security. The amendments make the application of the effective interest method under Section 3855 consistent with the application of this method under IFRS. The adoption of these amendments did not have a material impact on the consolidated financial statements.

IMPAIRMENT OF FINANCIAL ASSETS

In the third quarter of 2009, the CICA issued amendments to Section 3855. The amendments include a revision of the definition of loans and receivables. As a result of the amended definition, debt instruments with fixed and determinable payments that are not quoted in an active market may be classified as loans and receivables and impairment of these loans would be assessed following CICA Handbook Section 3025, Impaired Loans, which assesses and measures impairment losses on an incurred credit loss basis. Impairment of held-to-maturity investments will also be measured on this basis. Loans and receivables that an entity intends to sell immediately or in the near term must be classified as held-for-trading and those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available-for-sale. The amendments also require the reversal of impairment losses on available-for-sale debt instruments through profit and loss in a subsequent period when the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income. The amendments also permit reclassifications from available-for-sale and held-for-trading to loans and receivables under certain circumstances. The Company adopted these amendments in the fourth quarter of 2009, effective as of January 1, 2009. The adoption of these amendments did not have a material impact on the consolidated financial statements.

FINANCIAL INSTRUMENT DISCLOSURES

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, Financial Instruments — Disclosures (Section 3862). The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments are effective for annual consolidated financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. The Company included these additional disclosures in Notes 5 and 6 in these annual consolidated financial statements.

FUTURE IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

BUSINESS COMBINATIONS, CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

In January, 2009, the CICA issued three new Handbook Sections; Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests. Section 1582 clarifies that an acquisition occurs when an entity obtains control of a business and provides guidance on determining the date of the acquisition and the measurement and recognition of assets acquired and liabilities assumed. Section 1601 provides standards for the preparation of consolidated financial statements. Section 1602 requires that non-controlling interests be presented as part of equity and that transactions between the Company and the non-controlling interests be reported as equity transactions. These Sections are effective for fiscal years beginning on or after January 1, 2011, with early adoption allowed to facilitate the transition to IFRS. If early adopted, all three Sections must be early adopted effective January 1, 2010. The Company is currently evaluating whether it will early adopt these Sections in the first quarter of 2010.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board (AcSB) has confirmed that Canadian publicly accountable entities will be required to prepare their financial statements in accordance with IFRS for fiscal years beginning on or after January 1, 2011. 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, with comparative information provided on an IFRS basis. The Company is currently assessing the impact the adoption of IFRS will have on its consolidated financial statements.

3. Acquisitions and Dispositions

ACQUISITIONS

On October 1, 2009, the Company completed the acquisition of the United Kingdom operations of Lincoln National Corporation (Lincoln U.K.) for $387 and financed the transaction with existing capital. The acquisition, which includes both general and segregated fund businesses, increases the assets under management in the United Kingdom by nearly 60% and doubles the number of policies in-force. The results and assets of Lincoln U.K., including goodwill, are included in the Corporate reportable segment in these Consolidated Financial Statements. The Lincoln U.K. results are included in the 2009 income reported from October 1, 2009.

The purchase price is subject to adjustment related to market and business performance prior to the closing date. As a result, the goodwill arising from the acquisition of Lincoln U.K. is subject to adjustment in 2010 as part of the finalization of the allocation of the purchase price to the assets acquired and liabilities assumed**.**

The Lincoln U.K. acquisition is summarized below:

	2009 Lincoln U.K.
Percentage of shares acquired	**100%**
Invested assets acquired	**$ 1,249**
Other assets acquired	**88**
	$ 1,337
Actuarial liabilities and other policy liabilities acquired	**$ 1,058**
Other liabilities acquired	**72**
	$ 1,130
Net balance sheet assets acquired	**$ 207**
Consideration:	
Cash cost of acquisition (1)	**$ 380**
Transaction and other related costs	**7**
Total consideration	**$ 387**
Goodwill on acquisition	**$ 180**
Cash and cash equivalents acquired	**$ 402**
Increase in segregated fund net assets	**$ 6,629**

(1) Includes the cost to hedge the foreign currency exposure of the purchase price.

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 net assets acquired included $132 of cash and cash equivalents.

DISPOSITIONS

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.

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 operate in the financial services industry and reflect the Company's management structure and internal financial reporting. 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 2009 consists mainly of interest of $144 ($144 in 2008 and $146 in 2007) and fee income of $48 in 2009 ($52 in 2008 and $79 in 2007).

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 of the investment in CI Financial were included in SLF Canada for 2008 and prior periods.

Results by segment for the years ended December 31

	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate	Consolidation Adjustments	Total
2009							
Revenue	**$ 11,407**	**$ 11,714**	**$ 1,251**	**$ 1,813**	**$ 1,579**	**$ (192)**	**$ 27,572**
Change in actuarial liabilities	**$ 2,672**	**$ 4,269**	**$ —**	**$ 800**	**$ (43)**	**$ (1)**	**$ 7,697**
Interest expense	**$ 152**	**$ 246**	**$ —**	**$ —**	**$ 148**	**$ (143)**	**$ 403**
Income taxes expense (benefit)	**$ (54)**	**$ (502)**	**$ 101**	**$ 21**	**$ (108)**	**$ —**	**$ (542)**
Total net income (loss)	**$ 871**	**$ (461)**	**$ 152**	**$ 76**	**$ (16)**	**$ —**	**$ 622**
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 expense	$ 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 expense	$ 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

Assets by segment as at December 31

	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate	Consolidation Adjustments	Total
2009							
General fund assets	**$ 55,622**	**$ 42,615**	**$ 859**	**$ 6,437**	**$ 15,854**	**$ (1,305)**	**$120,082**
Segregated funds net assets	**$ 41,426**	**$ 26,848**	**$ —**	**$ 1,788**	**$ 11,243**	**$ —**	**$ 81,305**
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

4. Segmented Information (Cont'd)

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

	2009	2008	2007
Revenue:			
United States	**$ 555**	$ 580	$ 720
United Kingdom	**870**	313	878
Canada	**138**	1,235	14
Other countries	**16**	16	22
Total revenue	**$ 1,579**	$ 2,144	$ 1,634
Total net income (loss):			
United States	**$ 149**	$ (70)	$ 212
United Kingdom	**5**	208	207
Canada	**(170)**	860	(153)
Other countries	**—**	1	(13)
Total net income (loss)	**$ (16)**	$ 999	$ 253
Assets:			
General funds:			
United States	**$ 4,592**	$ 3,647	
United Kingdom	**8,630**	7,686	
Canada	**2,516**	2,912	
Other countries	**116**	128	
Total general fund assets	**$ 15,854**	$ 14,373	
Segregated funds:			
United Kingdom	**$ 11,243**	$ 4,290	
Total general fund assets	**$ 11,243**	$ 4,290	

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.

	2009			2008		
	Carrying Value	**Fair Value**	**Yield %**	Carrying Value	Fair Value	Yield %
ASSETS						
Bonds — held-for-trading	**$ 51,634**	**$ 51,634**	**5.72**	$ 48,458	$ 48,458	5.90
Bonds — available-for-sale	**9,673**	**9,673**	**5.10**	10,616	10,616	5.50
Mortgages and corporate loans	**19,449**	**19,941**	**5.27**	22,302	22,485	5.99
Stocks — held-for-trading	**4,331**	**4,331**	**2.41**	3,440	3,440	2.57
Stocks — available-for-sale	**635**	**649**	**4.34**	1,018	1,020	3.19
Real estate	**4,877**	**5,124**	**9.01**	4,908	5,812	10.86
Policy loans	**3,303**	**3,303**	**6.02**	3,401	3,401	6.80
Cash, cash equivalents and short-term securities	**11,868**	**11,868**	**n/a**	8,879	8,879	n/a
Derivative assets	**1,382**	**1,382**	**n/a**	2,669	2,669	n/a
Other invested assets including held-for-trading and available-for-sale other invested assets	**1,077**	**1,109**	**n/a**	1,187	1,230	n/a
Total invested assets	**$108,229**	**$109,014**	**4.89**	$106,878	$108,010	5.80

Other invested assets include the Company's investment in segregated funds, mutual funds, investments accounted for by the equity method, and investments in limited partnerships and leases.

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 $1,257 ($3,219 in 2008) are also reported 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 is based on the quoted market prices, while 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.

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.

iii) FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS:

In compliance with amendments to CICA Handbook Section 3862 described in Note 2, the Company has categorized its financial instruments that are carried at fair value, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy 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, and exchange-traded equities.

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, certain corporate and private bonds, certain asset-backed securities (ABS) and derivatives.

Level 3: Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs. 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 commercial mortgage-backed securities (CMBS), Residential mortgage-backed securities (RMBS), certain structured products and certain corporate bonds.

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

The following table presents the Company's financial instruments that are carried at fair value by Section 3862 hierarchy level, as at December 31, 2009:

	Level 1[1]	Level 2	Level 3	Total
Assets				
Bonds — held-for-trading				
Canada federal government securities	$ —	$ 2,707	$ —	$ 2,707
Canadian provincial and municipal governments	—	6,677	110	6,787
U.S. Treasury and agency securities	1,111	330	—	1,441
Other foreign government	—	4,296	76	4,372
Corporate securities	—	31,872	891	32,763
Asset-backed securities				
Commercial mortgage-backed securities	—	952	586	1,538
Residential mortgage-backed securities	—	1,173	163	1,336
Collateralized debt obligations	—	27	92	119
Other	—	539	32	571
Total bonds — held-for-trading	$ 1,111	$ 48,573	$ 1,950	$ 51,634
Bonds — available-for-sale				
Canada federal government securities	$ —	$ 397	$ —	$ 397
Canadian provincial and municipal governments	—	80	—	80
U.S. Treasury and agency securities	393	77	—	470
Other foreign government	—	519	—	519
Corporate securities	—	7,529	76	7,605
Asset-backed securities				
Commercial mortgage-backed securities	—	194	40	234
Residential mortgage-backed securities	—	318	—	318
Collateralized debt obligations	—	4	46	50
Total bonds — available-for-sale	$ 393	$ 9,118	$ 162	$ 9,673
Stocks — held-for-trading	$ 3,983	$ 348	$ —	$ 4,331
Cash, cash equivalents and short-term securities	$ 9,610	$ 2,258	$ —	$ 11,868
Derivative assets	29	1,342	11	1,382
Other invested assets	247	195	146	588
Total investments and cash	$ 9,886	$ 3,795	$ 157	$ 13,838
Stocks — available-for-sale	$ 627	$ —	$ 8	$ 635
Total Financial Instrument assets measured at fair value	$ 16,000	$ 61,834	$ 2,277	$ 80,111
Liabilities				
Amounts on deposit	$ —	$ 82	$ —	$ 82
Derivative liabilities	8	1,205	44	1,257
Total Financial Instrument liabilities measured at fair value	$ 8	$ 1,287	$ 44	$ 1,339

(1) A total of $8,564 were transferred from level 2 to level 1 due to the improved transparency of the inputs used to measure the fair value of the financial instruments. A total of $59,493 were transferred from level 1 to level 2 during the year due to the decreased transparency of the inputs used to measure the fair value of the financial instruments.

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

The following table shows a reconciliation of the beginning and ending balances for financial instrument assets and liabilities which are categorized at Level 3:

	Beginning balance	Total gains (losses) Included in net income(1)	Total gains (losses) Included in other comprehensive income	Purchases	Sales	Settlements	Transfers into level 3(2)	Transfers (out) of level 3(2)	Ending balance	Gains (losses) included in earnings relating to instruments still held at the reporting date(1)
Assets										
Bonds — held-for-trading										
Canada federal government Securities	$ 4	$ —	$ —	$ —	$ —	$ (4)	$ —	$ —	$ —	$ —
Canadian provincial and municipal governments	51	(8)	—	69	—	—	—	(2)	110	(3)
Other foreign government	11	(3)	—	78	—	—	—	(10)	76	(2)
Corporate securities	625	(43)	—	245	(40)	(18)	241	(119)	891	27
Asset-backed securities										
Commercial mortgage-backed securities	947	(44)	—	38	(110)	—	1	(246)	586	(4)
Residential mortgage-Backed securities	124	(12)	—	—	—	(20)	112	(41)	163	69
Collateralized debt obligations	56	—	—	11	—	—	25	—	92	(4)
Other	82	(11)	—	—	—	(7)	37	(69)	32	4
Total bonds — held-for-trading	$ 1,900	$ (121)	$ —	$ 441	$ (150)	$ (49)	$ 416	$ (487)	$ 1,950	$ 87
Bonds — available-for-sale										
Corporate securities	$ 54	$ (7)	$ 13	$ 16	$ (13)	$ (1)	$ 20	$ (6)	$ 76	$ —
Asset-backed securities										
Commercial mortgage-backed securities	58	(3)	(10)	—	—	—	—	(5)	40	—
Collateralized debt obligations	30	(3)	14	6	(15)	—	14	—	46	—
Total bonds — available-for-sale	$ 142	$ (13)	$ 17	$ 22	$ (28)	$ (1)	$ 34	$ (11)	$ 162	$ —
Derivative assets	$ 47	$ (8)	$ —	$ 7	$ (35)	$ —	$ —	$ —	$ 11	$ (4)
Other invested assets(4)	143	(19)	—	30	(8)	—	—	—	146	(13)
Total investments and cash	$ 190	$ (27)	$ —	$ 37	$ (43)	$ —	$ —	$ —	$ 157	$ (17)
Stocks — available-for-sale	$ 36	$ (5)	$ (3)	$ —	$ —	$ —	$ —	$ (20)	$ 8	$ —
Total Financial Instrument assets measured at fair value	$ 2,268	$ (166)	$ 14	$ 500	$ (221)	$ (50)	$ 450	$ (518)	$ 2,277	$ 70
Liabilities (3)										
Derivative liabilities	$ 83	$ (39)	$ —	$ —	$ —	$ —	$ —	$ —	$ 44	$ 12
Total Financial Instrument liabilities measured at fair value	$ 83	$ (39)	$ —	$ —	$ —	$ —	$ —	$ —	$ 44	$ 12

(1) This amount is reported in net investment income in the consolidated statements of operations.

(2) Transfers in and/or (out) of level 3 during 2009, are primarily attributable to changes in the transparency of inputs used to price the securities.

(3) For liabilities, gains are indicated in negative numbers.

(4) Certain invested assets are accounted for differently under U.S. GAAP.

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

B) REAL ESTATE INVESTMENTS

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

	2009	2008
Canada	**$ 3,246**	$ 3,090
United States	**1,373**	1,546
United Kingdom	**257**	271
Other	**1**	1
Total real estate	**$ 4,877**	$ 4,908

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.

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Real estate held for investment	**$ 4,861**	**$ 5,108**	$ 4,898	$ 5,802
Real estate held for sale	**16**	**16**	10	10
Total real estate	**$ 4,877**	**$ 5,124**	$ 4,908	$ 5,812

The carrying value of real estate that was non-income producing for the preceding 12 months was $185 in 2009 ($151 in 2008).

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.

	2009	2008
Balance, January 1	**$ 251**	$ 276
Net realized gains for the year	**12**	12
Amortization of deferred net realized gains	**(30)**	(33)
Effect of changes in currency exchange rates	**(8)**	(4)
Balance, December 31	**$ 225**	$ 251

Amortization of deferred net realized gains on real estate for 2007 recorded to income was $36.

C) NET INVESTMENT INCOME

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

	2009	2008	2007
Bonds	**$ 4,124**	$ (5,852)	$ (1,691)
Stocks	**705**	(1,432)	103
Other invested assets	**41**	(122)	33
Cash equivalents and short-term securities	**8**	7	(3)
Total changes in fair value of held-for-trading assets	**$ 4,878**	$ (7,399)	$ (1,558)

Income (loss) from derivative investments consists of income from derivatives that are not classified as hedges for accounting purposes. Income from derivative investments on the consolidated statements of operations for the years ended December 31, consists of the following:

	2009	2008	2007
Changes in fair value	**$ (847)**	$ (154)	$ 75
Interest income (expense)	**(114)**	(70)	10
Other income	**18**	4	1
Total income from derivative investments	**$ (943)**	$ (220)	$ 86

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

Other net investment income has the following components:

	2009	2008	2007
Interest income:			
Held-for-trading bonds	**$ 3,037**	$ 3,006	$ 3,091
Available-for-sale bonds	**569**	580	531
Mortgages and corporate loans	**1,253**	1,291	1,286
Policy loans	**210**	216	212
Cash, cash equivalents and short-term securities	**36**	147	231
Interest income	**5,105**	5,240	5,351
Dividends on held-for-trading stocks	**115**	117	103
Dividends on available-for-sale stocks	**35**	24	23
Real estate income (net) (1)	**327**	332	300
Amortization of deferred net realized gains and unrealized gains and losses	**76**	136	121
Foreign exchange gains (losses)	**(10)**	(22)	37
Other income (expense) (2)	**(79)**	354	377
Investment expenses and taxes	**(107)**	(103)	(89)
Total other net investment income	**$ 5,462**	$ 6,078	$ 6,223

(1) Includes operating lease rental income of $283 in 2009 ($293 and $242, in 2008 and 2007, respectively).

(2) Includes equity income from CI Financial of $190 in 2008 and $228 in 2007. The Company's investment in CI Financial was sold in December 2008, as described in Note 3.

D) 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.

	2009		2008	
	Fair Value		Fair Value	
	Positive	Negative	Positive	Negative
Interest rate contracts	**$ 444**	**$ (910)**	$ 1,801	$ (2,135)
Foreign exchange contracts	**801**	**(119)**	487	(917)
Other contracts	**137**	**(228)**	381	(167)
Total derivatives	**$ 1,382**	**$ (1,257)**	$ 2,669	$ (3,219)

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.

	2009			2008		
	Total Notional Amount	Fair Value		Total Notional Amount	Fair Value	
		Positive	Negative		Positive	Negative
Derivative investments (1)	**$ 41,665**	**$ 823**	**$ (1,138)**	$ 44,453	$ 2,377	$ (2,479)
Fair value hedges	**2,310**	**90**	**(50)**	2,983	—	(504)
Cash flow hedges	**92**	**19**	**(24)**	82	—	(37)
Net investment hedges	**3,193**	**450**	**(45)**	3,278	292	(199)
Total	**$ 47,260**	**$ 1,382**	**$ (1,257)**	$ 50,796	$ 2,669	$ (3,219)

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

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

Additional information on the derivatives designated as hedges for accounting purposes is included below.

FAIR VALUE AND CASH FLOW HEDGES
Results for the hedging relationships as at December 31 are shown in the following table:

	2009	2008	2007
Fair value hedges			
Income (loss) arising from hedge ineffectiveness	**$ 6**	$ (4)	$ 14
Cash flow hedges(1)			
Income (loss) due to amounts excluded from hedge effectiveness assessment	**$ (3)**	$ (6)	(3)

(1) 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 2010, 2011 and 2012. The amounts included in accumulated other comprehensive income (OCI) related to the equity forwards are reclassified to net income as the liability is accrued for the stock-based compensation plan over the vesting period. The Company expects to reclassify a gain of $2 (loss of $5 in 2008) from accumulated OCI to net income within the next 12 months. Foreign currency forwards hedging the variation in the cash flows associated with the anticipated purchase of Lincoln U.K. have been settled and reclassified to the purchase price in the fourth quarter of 2009 (Note 3).

E) 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, 2009, the Company had loaned securities, which are included in invested assets, with a carrying value and fair value of approximately $785 ($889 in 2008).

6. Financial Instrument Risk Management

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.

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.

6. Financial Instrument Risk Management (Cont'd)

A) CREDIT RISK

Credit risk is the uncertainty of receiving amounts owed by financial counterparties. The Company is subject to credit risk arising from issuers of securities held in the Company's investment portfolio, debtors, structured securities, reinsurers, derivative counterparties, other financial institutions and other entities. Losses may occur when a counterparty fails to make timely payments pursuant to the terms of the underlying contractual arrangement and/or the counterparty's credit rating or risk profile otherwise deteriorates. Credit risk can also arise in connection with deterioration in the value of or ability to realize on any underlying security that may be used to collateralize the debt obligation. Credit risk can occur at multiple levels; as a result of broad economic conditions, challenges within specific sectors of the economy, or from issues affecting individual companies. Events that result in defaults, impairments or downgrades of the securities in its investment portfolio would cause the Company to record realized or unrealized losses, and increase its provisions for asset default, adversely impacting earnings.

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

- Detailed credit risk management policies
- Specific investment diversification requirements such as investing by asset class, geography and industry
- Credit portfolio, counterparty and sector exposure limits
- Target capital levels that exceed regulatory minimums
- Credit quality ratings for portfolio investments are established and reviewed regularly
- Comprehensive due diligence processes and ongoing credit analysis
- Reserve provisions are established in accordance with standards set forth by the Canadian Institute of Actuaries
- Use of stress-testing techniques, such as Dynamic Capital Adequacy Testing, which measure the effects of large and sustained adverse credit developments.
- Comprehensive compliance monitoring practices and procedures including reporting against pre-established investment limits
- Active credit risk governance including independent monitoring and review and reporting to senior management and the Board

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.

	2009	2008
Cash, cash equivalents and short-term securities	**$ 11,868**	$ 8,879
Held-for-trading bonds (1)	**51,634**	48,458
Available-for-sale bonds	**9,673**	10,616
Mortgages	**13,776**	16,267
Corporate loans	**5,673**	6,035
Derivative assets (2)	**1,382**	2,669
Other financial assets (3)	**2,078**	2,704
Total balance sheet maximum credit exposure	**$ 96,084**	$ 95,628
Off-balance sheet items		
Loan commitments (4)	**$ 446**	$ 659
Guarantees	**45**	51
Total off-balance sheet items	**$ 491**	$ 710

(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.

6. Financial Instrument Risk Management (Cont'd)

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 manage 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, 2009, the Company held collateral assets with a fair value of $568 ($1,098 as at December 31, 2008) 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.

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 manages this risk by appropriately diversifying its investment portfolio through the use of concentration limits. In particular, the Company maintains policies which set counterparty exposure limits to manage the credit exposure for investments in any single issuer or 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. 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.

	2009			2008		
	Held-for-Trading Bonds	**Available-for-Sale Bonds**	**Total Bonds**	Held-for-Trading Bonds	Available-for-Sale Bonds	Total Bonds
Canada	**$ 20,167**	**$ 980**	**$ 21,147**	$ 18,184	$ 1,380	$ 19,564
United States	**19,037**	**6,662**	**25,699**	19,533	7,270	26,803
United Kingdom	**5,229**	**614**	**5,843**	4,397	597	4,994
Other	**7,201**	**1,417**	**8,618**	6,344	1,369	7,713
Total Bonds	**$ 51,634**	**$ 9,673**	**$ 61,307**	$ 48,458	$ 10,616	$ 59,074

6. Financial Instrument Risk Management (Cont'd)

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

	2009			2008		
	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	**$ 2,707**	**$ 397**	**$ 3,104**	$ 2,354	$ 489	$ 2,843
Canadian provincial and municipal governments	**6,787**	**80**	**6,867**	6,064	262	6,326
U.S. Treasury and other U.S. agencies	**1,441**	**470**	**1,911**	1,462	571	2,033
Other foreign governments	**4,372**	**519**	**4,891**	3,295	467	3,762
Total government issued or guaranteed bonds	**15,307**	**1,466**	**16,773**	13,175	1,789	14,964
Corporate bonds by industry sector:						
Financials	**11,050**	**3,403**	**14,453**	11,606	3,926	15,532
Utilities and energy	**8,816**	**1,050**	**9,866**	7,447	929	8,376
Telecom	**2,453**	**797**	**3,250**	2,329	885	3,214
Consumer staples and discretionary	**5,487**	**1,337**	**6,824**	5,429	1,374	6,803
Industrials	**2,669**	**523**	**3,192**	2,510	495	3,005
Other	**2,288**	**495**	**2,783**	1,641	451	2,092
Total corporate	**32,763**	**7,605**	**40,368**	30,962	8,060	39,022
Asset-backed securities	**3,564**	**602**	**4,166**	4,321	767	5,088
Total bonds	**$ 51,634**	**$ 9,673**	**$ 61,307**	$ 48,458	$ 10,616	$ 59,074

6. Financial Instrument Risk Management (Cont'd)

The carrying values 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.

	2009				
	Mortgages			Corporate	Total Mortgages and
	Non-residential	Residential	Total	Loans	Corporate Loans
Canada	$ 5,193	$ 2,341	$ 7,534	$ 5,175	$ 12,709
United States	5,905	280	6,185	246	6,431
United Kingdom	57	—	57	—	57
Other	—	—	—	252	252
Total mortgages and corporate loans	$ 11,155	$ 2,621	$ 13,776	$ 5,673	$ 19,449

	2008				
	Mortgages			Corporate	Total Mortgages and
	Non-residential	Residential	Total	Loans	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

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

The contractual maturities of bonds as at December 31, 2009, 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.

	2009		
	Held-for-Trading Bonds	Available-for-Sale Bonds	Total Bonds
Due in 1 year or less	$ 2,519	$ 504	$ 3,023
Due in years 2-5	12,393	2,675	15,068
Due in years 6-10	11,734	2,790	14,524
Due after 10 years	24,988	3,704	28,692
Total bonds	$ 51,634	$ 9,673	$ 61,307

As at December 31, 2009, the carrying value of scheduled mortgage and corporate loan maturities, before allowances for losses, are as follows.

	Mortgages	Corporate Loans	Total
2010	$ 1,276	$ 563	$ 1,839
2011	1,188	598	1,786
2012	777	394	1,171
2013	1,085	754	1,839
2014	1,227	655	1,882
Thereafter	8,329	2,719	11,048
Total mortgages and corporate loans, before allowances for losses	$ 13,882	$ 5,683	$ 19,565

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:

	2009				2008			
	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	**$ 2,304**	**$ 6,437**	**$ 12,389**	**$ 21,130**	$ 1,724	$ 10,846	$ 14,567	$ 27,137
Options purchased	**509**	**1,440**	**3,628**	**5,577**	682	669	2,249	3,600
Options written	**425**	**—**	**—**	**425**				
Foreign exchange contracts:								
Forward contracts	**2,123**	**65**	**167**	**2,355**	1,786	77	—	1,863
Swap contracts	**432**	**3,250**	**4,771**	**8,453**	191	3,821	5,123	9,135
Other contracts:								
Options purchased	**2,829**	**425**	**—**	**3,254**	1,543	1,500	6	3,049
Options written	**1,319**	**—**	**—**	**1,319**	—	1,132	—	1,132
Forward contracts	**32**	**64**	**—**	**96**	79	59	—	138
Swap contracts	**185**	**104**	**—**	**289**	150	101	—	251
Credit derivatives	**—**	**116**	**10**	**126**	—	12	134	146
Exchange-traded contracts:								
Interest rate contracts:								
Futures contracts	**855**	**81**	**—**	**936**	1,697	45	—	1,742
Foreign exchange contracts:								
Futures contracts	**—**	**—**	**—**	**—**	323	—	—	323
Other contracts:								
Futures contracts	**3,298**	**—**	**—**	**3,298**	2,280	—	—	2,280
Options purchased	**2**	**—**	**—**	**2**	—	—	—	—
Total notional amount	**$ 14,313**	**$ 11,982**	**$ 20,965**	**$ 47,260**	$ 10,455	$ 18,262	$ 22,079	$ 50,796

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

	2009				2008			
	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	**$ 176**	**$ 667**	**$ 539**	**$ 1,382**	$ 285	$ 886	$ 1,498	$ 2,669
Total liability derivatives	**$ (235)**	**$ (338)**	**$ (684)**	**$ (1,257)**	$ (73)	$ (933)	$ (2,213)	$ (3,219)

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 95.6% (97.0% in 2008) investment grade based on carrying value. The carrying value of bonds by rating is shown in the following table.

	2009			2008		
	Held-for-Trading Bonds	**Available-for-Sale Bonds**	**Total**	Held-for-Trading Bonds	Available-for-Sale Bonds	Total
Bonds by credit rating (1):						
AAA	**$ 8,973**	**$ 1,752**	**$ 10,725**	$ 9,119	$ 2,494	$ 11,613
AA	**9,163**	**1,046**	**10,209**	9,183	1,635	10,818
A	**16,520**	**3,485**	**20,005**	14,805	3,326	18,131
BBB	**14,797**	**2,860**	**17,657**	13,826	2,893	16,719
BB and lower	**2,181**	**530**	**2,711**	1,525	268	1,793
Total bonds	**$ 51,634**	**$ 9,673**	**$ 61,307**	$ 48,458	$ 10,616	$ 59,074

(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 highly rated counterparties. In limited circumstances, the Company will enter into transactions with lower rated counterparties if credit enhancement features are included. As at December 31, 2009, the Company had assets of $476 ($864 in 2008) 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.

	2009		
	Gross Positive Replacement Cost(1)	**Impact of Master Netting Agreements(2)**	**Net Replacement Cost(3)**
Over-the-counter contracts:			
AA	**$ 599**	**$ (166)**	**$ 433**
A	**749**	**(388)**	**361**
Exchange-traded	**34**	**(7)**	**27**
Total	**$ 1,382**	**$ (561)**	**$ 821**

	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

(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 is shown in the following tables.

	2009					
	Gross Carrying Value			Allowance for Losses		
	Mortgages	Corporate Loans	Total	Mortgages	Corporate Loans	Total
Not past due	$ 13,600	$ 5,649	$ 19,249	$ —	$ —	$ —
Past due:						
Past due less than 90 days	30	—	30	—	—	—
Past due 90 to 179 days	—	—	—	—	—	—
Past due 180 days or more	—	1	1	—	—	—
Impaired	252	33	285	106	10	116
Balance, December 31	$ 13,882	$ 5,683	$ 19,565	$ 106	$ 10	$ 116

	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

Impaired mortgages and corporate loans of $9 as at December 31, 2009 ($19 of impaired mortgages as at December 31, 2008) 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 $222 as at December 31, 2009 ($46 in 2008). The carrying value of mortgages and corporate loans that were non-income producing for the preceding 12 months was $65 ($37 in 2008).

Changes in Allowances for Losses

The changes in the allowances for losses are as follows:

	Mortgages	Corporate Loans	Total
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**
Provision for losses	**96**	**21**	**117**
Write-offs, net of recoveries	**—**	**(21)**	**(21)**
Effect of changes in currency exchange rates	**(3)**	**—**	**(3)**
Balance, December 31, 2009	**$ 106**	**$ 10**	**$ 116**

Restructured Mortgages and Corporate Loans

Mortgages and corporate loans with a carrying value of $53 had their terms renegotiated during the year ended December 31, 2009 ($5 in 2008).

6. Financial Instrument Risk Management (Cont'd)

Possession of Collateral/Foreclosed Assets

During 2009, the Company took possession of the real estate collateral of $5 it held as security for mortgages ($14 of real estate held as collateral in 2008). 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, 2009		December 31, 2008	
	Fair Value	**Unrealized Losses**	Fair Value	Unrealized Losses
Available-for-sale bonds	**$ 3,369**	**$ 371**	$ 7,041	$ 1,875
Available-for-sale stocks (1)	**88**	**14**	430	176
Available-for-sale other invested assets (2)	**135**	**19**	194	21
Total temporarily impaired financial assets	**$ 3,592**	**$ 404**	$ 7,665	$ 2,072

(1) These assets include available-for-sale private equities that are accounted for at cost with a carrying value of $2 as at December 31, 2009 ($7 as at December 31, 2008).

(2) These assets include available-for-sale limited partnerships and other invested assets with a carrying value of $154 as at December 31, 2009 ($215 as at December 31, 2008).

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

The Company wrote down $185 of impaired available-for-sale assets recorded at fair value during 2009 ($318 in 2008). Approximately $3 of the write-down during 2009 ($28 in 2008) relates to impaired available-for-sale bonds that were part of fair value hedging relationships as described in Note 5D. These write-downs are included in net gains (losses) on available-for-sale assets in the consolidated statements of operations.

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.

The Company did not reverse any impairment on available-for-sale bonds during 2009.

6. Financial Instrument Risk Management (Cont'd)

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 2009, the net charge to the income statement attributable to impairments of held-for-trading assets backing actuarial liabilities amounted to $522 ($608 in 2008).

Non-Income Producing Bonds

The carrying value of non-income producing bonds for the preceding 12 months was $48 (Nil in 2008).

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 supports its ability to maintain its financial position by ensuring that sufficient cash flow and 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.

The Company manages liquidity risk through a variety of tools including liquidity policies and operating guidelines, liquidity contingency plans and quarterly stress testing.

Stress testing of the Company's liquidity is performed by comparing liquidity coverage ratios under 1-month and 1-year stress scenarios to Company policy thresholds. These liquidity ratios are calculated by dividing net liquidity adjusted assets by liquidity adjusted liabilities. A factor based approach is used for both assets and liabilities, whereby asset factors are applied to asset market values representing the net realizable value upon disposition, and liability factors are applied to the liabilities to reflect the amount which is demandable under the given stress scenarios. Fixed obligations are deducted directly from liquidity adjusted assets when calculating net liquidity adjusted assets as payment of these amounts is more certain. These liquidity ratios are measured and managed at the business segment, and the total Company consolidated level. The Company's coverage ratios were higher than the policy thresholds as at December 31, 2009 and December 31, 2008.

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.

6. Financial Instrument Risk Management (Cont'd)

The contractual maturities of the Company's significant financial liabilities and contractual commitments at December 31, 2009 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)	$ 12,365	$ 11,504	$ 11,543	$161,351	$196,763
Senior debentures and financing (2)	233	459	459	9,654	10,805
Subordinated debt (2)	191	383	383	4,553	5,510
Bond repurchase agreements and securities lending transactions	1,266	—	—	—	1,266
Accounts payable and accrued expenses	1,927	—	—	—	1,927
Borrowed funds (2)	98	142	83	62	385
Total liabilities	$ 16,080	$ 12,488	$ 12,468	$175,620	$216,656
Contractual commitments: (3)					
Contractual loan, equity and real estate commitments	$ 419	$ 197	$ 119	$ 69	$ 804
Operating lease commitments	90	138	65	39	332
Total contractual commitments	$ 509	$ 335	$ 184	$ 108	$ 1,136

(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) Payments due based on maturity dates and includes expected interest payments. Actual redemption of certain securities may occur sooner as some include an option for the issuer to call the security at an earlier date.

(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).

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. The Company is exposed to 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.

MARKET RISK SENSITIVITY

The Company's earnings are dependent on the determination of its policyholder obligations under its annuity and insurance contracts. These amounts are determined using internal valuation models and are recorded in the Company's financial statements, primarily as actuarial liabilities. The determination of these obligations requires management to make assumptions about the future level of equity market performance, interest rates and other factors over the life of its products.

The Company's market risk sensitivities are forward-looking estimates. These are measures of the Company's estimated net income and OCI sensitivities to the changes in interest rate and equity market levels described below, based on interest rates, equity market prices, and business mix in place as of December 31, 2009 and 2008, respectively. These sensitivities are calculated independently for each risk factor generally assuming that all other risk variables stay constant. Actual results can differ materially from these estimates for a variety of reasons including differences in the pattern or distribution of the market shocks illustrated below, the interaction between these factors, model error, or changes in other assumptions such as business mix, effective tax rates and the valuation allowance required for future tax assets, policyholder behaviour, currency exchange rates, and other market variables relative to those underlying the December 31, 2009 and 2008 calculation dates, respectively, for these sensitivities. These sensitivities also assume that a change to the current valuation allowance on future tax assets is not required.

The equity risk sensitivities assume that the Company's actual equity exposures consistently and precisely track the broader equity markets. Since in actual practice actual equity-related exposures generally differ from broad market indices (due to the impact of active management, basis risk and other factors), realized sensitivities may differ significantly from those illustrated in the equity risk section that follows.

6. Financial Instrument Risk Management (Cont'd)

These sensitivities reflect the composition of the Company's assets and liabilities as of December 31, 2009 and 2008, respectively. Changes in these positions due to new sales or maturities, asset purchases/sales or other management actions could result in material changes to these reported sensitivities. In particular, these sensitivities reflect the expected impact of hedging activities based on the hedging programs and portfolios in place as of the December 31, 2009 and 2008 calculation dates, respectively. The actual impact of these hedging activities can differ materially from that assumed in the determination of these indicative sensitivities due to ongoing hedge rebalancing activities, changes in the scale or scope of hedging activities, changes in the cost or general availability of hedging instruments, basis risk (the risk that hedges do not exactly replicate the underlying portfolio experience), model risks and operational risk in the ongoing management of the hedge programs or the potential failure of hedge counterparties to perform in accordance with expectations.

Similarly, the sensitivities are based on financial reporting methods and assumptions in effect as of December 31, 2009 and 2008, respectively. Changes in accounting or actuarial valuation methods, models or assumptions, including the prospective equity and interest rate actuarial assumption changes described in Note 9, could result in material changes to these reported sensitivities. Changes in interest rates and equity market prices in excess of the ranges illustrated may result in other than proportional impacts.

For the reasons outlined above, these sensitivities should only be viewed as 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 net income and OCI sensitivities. Given the nature of these calculations, the Company cannot provide assurance that those actual earnings impacts will be within the indicated ranges.

The market sensitivities described below show the impact of 100 basis point increase and decrease in interest rates, and a 10% increase and decrease in stock prices. The Company believes these represent reasonably possible changes as at December 31, 2009.

In addition, using 10% change in equity markets provided comparability with the market sensitivities disclosed by the Company in prior periods and was consistent with industry standards and actuarial practices in Canada and the United States and provided for comparability with other public insurance companies. As well, the Company discloses the effect of a 25% increase and decrease in stock prices on net income in Note 9(F), to illustrate that changes in stock markets in excess of 10% may result in other than proportional impacts.

The descriptions of the assumptions and methodology used to calculate the sensitivities in this Note apply to the three following sections: Currency Risk, Interest Rate Risk, and Equity Risk, as well as Equity Market Movements, and Interest Rate in Note 9(F).

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, 2009 and 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 or volatility in interest rates when asset and liability cash flows do not coincide. 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 the fair value of available-for-sale bonds are recorded to OCI. The following table shows the estimated effect on after tax OCI of an immediate 1% parallel change in interest rates at December 31, across the yield curve in all markets, on the Company's available-for-sale bonds:

6. Financial Instrument Risk Management (Cont'd)

Increase (Decrease) in after tax OCI:

Interest Rate Change	2009	2008
1% increase	**$ (375) to $ (425)**	$ (400) to $ (450)
1% decrease	**$ 375 to $ 425**	$ 400 to $ 450

iii) EQUITY RISK

Equity market risk is the potential for financial loss arising from price changes or volatility in equity markets. Equity market price declines and/or volatility impacts both assets and liabilities, hence could adversely affect the Company's business, profitability and capital requirements. 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 the fair value of available-for-sale equities are recorded to OCI. The following table shows the estimated effect on after tax OCI of an immediate 10% change in stock prices, on the Company's available-for-sale equities, at December 31:

Increase (Decrease) in after tax OCI:

Equity Market Change	2009	2008
10% increase	**$ 25 to $ 75**	$ 50 to $ 100
10% decrease	**$ (25) to $ (75)**	$ (50) to $ (100)

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

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

	2009			2008		
	Held-for-Trading Stocks	**Available-for-Sale Stocks**	**Total Stocks**	Held-for-Trading Stocks	Available-for-Sale Stocks	Total Stocks
Canada	**$ 2,301**	**$ 115**	**$ 2,416**	$ 1,724	$ 577	$ 2,301
United States	**1,110**	**460**	**1,570**	942	396	1,338
United Kingdom	**495**	**16**	**511**	434	6	440
Other	**425**	**44**	**469**	340	39	379
Total stocks	**$ 4,331**	**$ 635**	**$ 4,966**	$ 3,440	$ 1,018	$ 4,458

7. Goodwill and Intangible Assets

A) GOODWILL

In addition to the goodwill of $6,419 ($6,598 in 2008) shown on the consolidated balance sheets, goodwill of $377 on January 1, 2008 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. Acquisitions for the year of $216 consist primarily of the acquisition of Lincoln U.K., as described in Note 3. In addition to acquisitions and dispositions 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 2009, 2008 and 2007.

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, 2008	$ 3,841	$ 1,544	$ 433	$ 577	$ 6,395
Acquisitions	17	—	—	75	92
Dispositions (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**
Acquisitions (Note 3)	**—**	**—**	**—**	**216**	**216**
Dispositions	**—**	**—**	**—**	**(8)**	**(8)**
Effect of changes in currency exchange rates	**—**	**(257)**	**(73)**	**(57)**	**(387)**
Balance, December 31, 2009	**$ 3,481**	**$ 1,640**	**$ 463**	**$ 835**	**$ 6,419**

7. Goodwill and Intangible Assets (Cont'd)

B) INTANGIBLE ASSETS

As at December 31, the components of the intangible assets are as follows:

	2009			2008		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Amount**	Gross Carrying Amount	Accumulated Amortization	Net Amount
Finite-life intangible assets:						
Sales potential of field force	**$ 491**	**$ 88**	**$ 403**	$ 504	$ 74	$ 430
Asset administration contracts	**228**	**69**	**159**	231	58	173
Software and other (1)	**144**	**32**	**112**	2	2	—
	863	**189**	**674**	737	134	603
Indefinite-life intangible assets:						
Fund management contracts	**241**	**—**	**241**	263	—	263
State licenses	**11**	**—**	**11**	12	—	12
	252	**—**	**252**	275	—	275
Total intangible assets	**$ 1,115**	**$ 189**	**$ 926**	$ 1,012	$ 134	$ 878

(1) Increase in 2009 is due to the reclassification of $102 internally developed software costs from other assets described in Note 2.

There were no write-downs of intangible assets due to impairment during 2009, 2008 and 2007. Amortization of intangible assets recorded in operating expenses during the year was $34 ($24 in 2008 and $25 in 2007). The Company expects to record amortization expenses of $38 to operating expenses each year for each of the next five years. 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).

8. Other Assets

Other assets consist of the following:

	2009	2008
Accounts receivable	**$ 978**	$ 1,496
Investment income due and accrued	**1,100**	1,208
Future income taxes (Note 19)	**1,054**	1,190
Deferred acquisition costs	**167**	154
Prepaid expenses	**244**	303
Premiums receivable	**390**	476
Accrued benefit asset (Note 22)	**405**	422
Capital assets	**151**	210
Other	**19**	20
Total other assets	**$ 4,508**	$ 5,479

Amortization of deferred acquisition costs charged to income amounted to $48 in 2009 ($50 and $64 in 2008 and 2007, respectively).

Capital assets are carried at a cost of $729 ($855 in 2008), less accumulated depreciation and amortization of $578 ($645 in 2008). Depreciation and amortization charged to operating expenses in the consolidated statements of operations totalled $60 in 2009 ($63 and $62 in 2008 and 2007, 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. 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.

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 $818 are included in policyholder dividends and interest on claims and deposits in the consolidated statements of operations ($877 in 2008 and $906 in 2007).

B) COMPOSITION OF ACTUARIAL LIABILITIES AND OTHER POLICY LIABILITIES

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

	2009				
	SLF Canada	**SLF U.S.**	**SLF Asia**	**Corporate (1)**	**Total**
Individual participating life	**$ 14,813**	**$ 5,291**	**$ 3,034**	**$ 2,346**	**$ 25,484**
Individual non-participating life	**3,017**	**9,317**	**264**	**988**	**13,586**
Group life	**1,233**	**215**	**16**	**9**	**1,473**
Individual annuities	**9,323**	**10,538**	**—**	**4,392**	**24,253**
Group annuities	**6,498**	**3,814**	**372**	**—**	**10,684**
Health insurance	**5,938**	**1,077**	**1**	**114**	**7,130**
Total actuarial liabilities	**40,822**	**30,252**	**3,687**	**7,849**	**82,610**
Add: Other policy liabilities (2)	**641**	**663**	**77**	**647**	**2,028**
Actuarial liabilities and other policy liabilities	**$ 41,463**	**$ 30,915**	**$ 3,764**	**$ 8,496**	**$ 84,638**

	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

(1) Primarily business from the U.K., reinsurance and run-off reinsurance operations. Includes SLF UK of $2,257 ($2,307 in 2008) for Individual participating life; $(5) ($(9) in 2008) for Individual non-participating life; $4,393 ($3,573 in 2008) for Individual annuities and $121 ($67 in 2008) for other policy liabilities.

(2) Consists of policy benefits payable, provisions for unreported claims, provisions for policyholder dividends, and provisions for experience rating refunds.

During 2009, the Company identified an error potentially originating prior to the acquisition of Clarica Life Insurance Company (Clarica). The error includes an understatement of the actuarial liabilities. A review is underway and the resulting adjustments will be recorded in 2010 when the review is complete. Information available to date indicates that the error is not material to the financial statements of prior years, but correcting the error in one quarter may materially impact that quarter's results. Accordingly, the Company will correct the error by increasing actuarial liabilities and reducing shareholder opening retained earnings when it completes the review. The adjustments to actuarial liabilities and shareholder retained earnings are not expected to exceed $200 and $100 respectively.

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:

2009

	Bonds		**Stocks**		**Mortgages and Corporate Loans**	**Real Estate**	**Other**	**Total**
	Held-for -Trading	**Available -for-sale**	**Held-for -Trading**	**Available -for-sale**				
Individual participating life	**$ 14,062**	**$ —**	**$ 3,143**	**$ 13**	**$ 4,124**	**$ 3,194**	**$ 4,118**	**$ 28,654**
Individual non-participating life	**8,321**	**442**	**840**	**4**	**2,730**	**299**	**5,522**	**18,158**
Group life	**1,125**	**—**	**3**	**—**	**1,007**	**23**	**18**	**2,176**
Individual annuities	**17,400**	**55**	**246**	**1**	**5,061**	**—**	**2,978**	**25,741**
Group annuities	**6,089**	**277**	**82**	**4**	**3,073**	**155**	**1,799**	**11,479**
Health insurance	**4,503**	**—**	**17**	**1**	**3,122**	**137**	**733**	**8,513**
Equity and other	**134**	**8,899**	**—**	**612**	**332**	**1,069**	**14,315**	**25,361**
Total assets	**$ 51,634**	**$ 9,673**	**$ 4,331**	**$ 635**	**$ 19,449**	**$ 4,877**	**$ 29,483**	**$ 120,082**

2008

	Bonds		Stocks		Mortgages and Corporate Loans	Real Estate	Other	Total
	Held-for -Trading	Available -for-sale	Held-for -Trading	Available -for-sale				
Individual participating life	$ 13,253	$ —	$ 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

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

D) CHANGES IN ACTUARIAL LIABILITIES

Changes in actuarial liabilities during the year are as follows:

	2009	2008
Actuarial liabilities, January 1,	**$ 79,241**	$ 77,936
Change in liabilities on in-force business (1):	**2,436**	(7,701)
Liabilities arising from new policies	**4,022**	3,094
Changes in assumptions or methodology (2):	**1,239**	178
Increase (decrease) in actuarial liabilities	**7,697**	(4,429)
Actuarial liabilities before the following:	**86,938**	73,507
Acquisition (Note 3)	**986**	—
Effect of changes in currency exchange rates	**(5,314)**	5,734
Actuarial liabilities, December 31	**82,610**	79,241
Add: Other policy liabilities	**2,028**	2,170
Actuarial liabilities and other policy liabilities, December 31	**$ 84,638**	$ 81,411

(1) Due to the enactment of the Canadian tax rules relating to CICA Handbook Section 3855, an increase in actuarial liabilities of $135 was recorded during the first quarter of 2009. Prior to the enactment of these tax rules, actuarial liabilities included an estimated adjustment to account for income taxes as if these tax rules had, at the time, been enacted.

(2) 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. See table below for 2009 changes:

Changes in assumptions or methodology:

Assumption or methodology	**Policy liabilities increase (decrease) pre-tax**	**Description**
Mortality / morbidity	$ (137)	Improved mortality experience on both life insurance and savings products.
Lapses and other policyholder behaviour	375	Updates to policyholder behaviour assumptions in the Company's individual insurance business.
Expense	119	Impact of reflecting recent experience studies in several of the Company's businesses.
Investment returns	987	Driven primarily from negative impact of the implementation of equity- and interest rate-related actuarial assumption updates in the third quarter of 2009 and cumulative changes in Conditional Tail Expectation levels related to changes in equity market levels experienced during 2009.
Other	(105)	
Total	$ 1,239	

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

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

These are measures of the Company's estimated net income sensitivity to changes in best estimate assumptions in the actuarial liabilities, based on a starting point and business mix as of December 31, 2009.

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 not sufficient to be statistically valid. 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. For annuities where lower mortality rates result in an increase in liabilities, assumed future mortality rates are adjusted to reflect estimated future improvements.

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 $90. 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 annuity 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.

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 $110.

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 $2,876 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 equities which are designated as held-for-trading support the participating and universal life products where investment returns are passed through to policyholders through routine changes in the amount of dividends declared or in the rate of interest credited. In these cases changes in equity values are largely offset by changes in actuarial liabilities.

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

In addition, the Company is exposed to equity risk through its segregated fund and annuity products that provide guarantees linked to underlying fund performance. The Company has implemented hedging programs involving the use of derivative instruments, in order to help mitigate a portion of the equity market-related volatility in the cost of providing these guarantees, thereby reducing its exposure to this particular class of equity market risk. For these blocks the Company uses stochastic modeling techniques, which test a large number of different scenarios of future market returns, to estimate the actuarial liability for the various guarantees.

The following table shows the estimated impact to the Company's net income from certain immediate changes across all equity markets as of the reporting date

Equity Market Sensitivity	**December 31, 2009**	December 31, 2008
10% increase	**$ 75 to $ 125**	$ 250 to $ 300
10% decrease	**$ (150) to $ (200)**	$(275) to $ (350)
25% increase	**$ 150 to $ 250**	Not Available
25% decrease	**$ (475) to $ (575)**	Not Available

The equity sensitivities assume that the Company's actual equity exposures consistently and precisely track the broader equity markets. Since in actual practice equity related exposures generally differ from broad market indices (due to the impact of active management, basis risk and other factors), realized sensitivities may differ significantly from those illustrated above. Additional key information regarding this sensitivity can be found under the heading "Market Risk Sensitivity" in Note 6.

A 100 basis point reduction in assumed future equity and real estate returns would result in an estimated decrease in net income of about $350 to $450.

Interest rate

Interest rate risk is the potential for financial loss arising from changes in interest rates. For held-for-trading assets and other financial assets supporting actuarial liabilities, 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 rate 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 provisions for moderate changes in interest rates.

For certain products, 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 in the rate of interest credited. These products generally have minimum interest rate guarantees.

The values of held-for-trading bonds and actuarial liabilities are affected similarly by changes in interest rates. The following table shows the estimated impact to the Company's net income from certain immediate parallel shifts in interest rates across the entire yield curve in all markets as of the reporting date. Additional key information regarding this sensitivity can be found under the heading "Market Risk Sensitivity" in Note 6.

Interest Rate Sensitivity	**2009**	2008
1% increase	**$ (50) to $ 50**	$ 100 to $ 150
1% decrease	**$ (150) to $ (250)**	$(150) to $ (200)

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

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. Industry experience is considered for certain products where the Company's experience is not sufficient to be statistically valid.

For individual life insurance products where fewer terminations would be financially adverse to the Company, a 10% decrease in the termination rate assumption would decrease net income by about $170. For products where more terminations would be financially adverse to the Company, a 10% increase in the termination rate assumption would decrease net income by about $130.

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 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:

	2009	2008	2007
Premiums:			
Direct premiums	**$ 16,193**	$ 14,124	$ 13,550
Reinsurance assumed	**797**	585	564
Reinsurance ceded	**(1,480)**	(1,122)	(990)
	$ 15,510	$ 13,587	$ 13,124
Payments to policyholders, beneficiaries and depositors:			
Direct payments	**$ 14,112**	$ 13,863	$ 14,292
Reinsurance assumed	**689**	657	526
Reinsurance ceded	**(1,344)**	(745)	(574)
	$ 13,457	13,775	$ 14,244

Actuarial liabilities are shown net of ceded reinsurance of $2,532 in 2009 ($2,292 in 2008).

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.

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

The Appointed Actuary is required each year to analyze the financial condition of the Company and prepare a report for the Board. The 2009 analysis tested the capital adequacy of the Company until December 31, 2013, 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. These conditions affect the Company's ability to distribute its retained earnings. The Company calculates an appropriation of retained earnings of $4,829 ($7,663 in 2008).

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 both on a consolidated basis under principles that consider all the risks associated with the business as well as at the business group level under the principles appropriate to the jurisdiction in which it operates. Sun Life Financial manages the capital for all of its subsidiaries in a manner commensurate with their individual risk profiles.

The Board is responsible for the annual review and approval of the Company's capital plan. The Capital Management Committee (CMC) has management oversight responsibility for capital management. 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 CMC that is chaired by the Executive Vice-President and the Chief Financial Officer. Corporate Treasury and Risk Management are responsible for the design and implementation.

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 above its minimum internal targets as at December 31, 2009 and December 31, 2008.

Sun Life Assurance is subject to the Minimum Continuing Capital Surplus Requirement (MCCSR) capital rules for a life insurance company in Canada. The Company generally expects to maintain an MCCSR ratio for Sun Life Assurance at or above 200%. From time to time, during adverse economic conditions and periods of high market volatility, Sun Life Assurance may maintain an MCCSR ratio in the range of 180% to 200%. Sun Life Assurance's MCCSR ratio as at December 31, 2009 and December 31, 2008, 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,) which measures exposures to investment risk, insurance risk, interest rate and other market risks and general business risk. The risk-based capital of Sun Life Assurance Company of Canada (U.S.) was above the minimum regulatory level as at December 31, 2009 and 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 minimum local requirements as at December 31, 2009 and December 31, 2008.

10. Capital Management (Cont'd)

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 2009	December 31 2008
Equity:		
Participating policyholders' equity	**$ 107**	$ 106
Preferred shareholders' equity	**1,741**	1,495
Common shareholders' equity (1)	**15,566**	15,808
Total equity	**$ 17,414**	17,409
Other capital securities:		
Subordinated debt	**$ 3,048**	$ 2,576
Sun Life Assurance debentures, Series A, B and C (2)	**1,644**	1,150
Total other capital securities	**4,692**	3,726
Total capital	**$ 22,106**	$ 21,135

(1) Certain components of accumulated other comprehensive income, namely unrealized gains and losses on cash flow hedges and available-for-sale debt securities (effective 2008) are excluded from regulatory capital.

(2) The Sun Life Assurance debentures qualify as regulatory capital up to the amount of $1,644 of Sun Life ExchangEable Capital Securities issued by Sun Life Capital Trust, I and II (Note 11). These trusts are variable interest entities that are not consolidated by the Company.

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	Earliest Par Call Date (1)	Maturity	**2009**	2008
Sun Life Assurance debentures (2)						
Issued to Sun Life Capital Trust (SLCT I)						
Series A issued October 19, 2001 (3)	Cdn. dollars	6.87%	December 31, 2011	2031	**$ 960**	$ 960
Series B issued June 25, 2002	Cdn. dollars	7.09%	June 30, 2032	2052	**200**	200
Issued to Sun Life Capital Trust II (SLCT II)						
Series C issued November 20, 2009(4)	Cdn. dollars	6.06%	December 31, 2019	2108	**500**	—
SLF Inc. senior unsecured debentures						
Series A issued November 23, 2005(5)	Cdn. dollars	4.80%	November 23, 2015	2035	**600**	600
Series B issued March 13, 2006(6)	Cdn. dollars	4.95%	June 1, 2016	2036	**700**	700
Series B issued February 26, 2007(6)	Cdn. dollars	4.95%	June 1, 2016	2036	**251**	253
Series C issued July 11, 2006(7)	Cdn. dollars	5.00%	July 11, 2011	2031	**300**	300
Series D issued June 30, 2009	Cdn. dollars	5.70%	—	2019	**300**	—
					$ 3,811	$ 3,013
Fair value					**$ 3,987**	$ 2,768

(1) From and after the dates noted, the relevant debentures may be redeemed, at the option of the issuer, at par, if redemption occurs on an interest payment date or an interest rate reset date, or at the greater of the Canada yield price or par if redeemed prior to these dates. Early redemption of the debentures issued by Sun Life Assurance is subject to regulatory approval.

(2) The Sun Life Assurance debentures were issued to SLCT I and SLCT II (the SL Capital Trusts), which are variable interest entities that are not consolidated by the Company. SLCT I and SLCT II issued innovative capital securities and purchased the Sun Life Assurance debentures with the proceeds from the issuances, which qualify as regulatory capital, and are described in further detail in the following section of this note.

(3) On September 7, 2007, Sun Life Assurance repurchased $30 principal amount of the $990 debenture outstanding at that time. Redemption premiums of $1 (net of taxes of $1) were recorded in the third quarter of 2007.

(4) After December 31, 2019, and every fifth anniversary thereafter, the interest rate will reset to an annual rate equal to the Government of Canada yield plus 3.60%.

(5) After November 23, 2015, interest is payable at 1% over the 90-day Bankers' Acceptances Rate.

(6) After June 1, 2016, interest is payable at 1% over the 90-day Bankers' Acceptances Rate.

(7) After July 11, 2011, interest is payable at 1% over the 90-day Bankers' Acceptances Rate.

11. Senior Debentures (Cont'd)

Fair value is based on market price for the same or similar instruments as appropriate. Interest expense for senior debentures was $182, $170 and $192 for 2009, 2008 and 2007, respectively.

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

On May 6, 2007, SLF Inc. 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 2007.

TRUST CAPITAL SECURITIES

Innovative capital instruments, Sun Life ExchangEable Capital Securities (SLEECS), have been issued through the SL Capital Trusts, special purpose entities established as trusts under the laws of Ontario.

On November 20, 2009, SLCT II issued $500 of 5.863% Sun Life ExchangEable Capital Securities - Series 2009-1 (SLEECS 2009-1), which are subordinated unsecured debt obligations. Holders of SLEECS 2009-1 are eligible to receive semi-annual interest payments. Until December 31, 2019 the interest rate is 5.863%. On December 31, 2019 and every fifth anniversary thereafter (Interest Rate Reset Date) the interest rate will reset to equal the Government of Canada (GOC) yield plus 3.40%. The SLEECS 2009-1 mature on December 31, 2108. In prior years, SLCT issued Sun Life ExchangEable Securities — Series A (SLEECS A) and Sun Life ExchangEable Securities — Series B (SLEECS B), which are classes of units that represent an undivided beneficial ownership interest in the assets of that trust. SLEECS A and SLEECS B are non-voting except in certain limited circumstances. Holders of SLEECS A and SLEECS B are eligible to receive semi-annual non-cumulative fixed cash distributions. The proceeds of the issuances of SLEECS 2009-1, SLEECS A and SLEECS B were used by the SL Capital Trusts to purchase senior debentures of Sun Life Assurance.

The SLEECS are structured with the intention of achieving Tier 1 regulatory capital treatment for SLF Inc. and Sun Life Assurance and, as such, have features of equity capital. No interest payments or distributions will be paid in cash by the SL Capital Trusts on the SLEECS if Sun Life Assurance fails to declare regular dividends (i) on its Class B Non-Cumulative Preferred Shares Series A, or (ii) on its public preferred shares, if any are outstanding (Missed Dividend Event). In the case of the SLEECS 2009-1, if a Missed Dividend Event occurs or if an interest payment is not made in cash on the SLEECS 2009-1 for any reason, including at the election of Sun Life Assurance, holders of the SLEECS 2009-1 will be required to invest interest paid on the SLEECS 2009-1 in non-cumulative perpetual preferred shares of Sun Life Assurance. In the case of the SLEECS A and SLEECS B, if a Missed Dividend Event occurs, the net distributable funds of SLCT I will be distributed to Sun Life Assurance as the holder of Special Trust Securities of that trust. If the SL Capital Trusts fail to pay in cash the semi-annual interest payments or distributions on the SLEECS in full for any reason other than a Missed Dividend Event, then, for a specified period of time, Sun Life Assurance will not declare dividends of any kind on any of its public preferred shares, and if no such public preferred shares are outstanding, SLF Inc. will not declare dividends of any kind on any of its preferred shares or common shares.

Each SLEECS A or SLEECS B and each $1,000 principal amount of SLEECS 2009-1 will be automatically exchanged for 40 non-cumulative perpetual preferred shares of Sun Life Assurance if any one of the following events occurs: (i) proceedings are commenced or an order is made for the winding-up of Sun Life Assurance; (ii) the Office of the Superintendent of Financial Institutions (OSFI) takes control of Sun Life Assurance or its assets; (iii) Sun Life Assurance's Tier 1 capital ratio is less than 75% or its MCCSR ratio is less than 120%; or (iv) OSFI directs Sun Life Assurance to increase its capital or provide additional liquidity and Sun Life Assurance either fails to comply with such direction or elects to have the SLEECS automatically exchanged (Automatic Exchange Event). Upon an Automatic Exchange Event, former holders of the SLEECS will cease to have any claim or entitlement to distributions, interest or principal against the issuing SL Capital Trust and will rank as preferred shareholders of Sun Life Assurance in a liquidation of Sun Life Assurance.

According to OSFI guidelines, innovative capital instruments can comprise up to 15% of net Tier 1 capital with an additional 5% eligible for Tier 2B capital. As at December 31, 2009, for regulatory capital purposes of Sun Life Assurance, $1,300 (2008 – $1,150, 2007 – $1,150) represents Tier 1 capital, and $344 (2008 – $nil, 2007 – $nil) represents Tier 2B capital.

The SL Capital Trusts are variable interest entities under CICA Handbook Accounting Guideline 15, Consolidation of Variable Interest Entities (AcG-15). SLF Inc. is not exposed to the majority of any SL Capital Trust expected losses or expected residual returns and neither is therefore the primary beneficiary under AcG-15. Accordingly, SLF Inc. does not consolidate the SL Capital Trusts, and the SLEECS are not reported on the Consolidated Balance Sheets of SLF Inc. However, the senior debentures issued by Sun Life Assurance to the SL Capital Trusts are reported under Senior Debentures and interest expense is recognized on the senior debentures.

11. Senior Debentures (Cont'd)

The table below presents additional significant terms and conditions of the SLEECS.

Issuer	Issuance date	Distribution or interest payment dates	Annual yield	Redemption date At the issuer's option	Conversion date At the holder's option	2009 Principal amount	2008 Principal amount	2007 Principal amount
Sun Life Capital Trust (1), (2), (3), (4)								
950 SLEECS A	October 19, 2001	June 30, December 31	6.865%	December 31, 2006	Any time	$ 950	$ 950	$ 950
200 SLEECS B	June 25, 2002	June 30, December 31	7.093%	June 30, 2007	Any time	$ 200	$ 200	$ 200
						$ 1,150	$ 1,150	$ 1,150
Sun Life Capital Trust II (1) ,(2)								
500 SLEECS 2009-1	November 20, 2009	June 30, December 31	5.863% (5)	December 31, 2014	No conversion option	$ 500	—	—

(1) Subject to the approval of OSFI, (i) the SL Capital Trusts may, in whole or in part, on the redemption date specified above or on any distribution date thereafter, or in the case of SLCT II, on any date thereafter, redeem any outstanding SLEECS without the consent of the holders, and (ii) upon occurrence of a regulatory event or a tax event (as defined), prior to the redemption date specified above, the SL Capital Trusts may redeem all, but not part of, any class of SLEECS without the consent of the holders.

(2) The SLEECS A may be redeemed for cash equivalent to (i) the greater of the Early Redemption Price or the Redemption Price if the redemption occurs prior to December 31, 2011 or (ii) the Redemption Price if the redemption occurs on or after December 31, 2011. The SLEECS B may be redeemed for cash equivalent to (i) the greater of the Early Redemption Price or the Redemption Price if the redemption occurs prior to June 30, 2032 or (ii) the Redemption Price if the redemption occurs on or after June 30, 2032. Redemption Price refers to an amount equal to $1,000 plus the unpaid distributions, other than unpaid distributions resulting from a Missed Dividend Event, to the redemption date. Early Redemption Price refers to the price calculated to provide an annual yield, equal to the yield on a GOC bond issued on the redemption date that (i) in the case of the SLEECS A, has a maturity date of December 31, 2011, plus 37 basis points, or (ii) in the case of the SLEECS B, has a maturity date of June 30, 2032, plus 32 basis points, and in each case plus the unpaid distributions, other than unpaid distributions resulting from a Missed Dividend Event, to the redemption date. The SLEECS 2009-1 may be redeemed for cash equivalent to, on any day that is not an Interest Rate Reset Date, accrued and unpaid interest on the SLEECS 2009-1 plus the greater of par and a price calculated to provide an annual yield equal to the yield of a GOC bond maturing on the next Interest Reset Date plus (i) 0.60% if the redemption date is prior to December 31, 2019 or (ii) 1.20% if the redemption date is any time after December 31, 2019. On an Interest Rate Reset Date, the redemption price is equal to par plus accrued and unpaid interest on the SLEECS 2009—1.

(3) The non-cumulative perpetual preferred shares of Sun Life Assurance issued upon an Automatic Exchange Event in respect of the SLEECS A and SLEECS B will become convertible, at the option of the holder, into a variable number of common shares of SLF Inc. on distribution dates on or after June 30, 2012 in respect of the SLEECS A and on distribution dates on or after December 31, 2032 in respect of the SLEECS B.

(4) Holders of SLEECS A and SLEECS B may exchange, at any time, all or part of their holdings of SLEECS A or SLEECS B at a price for each SLEECS of 40 non-cumulative perpetual preferred shares of Sun Life Assurance. SLCT I will have the right, at any time before the exchange is completed, to arrange for a substituted purchaser to purchase SLEECS tendered for surrender to SLCT I so long as the holder of the SLEECS so tendered has not withheld consent to the purchase of its SLEECS. Any non-cumulative perpetual preferred shares issued in respect of an exchange by the holders of SLEECS A or SLEECS B will become convertible, at the option of the holder, into a variable number of common shares of SLF Inc. on distribution dates on or after June 30, 2012 in respect of the SLEECS A and on distribution dates on or after December 31, 2032 in respect of the SLEECS B.

(5) Holders of SLEECS 2009-1 are eligible to receive semi-annual interest payments at a fixed rate until December 31, 2019. The interest rate on the SLEECS 2009-1 will reset on December 31, 2019 and every fifth anniversary thereafter to equal the GOC yield plus 3.40%.

12. Other Liabilities

A) COMPOSITION OF OTHER LIABILITIES

Other liabilities consist of the following:

	2009	2008
Accounts payable	**$ 1,313**	$ 2,599
Bank overdrafts	**20**	314
Bond repurchase agreements	**1,006**	1,406
Accrued expenses and taxes	**566**	534
Borrowed funds	**321**	348
Senior financing	**1,383**	1,356
Future income taxes (Note 19)	**92**	477
Accrued benefit liability (Note 22)	**473**	501
Other	**292**	296
Total other liabilities	**$ 5,466**	$ 7,831

12. Other Liabilities (Cont'd)

B) BOND REPURCHASE AGREEMENTS

The Company enters into bond repurchase agreements for operational funding and liquidity purposes. Bond repurchase agreements have maturities ranging from 4 to 82 days, averaging 44 days, and bear interest at rates averaging 0.28% as at December 31, 2009 (1.64% in 2008). As at December 31, 2009, the Company had assets with a total fair value of $1,006 ($1,419 in 2008), pledged as collateral for the bond repurchase agreements.

C) BORROWED FUNDS

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

	Currency of Borrowing	Maturity	**2009**	2008
Encumbrances on real estate	Cdn. dollars	2010-2018	**$ 184**	$ 187
	U.S. dollars	2010-2015	**137**	161
Total borrowed funds			**$ 321**	$ 348

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

Interest expense for the borrowed funds was $20, $22 and $16 for 2009, 2008 and 2007, 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. The VIE issued an additional U.S. $200 and U.S. $115 of certificates during 2009 and 2008, respectively. Collateral of U.S. $25 and U.S. $213 was posted at December 31, 2009 and December 31, 2008, respectively, 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, 2009, the Company recorded $22 of interest expense relating to this obligation ($48 in 2008). The fair value of the obligation is $1,069 ($554 in 2008), based on market prices for the same or similar instruments as appropriate.

13. Subordinated Debt

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

	Currency	Interest Rate	Earliest Par Call date [1]	Maturity	2009	2008
Sun Life Assurance:						
Issued October 12, 2000[2]	Cdn. dollars	6.65%	October 12, 2010	2015	**$ 300**	$ 300
Issued May 15, 1998 [3]	Cdn. dollars	6.30%		2028	**150**	150
Issued June 25, 2002 [4]	Cdn. dollars	6.15%	June 30, 2012	2022	**800**	799
Sun Life Financial:						
Issued May 29, 2007[5]	Cdn. dollars	5.40%	May 29, 2037	2042	**398**	398
Issued January 20, 2008[6]	Cdn. dollars	5.59%	January 30, 2018	2023	**398**	398
Issued June 26, 2008[7]	Cdn. Dollars	5.12%	June 26, 2013	2018	**348**	348
Issued March 31, 2009[8]	Cdn. Dollars	7.90%	March 31, 2014	2019	**496**	—
Sun Canada Financial:						
Issued December 15, 1995	U.S. dollars	7.25%		2015	**158**	183
Total					**$ 3,048**	$ 2,576
Fair value					**$ 3,202**	$ 2,397

(1) From and after the dates noted, the relevant debt may be redeemed, at the option of the issuer, at par if redemption occurs on an interest payment date, or at the greater of the Canada yield price or par if redeemed prior to these dates. Early redemption of all the subordinated debentures is subject to regulatory approval. The debt issued by Sun Canada Financial is not redeemable prior to maturity.

(2) Issued by Clarica. After October 12, 2010, interest is payable at 1% over the 90-day Bankers' Acceptance Rate.

(3) Issued by Clarica.

(4) After June 30, 2012, interest is payable at 1.54% over the 90-day Bankers' Acceptance Rate.

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

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

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

(8) After March 31, 2014, until maturity of the debentures interest rate is payable at 7.15% over the 90-day Bankers' Acceptance Rate.

Fair value is based on market prices for the same or similar instruments as appropriate. Interest expense on subordinated debt was $183, $142 and $105 for 2009, 2008 and 2007, respectively.

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 consist of non-controlling interests in MFS and McLean Budden Limited in 2009, 2008 and 2007.

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:

	2009		2008		2007	
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
Preferred shares (in millions of shares)						
Balance, January 1:	**61**	**$ 1,495**	61	$ 1,495	51	$ 1,250
Preferred shares issued, Class A, Series 3	**—**	**—**	—	—	—	—
Preferred shares issued, Class A, Series 4	**—**	**—**	—	—	—	—
Preferred shares issued, Class A, Series 5	**—**	**—**	—	—	10	250
Preferred shares issued, Class A, Series 6R	**10**	**250**	—	—	—	—
Issuance costs, net of taxes	**—**	**(4)**	—	—	—	(5)
Balance, December 31	**71**	**$ 1,741**	61	$ 1,495	61	$ 1,495
Common shares (in millions of shares)						
Balance, January 1	**560**	**$ 6,983**	564	$ 7,033	572	7,082
Stock options exercised (Note 18)	**—**	**7**	1	10	2	66
Common shares purchased for cancellation	**—**	**—**	(5)	(60)	(10)	(115)
Shares issued under dividend reinvestment and share purchase plan	**4**	**136**	—	—	—	—
Balance, December 31	**564**	**$ 7,126**	560	$ 6,983	564	$ 7,033

Further information on the preferred shares outstanding as at December 31, 2009, is as follows:

	Issue Date	Dividend rate	Earliest Redemption Date [1]	Number of Shares	Face amount	Net[2] 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
Preferred shares issued, Class A, Series 6R [3]	May 20, 2009	6.00%	June 30, 2014	10	250	246
Total preferred shares				71	$ 1,775	$ 1,741

(1) On or after the earliest redemption date, SLF Inc. may redeem these shares in whole or in part at a declining premium with the exception of the Class A, Series 6R preferred shares. The Series 6R shares are redeemable in whole or in part at par on the earliest redemption date and on June 30 every five years thereafter. Early redemption of all preferred shares is subject to regulatory approval.

(2) Net of after-tax issuance costs

(3) On June 30, 2014, and every five years thereafter, the annual dividend rate will reset to an annual rate equal to the 5-year Government of Canada bond yield plus 3.79%. Holders of the Series 6R Shares will have the right, at their option, to convert their Series 6R Shares into Class A Non-Cumulative Floating Rate Preferred Shares Series 7QR (Series 7QR Shares) on June 30, 2014 and on June 30 every five years thereafter. Holders of Series 7QR Shares will be entitled to receive fixed non-cumulative quarterly dividends at an annual rate equal to the then 3-month Government of Canada treasury bill yield plus 3.79%.

The preferred shares qualify as capital for Canadian regulatory purposes, and are included in Note 10.

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 latest normal course issuer bid expired January 11, 2009 and SLF Inc. did not purchase any common shares under this program in 2009. 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, 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 covered the period from January 12, 2007 to January 11, 2008.

Amounts repurchased under these programs are as follows:

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

(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.

C) DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

On May 12, 2009, SLF Inc. amended its Canadian Dividend Reinvestment and Share Purchase Plan (the "Plan"). Under the Plan, Canadian-resident common and preferred shareholders may choose to automatically have their dividends reinvested in additional common shares and may also purchase common shares through the Plan. For dividend reinvestments, SLF Inc. may, at its option, issue common shares from treasury at a discount of up to 5% to the volume weighted average trading price or direct that common shares be purchased on behalf of participants through the Toronto Stock Exchange (TSX) at the market price. Common shares acquired by participants through optional cash purchases may also be issued from treasury or purchased through the TSX at SLF Inc.'s option, in either case at no discount. Prior to the amendments, all common shares acquired on behalf of participants were purchased through the TSX at the market price. In 2009, SLF Inc. issued approximately 4.4 million common shares from treasury at a discount of 2% for dividend reinvestments and issued an insignificant number of common shares from treasury at no discount for optional cash purchases.

16. Operating Expenses

Operating expenses consist of the following:

	2009	2008	2007
Compensation costs	**$ 1,885**	$ 1,789	$ 1,898
Premises and equipment costs	**257**	247	265
Capital asset depreciation and amortization (Note 8)	**60**	63	62
Other (1)	**974**	904	1,035
Total operating expenses	**$ 3,176**	$ 3,003	$ 3,260

(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:

	2009	2008	2007
Common shareholders' net income	**$ 534**	$ 785	$ 2,219
Less: Effect of stock awards of subsidiaries (1)	**6**	14	20
Common shareholders' net income on a diluted basis	**$ 528**	$ 771	$ 2,199
Weighted average number of shares outstanding for basic earnings per share (in millions)	**561**	561	569
Add: Adjustments relating to the dilutive impact of stock options (2)	**1**	1	3
Weighted average number of shares outstanding on a diluted basis (in millions)	**562**	562	572

(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 grant date for stock options granted after January 1, 2007, and the closing price of the trading day preceding the grant date for stock options granted before January 1, 2007. The options granted under the stock option plans generally vest over a four-year period under the Executive Stock Option Plan; 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, grants under the Director Stock Option Plan were discontinued.

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

	2009		2008		2007	
	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	**10,030**	**$ 37.81**	8,168	$ 35.98	9,138	$ 32.58
Granted	**4,291**	**20.44**	2,355	40.47	1,261	52.55
Exercised	**(255)**	**23.30**	(306)	24.99	(2,075)	27.45
Forfeited	**(875)**	**34.85**	(187)	47.40	(156)	46.04
Balance, December 31	**13,191**	**$ 32.27**	10,030	$ 37.81	8,168	$ 35.98
Exercisable, December 31	**6,644**	**$ 35.14**	5,911	$ 33.24	5,333	$ 29.19

18. Stock-Based Compensation (Cont'd)

The aggregate intrinsic value, which is the difference between the market price of a common share and the exercise price of the stock option, for options exercisable as at December 31, 2009 is $15. For options where the exercise price is greater than the market price of a common share, the intrinsic value is zero. The aggregate intrinsic value of options exercised in 2009 was $2 ($6 and $51 for 2008 and 2007, respectively). As at December 31, 2009, the number of stock options vested and expected to vest at the end of the relevant vesting period is 12,061 thousand. The aggregate intrinsic value of the options vested and expected to vest is $48 with a weighted average exercise price of $32.84 and a weighted average remaining term to maturity of 5.96 years.

Compensation cost and the tax benefits recorded as well as the tax benefit realized for stock options are shown in the following table. For the options issued prior to January 1, 2002, and valued using the intrinsic value method, no compensation expense was recognized as the option's exercise price was not less than the market price of the underlying stock on the day of grant.

	2009	2008	2007
Compensation expense recorded	**$ 16**	$ 10	$ 10
Income tax benefit on expense recorded	**$ 2**	$ 1	$ 1
Income tax benefit realized on exercised options	**$ —**	$ 1	$ 4

The unrecognized compensation cost, adjusted for an estimate of future forfeitures, for non-vested stock options as at December 31, 2009 was $9. The weighted average recognition period over which this compensation cost is expected to be recognized is 1.8 years.

The stock options outstanding and exercisable as at December 31, 2009, 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**
$18.00 to $24.00	**5,084**	**7.50**	**$ 20.14**	**1,205**	**2.17**	**$ 20.36**
$24.01 to $30.00	**2,422**	**5.06**	**28.34**	**1,634**	**3.17**	**28.35**
$30.01 to $35.00	**1,085**	**2.52**	**32.81**	**1,025**	**2.11**	**32.90**
$35.01 to $45.00	**1,071**	**4.72**	**40.42**	**1,070**	**4.72**	**40.41**
$45.01 to $53.00	**3,529**	**7.09**	**49.81**	**1,710**	**6.72**	**50.08**
	13,191	**6.31**	**$ 32.27**	**6,644**	**3.99**	**$ 35.14**

The weighted average fair values of the stock options, calculated using the Black-Scholes option-pricing model, granted during the year ended December 31, 2009, was $4.44 ($6.59 and $8.73 for 2008 and 2007, 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	**2009**	2008	2007
Risk-free interest rate	**2.3%**	3.4%	4.1%
Expected volatility	**32.7%**	23.8%	16.0%
Expected dividend yield	**4.0%**	3.8%	2.4%
Expected life of the option (in years)	**5.9**	5.6	5.6

Expected volatility is based on historical volatility of the common shares, implied volatilities from traded options on the common shares 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.

18. Stock-Based Compensation (Cont'd)

C) OTHER STOCK-BASED COMPENSATION PLANS

All other stock-based compensation plans use notional units that are valued based on the common share price on the TSX. Any fluctuation in the 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 the common share price for all of these plans.

Details of these plans are as follows:

Senior Executives' Deferred Share Unit (DSU) Plan: Under the DSU plan, designated executives may elect to receive all or a portion of their annual incentive award in the form of DSUs. Each DSU is equivalent in value 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 redemption.

Restricted Share Unit (RSU) Plan: Under the RSU plan, participants are granted units that are equivalent in value to one common share and have a grant price equal to the average closing price of a common share on the TSX on the five trading days immediately prior to the date of grant. Plan participants 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 Average closing price of a common share on the TSX on the five trading days immediately prior to the vesting date.

Performance Share Unit (PSU) Plan/Incentive Share Unit (ISU) Plan: Under these arrangements, participants are granted units that are the equivalent in value to one common share and have a grant price equal to the average of the closing price of a common share on the TSX on the five trading days immediately prior to the date of grant. Participants must hold units for 36 months (or 40 months in the case of ISUs) from the date of grant. The units earn dividend equivalents in the form of additional units at the same rate as the dividends on common shares. No units will vest or become payable unless the Company meets its specified threshold performance targets. The plans provide for an enhanced payouts 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 units vested multiplied by the average closing price of a common share on the TSX on the five trading days immediately prior to the vesting date.

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/ISUs	Total
Units outstanding December 31, 2007	554	1,809	515	2,878
Units outstanding December 31, 2008	771	2,171	523	3,465
Units outstanding December 31, 2009	**826**	**3,889**	**1,004**	**5,719**
Liability accrued as at December 31, 2009	**$ 21**	**$ 53**	**$ 8**	**$ 82**

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 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.

	2009	2008	2007
Compensation expense recorded	**$ 44**	$ (16)	$ 49
Income tax expense (benefit) on expense recorded	**$ (14)**	$ 6	$ (17)

The unrecognized liability and compensation cost for other stock-based compensation plan units outstanding as at December 31, 2009, including an adjustment for expected future forfeitures, as at December 31, 2009 was $69. 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 generally vested at the date of grant. The Company paid $16 related to the liabilities of these plans in 2009 ($43 and $63 for 2008 and 2007, 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 if 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:

	2009	2008	2007
Awards outstanding (in thousands)	**155**	143	151
Expense recorded in operating expenses	**$ 36**	$ 37	$ 37
Income tax benefit recorded	**$ 14**	$ 16	$ 14

19. Income Taxes

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

	2009	2008	2007
Canadian income tax expense (benefit):			
Current	**$ 240**	$ 252	$ (89)
Future	**(392)**	98	135
Total	**(152)**	350	46
Foreign income tax expense (benefit):			
Current	**(45)**	(106)	158
Future	**(345)**	(587)	318
Total	**(390)**	(693)	476
Total income taxes expense (benefit)	**$ (542)**	$ (343)	$ 522

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 $61 as at December 31, 2009 ($160 and $134 in 2008 and 2007, 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:

	2009	**%**	2008	%	2007	%
Total net income	**$ 622**		$ 857		$ 2,290	
Add: Income taxes expense (benefit)	**(542)**		(343)		522	
Non-controlling interests in net income of subsidiaries	**15**		23		35	
Total net income before income taxes and non-controlling interests in net income of subsidiaries	**$ 95**		$ 537		$ 2,847	
Taxes at the combined Canadian federal and provincial statutory income tax rate	**$ 30**	**32.0**	$ 175	32.5	$ 996	35.0
Increase (decrease) in rate resulting from:						
Higher (lower) effective rates on income subject to taxation in foreign jurisdictions	**(161)**	**(169.4)**	(441)	(82.1)	(250)	(8.8)
Tax (benefit) cost of unrecognized losses	**(99)**	**(104.2)**	20	3.7	19	0.6
Tax exempt investment income	**(294)**	**(309.9)**	(49)	(9.1)	(155)	(5.4)
Changes to statutory income tax rates	**(18)**	**(19.0)**	(30)	(5.6)	(86)	(3.0)
Other	**—**	**—**	(18)	(3.3)	(2)	(0.1)
Company's effective worldwide income taxes	**$ (542)**	**(570.5)**	$ (343)	(63.9)	$ 522	18.3

During 2007 and 2006, the Canadian federal government and certain provinces reduced corporate income tax rates for years after 2007. In addition, during 2009, the Ontario government reduced corporate income tax rates for years after 2009. Consequently, the statutory income tax rates will decline gradually to 26% in 2013 as these rate reductions become effective. The reductions require the Company to review its Canadian future tax assets and liabilities on an ongoing basis. The re-measurement of future taxes in 2009 impacted both the business attributable to participating policyholders and shareholders. The participating policyholders benefited by $16 in 2009 ($25 and $32 in 2008 and 2007, respectively), while the increase to shareholders' income amounted to $2 in 2009 ($5 and $54 in 2008 and 2007, respectively).

The Company has accumulated tax losses, primarily in the United Kingdom, United States and Canada, totalling $2,232 ($777 in 2008). The majority of capital losses in the United States expire beginning in 2014 while non-capital losses expire beginning in 2023. The losses in Canada expire primarily in 2029. The losses in the United Kingdom can be carried forward indefinitely. 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 $517 ($134 in 2008) in future income taxes. The Company will realize this benefit in future years through a reduction in current income taxes as and when the losses are utilized. These tax losses are subject to examination by various tax authorities and could be reduced as a result of the adjustments to tax returns. Furthermore, legislative, business or other changes may limit the Company's ability to utilize these losses.

19. Income Taxes (Cont'd)

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

	2009		2008	
	Assets	**Liabilities**	Assets	Liabilities
Investments	**$ 319**	**$ 742**	$ 1,927	$ 809
Actuarial liabilities	**(70)**	**(442)**	(1,323)	(245)
Deferred acquisition costs	**381**	**(5)**	464	—
Losses available for carry forward	**372**	**(249)**	62	(128)
Other	**77**	**(33)**	203	13
	1,079	**13**	1,333	449
Valuation allowance	**(25)**	**79**	(143)	28
Total	**$ 1,054**	**$ 92**	$ 1,190	$ 477

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:

	2009	2008	2007
Investments	**$ 1,033**	$ (2,070)	$ (524)
Actuarial liabilities	**(1,383)**	1,851	883
Deferred acquisition costs	**42**	(46)	(67)
Losses (incurred) utilized	**(525)**	71	(3)
Other	**96**	(295)	164
Future income tax expense (benefit)	**$ (737)**	$ (489)	$ 453

20. Income Taxes Included in OCI

OCI included in 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:

	2009	2008
Unrealized foreign currency gains and losses on net investment hedges	**$ (9)**	$ (5)
Unrealized gains and losses on available-for-sale assets	**(323)**	376
Reclassifications to net income for available-for-sale assets	**13**	(48)
Unrealized gains and losses on cash flow hedging instruments	**(38)**	62
Total income taxes benefit (expense) included in OCI	**$ (357)**	$ 385

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 $332. 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, 2009, the Company had a total of $804 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, 2009, letters of credit in the amount of $703 are outstanding, of which $515 relate to internal reinsurance.

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 an order dated November 14, 2007 exempting it 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), as required under the order:

	SLF Inc. (Unconsolidated)	Sun Life Assurance (Consolidated)	Other Subsidiaries of SLF Inc. (Combined)	Consolidation Adjustments	SLF Inc. (Consolidated)
2009					
Revenue	**$ 146**	**$ 19,883**	**$ 7,694**	**$ (151)**	**$ 27,572**
Shareholders' net income	**$ 613**	**$ 715**	**$ (65)**	**$ (650)**	**$ 613**
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

	SLF Inc. (Unconsolidated)	Sun Life Assurance (Consolidated)	Other Subsidiaries of SLF Inc. (Combined)	Consolidation Adjustments	SLF Inc. (Consolidated)
2009					
Invested assets	**$ 21,401**	**$ 82,930**	**$ 23,766**	**$ (19,868)**	**$ 108,229**
Total other assets	**$ 4,319**	**$ 10,215**	**$ 10,373**	**$ (13,054)**	**$ 11,853**
Actuarial and other policy liabilities	**$ —**	**$ 68,923**	**$ 15,629**	**$ 86**	**$ 84,638**
Total other liabilities	**$ 8,413**	**$ 13,710**	**$ 12,234**	**$ (16,327)**	**$ 18,030**
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

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.

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.

On January 1, 2009, the Canadian Staff defined benefit plan was closed to new employees, and was replaced with a defined contribution plan for employees hired on or after January 1, 2009. Canadian employees hired before then continue to participate in the previous plan, which includes both defined benefit and defined contribution components. As a result, only defined contribution plans are open to new hires worldwide (except for the Company's small defined benefit plan in the Philippines).

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 dependants 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	
	2009	2008	**2009**	2008
Change in projected benefit obligation:				
Projected benefit obligation, January 1	**$ 2,186**	$ 2,426	**$ 233**	$ 249
Change in January 1 balance due to acquisition	**—**	—	**—**	—
Service cost	**35**	50	**4**	5
Interest cost	**132**	129	**15**	14
Adjustment for change in measurement date	**—**	2	**—**	—
Actuarial losses (gains)	**181**	(331)	**34**	(34)
Benefits paid	**(169)**	(112)	**(11)**	(11)
Curtailments, settlements and plan amendments	**—**	—	**(1)**	(1)
Effect of changes in currency exchange rates	**(81)**	22	**(8)**	11
Projected benefit obligation, December 31 (1), (2)	**2,284**	$ 2,186	**266**	$ 233
Accumulated benefit obligation, December 31 (3)	**2,154**	$ 2,005		
Change in plan assets:				
Fair value of plan assets, January 1	**$ 1,995**	$ 2,393	**$ —**	$ —
Net actual return on plan assets	**252**	(307)	**—**	—
Employer contributions	**36**	14	**11**	11
Adjustment for change in measurement date	**—**	2	**—**	—
Benefits paid	**(169)**	(112)	**(11)**	(11)
Effect of changes in currency exchange rates	**(67)**	5	**—**	—
Fair value of plan assets, December 31 (1)	**2,047**	$ 1,995	**—**	$ —
Net funded status, December 31	**$ (237)**	$ (191)	**$ (266)**	$ (233)
Unamortized net actuarial loss (gain)	**456**	436	**20**	(18)
Unamortized past service cost	**9**	11	**(14)**	(28)
Unamortized transition asset	**(33)**	(52)	**(3)**	(4)
Contributions (transfers), October 1 to December 31 (1)	**—**	—	**—**	—
Accrued benefit asset (liability), December 31 (1)	**$ 195**	$ 204	**$ (263)**	$ (283)
Balance sheet classification of accrued benefit asset (liability), December 31:				
Other assets	**$ 405**	$ 422	**$ —**	$ —
Other liabilities	**$ 210**	$ 218	**$ 263**	$ 283
Pension plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	**$ 1,503**	$ 1,027		
Plan assets	**$ 1,251**	$ 756		

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		
	2009	2008	2007	**2009**	2008	2007
Components of defined benefit cost recognized:						
Service cost, curtailments and settlements	**$ 35**	$ 50	$ 53	**$ 4**	$ 5	(7)
Plan amendments	**—**	—	4	**(1)**	(1)	(64)
Interest cost	**132**	129	128	**15**	14	15
Actual return on plan assets	**(252)**	307	(122)	**—**	—	—
Actuarial losses (gains)	**181**	(331)	(159)	**34**	(34)	(23)
Benefit cost before adjustments to recognize the long-term nature of defined benefit plans	**$ 96**	$ 155	$ (96)	**$ 52**	$ (16)	$ (79)
Adjustments to recognize the long-term nature of defined benefit plans:						
Difference between expected and actual return on plan assets for year	**$ 118**	$ (462)	$ (41)	**$ —**	**$ —**	$ —
Difference between actuarial losses (gains) recognized and actual actuarial losses (gains) on accrued benefit obligation for year	**(155)**	363	189	**(38)**	35	25
Difference between amortization of past service costs for year and actual plan amendments for year	**1**	1	1	**(13)**	(23)	45
Amortization of transition obligation (asset)	**(18)**	(18)	(18)	**(2)**	(2)	(2)
Total adjustments to defer costs to future periods	**$ (54)**	$ (116)	$ 131	**$ (53)**	$ 10	$ 68
Total benefit cost recognized	**$ 42**	$ 39	$ 35	**$ (1)**	$ (6)	$ (11)

Key weighted average assumptions:

	Pensions		Post-Retirement	
	2009	2008	**2009**	2008
To measure benefit obligation at end of year (1)				
Discount rate	**6.0%**	6.5%	**5.8%**	6.5%
Rate of compensation increase	**3.8%**	3.6%		—
Initial health care cost trend rate (4)		—	**8.1%**	9.4%
To determine benefit costs or income for the period				
Discount rate	**6.5%**	5.5%	**6.5%**	5.4%
Expected long-term rate of return on plan assets	**6.8%**	7.0%		—
Rate of compensation increase	**3.6%**	3.7%		—
Initial health care cost trend rate (4)		—	**9.4%**	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, 2008 for the plans in Canada, and January 1, 2009 for all other plans. The next required funding valuation is January 1, 2011 for the plans in Canada, January 1, 2012 for the United Kingdom, and January 1, 2010 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 at the end of the year for Canada in 2009 was 8.0% per year until 2015, then decreasing gradually to an ultimate rate of 5.0% per year in 2030 (in 2008 it was 9.5%, decreasing by 0.5% each year to an ultimate rate of 5.5% per year). For the United States in 2009, the assumed rate was 8.5%, decreasing gradually to an ultimate rate of 5.0% in 2017 (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	**$ 23**	$ (21)
Effect on aggregated service and interest costs	**$ 2**	$ (1)

Composition of fair value of plan assets, December 31:

	2009	2008
Equity investments	**44%**	37%
Fixed income investments	**43%**	47%
Real estate investments	**4%**	5%
Other	**9%**	11%
Total composition of fair value of plan assets	**100%**	100%

Target allocation of plan assets, December 31:

	2009	2008
Equity investments	**43%**	42%
Fixed income investments	**43%**	45%
Real estate investments	**5%**	4%
Other	**9%**	9%
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	**$ 58**	**$ 14**	**$ 72**

Expected future benefit payments

	2010	2011	2012	2013	2014	2015 -2019
Pension	**$ 95**	**$ 100**	**$ 109**	**$ 114**	**$ 120**	**$ 717**
Post-retirement	**14**	**14**	**15**	**16**	**16**	**91**
Total	**$ 109**	**$ 114**	**$ 124**	**$ 130**	**$ 136**	**$ 808**

The total contribution made by the Company to defined contribution plans was $51 in 2009, $52 in 2008 and $52 in 2007.

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, 2009 (loss of $6 in 2008 and loss of $3 in 2007).

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.

Prior to the sale of the equity investment in CI Financial on December 12, 2008 (see Note 3), the Company received distribution fees from CI Investments Inc. for sales of its products by agents licensed through the Company. Distribution fees for 2008 and 2007 ($129 and $144, respectively) are included in fee income in the consolidated statements of operations. As a result of the sale, CI Investments Inc. is no longer a related party of the Company.

25. Variable Interest Entities

The Company has a greater than 20% interest 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 $313, 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:

	2009		2008		2007	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
REVENUE						
Premiums	**$ 15,510**	**$ 9,703**	$ 13,587	$ 8,979	$ 13,124	$ 8,517
Total net investment income (loss)	**9,397**	**7,730**	(526)	2,401	4,748	5,823
Net realized gains (losses)	**(5)**	**(149)**	(241)	(951)	104	291
Fee income	**2,670**	**2,654**	2,743	3,335	3,212	3,343
	27,572	**19,938**	15,563	13,764	21,188	17,974
POLICY BENEFITS AND EXPENSES						
Payments to policyholders, beneficiaries and depositors	**14,317**	**10,560**	14,314	9,847	15,196	9,813
Increase (decrease) in actuarial liabilities	**7,697**	**1,104**	(4,429)	2,085	(2,515)	1,262
Acquisition expense amortization	**48**	**1,135**	50	(394)	64	337
Other expenses	**5,415**	**4,359**	5,091	3,970	5,596	4,504
	27,477	**17,158**	15,026	15,508	18,341	15,916
INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	**95**	**2,780**	537	(1,744)	2,847	2,058
Income taxes expense (benefit)	**(542)**	**362**	(343)	(1,088)	522	308
Non-controlling interests in net income of subsidiaries	**15**	**—**	23	—	35	—
TOTAL NET INCOME (LOSS)	**622**	**2,418**	857	(656)	2,290	1,750
Less non-controlling interests' net income	**—**	**15**	—	23	—	35
Less participating policyholders' net income	**9**	**—**	2	—	2	—
SHAREHOLDERS' NET INCOME (LOSS)	**613**	**2,403**	855	(679)	2,288	1,715
Less preferred shareholder dividends	**79**	**79**	70	70	69	69
COMMON SHAREHOLDERS' NET INCOME (LOSS)	**$ 534**	**$ 2,324**	$ 785	$ (749)	$ 2,219	$ 1,646
Earnings (loss) per share						
Basic	**$ 0.95**	**$ 4.14**	$ 1.40	$ (1.34)	$ 3.90	$ 2.89
Diluted	**$ 0.94**	**$ 4.12**	$ 1.37	$ (1.36)	$ 3.85	$ 2.84
Weighted average shares outstanding in millions						
Basic	**561**	**561**	561	561	569	569
Diluted	**562**	**562**	562	561	572	572

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

ii) Consolidated balance sheets:

	2009		2008	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP
ASSETS				
Bonds – held-for-trading	**$ 51,634**	**$ 14,835**	$ 48,458	$ 15,915
Bonds – available-for-sale	**9,673**	**46,433**	10,616	42,810
Mortgages and corporate loans	**19,449**	**19,449**	22,302	22,302
Stocks – held-for-trading	**4,331**	**1,331**	3,440	1,062
Stocks – available-for-sale	**635**	**3,636**	1,018	3,396
Real estate, net of accumulated depreciation (accumulated depreciation: 2009 – $561; 2008 – $528)	**4,877**	**3,190**	4,908	3,346
Cash and cash equivalents (1)	**5,865**	**5,845**	5,518	5,353
Short-term securities (1)(2)	**6,003**	**5,963**	3,361	3,329
Derivative assets	**1,382**	**1,357**	2,669	2,673
Policy loans and other invested assets	**3,503**	**4,073**	3,585	4,648
Other invested assets – held-for-trading	**425**	**206**	380	204
Other invested assets – available-for-sale	**452**	**689**	623	793
Invested assets	**108,229**	**107,007**	106,878	105,831
Goodwill	**6,419**	**4,678**	6,598	4,854
Intangible assets	**926**	**907**	878	872
Deferred acquisition costs	**167**	**7,763**	154	9,384
Future income taxes (3)	**1,054**	**681**	1,190	1,673
Other assets	**3,287**	**7,881**	4,135	9,292
Total other assets	**11,853**	**21,910**	12,955	26,075
Segregated funds assets (4)		**80,551**		65,362
Total consolidated assets	**$120,082**	**$209,468**	$119,833	$197,268
Segregated funds net assets (4)	**$ 81,305**		$ 65,762	
LIABILITIES AND EQUITY				
Actuarial liabilities and other policy liabilities	**$ 84,638**	**$ 56,443**	$ 81,411	$ 57,082
Contract holder deposits		**34,101**		37,268
Amounts on deposit	**4,181**	**4,390**	4,079	4,403
Derivative liabilities	**1,257**	**1,196**	3,219	3,271
Deferred net realized gains	**225**		251	
Senior debentures	**3,811**	**3,811**	3,013	3,013
Future income taxes (3)	**92**	**162**	477	236
Other liabilities	**5,374**	**8,301**	7,354	9,718
Total general fund liabilities	**99,578**	**108,404**	99,804	114,991
Subordinated debt	**3,048**	**3,048**	2,576	2,576
Non-controlling interests in subsidiaries (5)	**42**		44	
Segregated funds liabilities (4)		**80,551**		65,362
Equity	**17,414**	**17,465**	17,409	14,339
Total consolidated liabilities and equity	**$120,082**	**$209,468**	$119,833	$197,268
Segregated funds contract liabilities (4)	**$ 81,305**		$ 65,762	

(1) Includes a restatement of $1,745 of short-term securities as at December 31, 2008 that were included as cash and cash equivalents in error previously. As a result, cash and cash equivalents and short term securities have been adjusted in the 2008 column above.

(2) U.S. GAAP terminology is short-term investments.

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

(4) U.S. GAAP terminology is separate accounts.

(5) Included in equity in U.S. GAAP.

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

iii) Consolidated statements of equity:

	2009		2008	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP
PARTICIPATING POLICYHOLDERS' CAPITAL ACCOUNT:				
Balance, January 1	**$ 106**	**$ —**	$ 95	$ —
Net income attributed to participating policyholders	**9**	**—**	2	—
Total other comprehensive income (loss)	**(8)**	**—**	9	—
Balance, December 31	**107**	**—**	106	$ —
SHAREHOLDERS' EQUITY:				
PREFERRED SHARES				
Balance, January 1	**1,495**	**1,495**	1,495	1,495
Shares issued, net of issuance costs	**246**	**246**	—	—
Balance, December 31	**1,741**	**1,741**	1,495	1,495
PAID IN CAPITAL				
Balance, January 1	**7,101**	**12,903**	7,095	12,912
Common shares issued under dividend reinvestment and share purchase plan	**136**	**136**	—	—
Stock options exercised (2)	**6**	**6**	8	8
Common shares purchased for cancellation (1)	**—**	**—**	(60)	(108)
Stock option compensation (3)	**16**	**14**	58	71
Subsidiary equity transaction	**—**	**—**	—	20
Change due to transactions with non-controlling interests	**—**	**(10)**		
Balance, December 31	**7,259**	**13,049**	7,101	12,903
RETAINED EARNINGS				
Balance, January 1, as previously reported	**11,101**	**3,298**	11,282	4,965
Adjustment for changes in accounting policies (Section C of this note)	**—**	**408**	—	—
Balance, January 1, after change in accounting policy	**11,101**	**3,706**	11,282	4,965
Net income (loss) for the year attributed to shareholders	**613**	**2,403**	855	(679)
Dividends on common shares	**(796)**	**(796)**	(809)	(809)
Dividends on preferred shares	**(79)**	**(79)**	(70)	(70)
Common shares purchased for cancellation	**—**	**—**	(157)	(109)
Balance, December 31	**10,839**	**5,234**	11,101	3,298
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes				
Balance, January 1, as previously reported	**(2,394)**	**(3,401)**	(2,750)	(2,202)
Adjustment for change in accounting policy (Section C of this note)	**—**	**(421)**	—	—
Balance, January 1, after change in accounting policy	**(2,394)**	**(3,822)**	(2,750)	(2,202)
Total other comprehensive income (loss)	**(138)**	**1,221**	356	(1,199)
Balance, December 31	**(2,532)**	**(2,601)**	(2,394)	(3,401)
Total retained earnings and accumulated other comprehensive income (loss)	**8,307**	**2,633**	8,707	(103)
TOTAL SHAREHOLDERS' EQUITY	**$ 17,307**	**$ 17,423**	$ 17,303	$ 14,295
NON-CONTROLLING INTERESTS (4)				
Balance, January 1		**$ 44**		$ 98
Net Income		**15**		23
Other changes in non-controlling interests		**(17)**		(77)
Balance, December 31		**$ 42**		$ 44
TOTAL EQUITY	**$ 17,414**	**$ 17,465**	$ 17,409	$ 14,339

(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 equity in U.S. GAAP.

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

iii) Consolidated statements of equity: (Cont'd)

	2009		2008	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes				
Balance, end of year, consists of:				
Unamortized net actuarial loss (1)	**$**	**$ (209)**	$	$ (173)
Unamortized past service cost (1)		**5**		13
Unamortized transition asset (1)		**2**		—
Unrealized gains (losses) on available-for-sale assets	**30**	**814**	(1,429)	(2,371)
Unrealized foreign currency translation gains (losses), net of hedging activities	**(2,637)**	**(2,844)**	(1,049)	(1,362)
Unrealized gains (losses) on derivatives designated as cash flow hedges	**62**	**8**	79	(7)
Deferred acquisition costs and other liabilities		**(377)**		499
Balance, December 31	**$ (2,545)**	**$ (2,601)**	$ (2,399)	$ (3,401)

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

iv) Comprehensive income:

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.

	2009		2008		2007	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Total net income (loss)	**$ 622**	**$ 2,418**	$ 857	$ (656)	$ 2,290	$ 1,750
Other comprehensive income (loss), net of taxes:						
Unrealized foreign currency translation gains (losses), excluding hedges	**(1,908)**	**(1,816)**	2,162	1,955	(1,781)	(1,807)
Unrealized foreign currency gains (losses), net investment hedges	**314**	**335**	(396)	(451)	282	343
Net adjustment for foreign exchange losses	**6**	**—**	6	—	3	—
Unrealized gains (losses) on available-for-sale assets	**1,492**	**3,429**	(1,653)	(4,763)	(238)	(1,140)
Reclassifications to net income (loss) for available-for-sale assets	**(33)**	**177**	199	885	(84)	(288)
Unrealized gains (losses) on cash flow hedging instruments	**(18)**	**14**	24	(34)	40	7
Reclassifications to net income (loss) for cash flow hedges	**1**	**1**	23	24	(8)	(7)
Changes to deferred acquisition costs and other liabilities	**—**	**(877)**		1,253		639
Changes in unamortized net actuarial loss	**—**	**(36)**		(47)		114
Changes in past service cost	**—**	**(8)**		(16)		22
Changes in transition asset	**—**	**2**		(5)		(2)
Total other comprehensive income (loss)	**(146)**	**1,221**	365	(1,199)	(1,786)	(2,119)
Less:						
Participating policyholders' net income	**9**	**—**	2	—	2	—
Participating policyholders' foreign currency translation gains (losses) excluding hedges	**(8)**	**—**	9	—	(5)	—
Non-controlling interests' net income		**15**		23		35
Shareholders' comprehensive income (loss)	**$ 475**	**$ 3,624**	$ 1,211	$ (1,878)	$ 507	$ (404)

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.

	2009	2008	2007
Total net income in accordance with Cdn. GAAP	**$ 622**	$ 857	$ 2,290
Adjustments related to:			
Investments			
Bonds (1)	**(1,893)**	1,632	1,459
Stocks and segregated fund units (1)	**(716)**	980	114
Derivative instruments	**1,005**	(136)	(96)
Real estate	**(121)**	(214)	(125)
Total investments	**(1,725)**	2,262	1,352
Deferred acquisition costs			
Deferred acquisition costs — deferred	**925**	793	723
Deferred acquisition costs — amortization and interest	**(1,229)**	444	(273)
Total deferred acquisition costs	**(304)**	1,237	450
Actuarial liabilities and other policyholder revenues and expenses			
Premium and fees revenue	**(5,610)**	(3,766)	(4,167)
Payments to policyholders, beneficiaries and depositors	**3,757**	4,467	5,383
Actuarial liabilities	**6,593**	(6,514)	(3,777)
Total actuarial liabilities and other policyholder revenues and expenses	**4,740**	(5,813)	(2,561)
Other	**(26)**	33	(30)
Income tax effect of above adjustments	**(904)**	745	214
Non-controlling interests' net income	**15**	23	35
Total net income (loss) in accordance with U.S. GAAP	**$ 2,418**	$ (656)	$ 1,750

(1) Differences in net income are attributable to different asset designations. Under Cdn. GAAP, assets are generally designated as held-for-trading for investments supporting actuarial liabilities, and available-for-sale for assets generally not supporting actuarial liabilities (as described in more detail in Note 1). 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, subject to certain conditions imposed by OSFI. As a result of the adoption of the amendments to CICA Handbook Section 3855 in 2009, which are described in Note 2, if the fair value of a debt security increases after an impairment loss was recognized and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed into income. Prior to these amendments, once an impairment loss was recorded to income, it could not be reversed.	Commencing January 1, 2008, as a result of issuance of Financial Accounting Standards Board ("FASB") ASC Topic 825, formerly 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. Commencing April 1, 2009, as a result of adoption of FASB ASC Topic 320, losses on debt securities which are other-than-temporarily impaired are separated into two categories, the portion of loss which is considered credit loss ("credit loss") and the portion of loss which is due to other factors ("non-credit loss"). The credit loss portion is charged to earnings, while the non-credit loss is charged to other comprehensive income (loss) if the Company does not intend to sell the debt security, or if it is not more likely than not that it will be required to sell the debt security. Prior to April, 2009, in addition to other-than-temporary impairment due to issuer credit, other-than-temporary impairment charges were also recorded in income for declines in fair values of available-for-sale bonds due to changes in prevailing interest rates when the Company did 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 the value of specific properties results in a write-down charged to income.

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

	Cdn. GAAP	U.S. GAAP
Deferred acquisition costs	Costs of acquiring new insurance and annuity business, primarily commissions; underwriting; issue expenses and agency expenses are implicitly recognized in actuarial liabilities for most of the policies.	Acquisition costs are deferred and recorded as an asset. Amortization of such costs is dependent on the product to which the costs relate. For participating life insurance contracts, except for participating policies in the United Kingdom, amortization is based on a constant percentage of gross margin. For universal life and investment-type contracts, amortization is based on a constant percentage of gross profit. For other non-participating products, including term, group and disability insurance, amortization is based on a constant percentage of premium. Amortization for participating policies in the United Kingdom is based on the change in the sum assured. In cases where amortization is based on gross profit or margin, and available-for-sale bonds or stocks are used to support the underlying contract liability or actuarial reserve, a portion of the unrealized gains and losses balance is removed from equity and netted against the deferred acquisition cost balance.
Actuarial liabilities and contract holder deposits	Actuarial liabilities are calculated in accordance with Canadian generally accepted actuarial practice. This method uses best estimate assumptions for future experience factors adjusted to provide modest margins for adverse deviation in each experience factor.	The actuarial liabilities for participating life policies, except those in the United Kingdom, are computed using a net level premium reserve method with interest and mortality assumptions based primarily upon those assumptions used for establishing the cash surrender values in the contract. For universal life-type and investment contracts, contract holder deposits represent account balances and U.S. GAAP liabilities primarily equal account value balances. The account values represent an accumulation of gross deposits received plus credited interest less withdrawals, expenses and mortality charges. Other non-participating products include term, group and disability insurance. For these products, as well as participating contracts in the United Kingdom, a net level premium method is used with assumptions locked in at time of issue, unless the business is in a loss recognition position, in which case a best estimate gross premium valuation is used.
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.

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

	Cdn. GAAP	U.S. GAAP
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.
Derivatives	For net investment hedges, changes in fair value of these hedging derivatives, along with interest earned and paid on the swaps are recorded to the foreign exchange gains and losses in OCI, offsetting the respective exchange gains or losses arising from the underlying investments. There is no requirement to bifurcate embedded derivatives from actuarial liabilities for insurance contracts. As a result, they are included as part of actuarial liabilities.	For net investment hedges, spot rate changes on the hedging derivatives are recorded to the foreign exchange gains and losses in OCI to offset the respective exchange gains or losses arising from the underlying investments. The remainder of the changes in fair value, along with interest earned and paid, is recorded in net income. Embedded derivatives in insurance contracts are separately accounted for as stand-alone derivatives when they are not clearly and closely related to their host instruments. They are recorded at fair value 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.
Non-controlling interests	Non-controlling interests is presented outside of liabilities and equity. Transactions with non-controlling interests are accounted for as step-acquisitions or disposals.	Non-controlling interests is included as part of equity, separate from shareholders' equity. Effective in 2009, transactions with non-controlling interests are accounted for as equity transactions rather than step-acquisitions or disposals.
Business combinations	Transaction and other costs directly related to an acquisition are capitalized as part of the purchase.	As a result of the adoption of the amended section on business combinations in ASC Topic 805 in 2009 (originally issued as FAS 141(R), transaction costs related to an acquisition are recognized as an expense through income.

(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)

C) U.S. GENERALLY ACCEPTED ACCOUNTING STANDARDS ADOPTED BY THE COMPANY IN 2009

In June 2009, the FASB issued FASB ASC Topic 105, Generally Accepted Accounting Principles, which was previously issued as SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162. This guidance establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. FASB ASC Topic 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted FASB ASC Topic 105 in 2009.

The Company has adopted certain provisions of FASB ASC Topic 855, Subsequent Events, which were originally issued in May 2009 as SFAS No. 165, Subsequent Events. This topic requires evaluation of subsequent events through the date that the financial statements are issued or are available to be issued. FASB ASC Topic 855 sets forth the period under which the reporting entity should evaluate the subsequent events to be recognized or disclosed, the circumstances under which the reporting entity should recognize the events or transactions that occur after the balance sheets date, and the disclosures that the reporting entity should make about the subsequent events. This guidance is effective for interim reporting periods ending after June 15, 2009. The Company has applied the new section for its 2009 annual Consolidated Financial Statements.

The Company has adopted certain provisions of FASB ASC Topic 820, which were originally issued in April 2009 as FSP No. FAS 157-4, Determining the Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This issuance provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased in relation to normal market activity for the asset or liability, as well as guidance on identifying circumstances that indicate a transaction is not orderly. The Company adopted the above-noted aspects of FASB ASC Topic 820 on April 1, 2009; such adoption did not have a material impact on the Company's Consolidated Financial Statements.

The Company has adopted certain provisions of FASB ASC Topic 320, which were originally issued in April 2009 as FSP Nos. FAS 115-2 and 124-2. This guidance amends the guidance for Other-Than-Temporary-Impairment (OTTI) of debt securities and changes the presentation of OTTI in the financial statements. If the Company intends to sell, or if it is more likely than not that it will be required to sell, an impaired bond prior to recovery of its cost basis, the bond is to be considered other-than-temporarily impaired and the full amount of impairment must be charged to earnings. Otherwise, losses on bonds which are other-than-temporarily impaired are separated into two categories, the portion of loss which is considered credit loss (credit loss) and the portion of loss which is due to other factors (non-credit loss). The credit loss portion is charged to earnings, while the non-credit loss portion is charged to other comprehensive income (loss). The Company adopted the above-noted aspects of FASB ASC Topic 320 on April 1, 2009. Upon adoption, a cumulative effect adjustment, net of taxes, of $(408) was recorded to increase accumulated other comprehensive loss with a corresponding increase to retained earnings for the non-credit component of previously impaired bonds that the Company neither intends to sell, nor is it more likely than not that the Company will be required to sell, before recovery of amortized cost. The enhanced disclosures required by FASB ASC Topic 320 are included in Note 26Ev) of this note.

The Company has adopted certain provisions of FASB ASC Topic 805, "Business Combinations," which were originally issued in December 2007 as SFAS No. 141 (revised 2007), "Business Combinations." The provisions require 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, they require that acquisition related costs and restructuring costs be recognized separately from the business combination. The Company adopted the above-noted aspects of FASB ASC Topic 805 on January 1, 2009 and applied the amended guidance to the acquisition of Lincoln U.K. (described further in Note 3 and Section E of this note).

In August 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-05, "Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value." This update amends FASB ASC Topic 820 and provides clarification regarding the valuation techniques required to be used to measure the fair value of liabilities where quoted prices in active markets for identical liabilities are not available. In addition, this update clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU No. 2009-05 is effective for the first reporting period, including interim periods, beginning after issuance. The Company adopted this update on October 1, 2009. The adoption of ASU No. 2009-05 did not have a material impact on the Company's Consolidated Financial Statements.

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

On January 1, 2009, the Company has adopted certain provisions of FASB ASC Topic 810, "Non-controlling Interests in Consolidated Financial Statements", which were originally issued in 2008 as SFAS 160. It requires that non-controlling interests in subsidiaries be presented within equity in the Consolidated Financial Statements, and that all transactions between an entity and the non-controlling interests be accounted for as equity transactions. As a result of the adoption of these provisions, the Company reclassified non-controlling interests of $98 as at January 1, 2008 to equity. Transactions between the Company and the non-controlling interests that occurred during 2009 have been accounted for through equity, as adjustments between shareholders' equity and the equity attributable to the non-controlling interests.

The Company has adopted certain provisions of FASB ASC Topic 944, "Financial Services—Insurance, which were originally issued in May 2008 as SFAS No. 163, Accounting for Financial Guarantee Insurance Contract—an interpretation of FASB Statement No. 60". The scope of this interpretation is limited to financial guarantee insurance (and reinsurance) contracts issued by insurance enterprises. The adoption of this portion of FASB ASC Topic 944 on January 1, 2009 did not have an impact on the Company's Consolidated Financial Statements.

In 2009, the Company adopted the amendments to ASC Topic 260, Earnings Per Share, which were originally issued in June 2008 as FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. These amendments clarify that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities for purposes of calculating earnings per share under the two-class method. The amendments require that earnings per share for all periods presented be adjusted retrospectively to conform to the provisions of the amended guidance. Certain awards issued by a subsidiary of the Company that are based on the shares of that subsidiary are participating securities under this definition and therefore, may impact the income attributable to common shareholders for purposes of calculating diluted earnings per share. The adoption of these amendments did not have a material impact to the diluted earnings per share for the current period or any of the prior periods presented.

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

In June 2009, the FASB issued SFAS No. 166 Accounting for Transfers of Financial Assets. This statement amends FASB ASC Topic 860, Transfers and Servicing, portions of which were previously issued as SFAS No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 166 amends and expands disclosures about the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. SFAS No. 166 amends the derecognition accounting and disclosure guidance relating to SFAS No. 140 and eliminates the exemption from consolidation for qualifying special purpose entities (QSPEs); it also requires a transferor to evaluate all existing QSPEs to determine whether they must be consolidated in accordance with SFAS No. 167, Amendments to FASB Interpretation No. 46(R). SFAS No. 166 is effective for financial asset transfers occurring in fiscal years and interim periods beginning after November 15, 2009, and will become part of the FASB ASC at that time. The Company is currently evaluating the impact, if any, that SFAS No. 166 will have on the disclosures included in the Company's Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 167, which amends the consolidation guidance of FIN 46(R) and will become part of FASB ASC 810. The amendments to the consolidation guidance affect all entities currently within the scope of FIN 46(R), as well as QSPEs, as the concept of these entities was eliminated in SFAS No. 166. SFAS No. 167 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009, and will become part of the FASB ASC at that time. The Company is currently evaluating the impact, if any, that SFAS No. 167 will have on the Company's Consolidated Financial Statements.

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

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:

	2009	2008	2007
Bonds:			
Gross realized gains	**$ 353**	$ 264	$ 287
Gross realized losses	**$ (348)**	$ (1,161)	$ (278)
Stocks:			
Gross realized gains	**$ 230**	$ 116	$ 416
Gross realized losses	**$ (410)**	$ (229)	$ (171)

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

	2009	2008	2007
Bonds	**$ 2,150**	$ (3,492)	$ (182)
Stocks	**$ 219**	$ (465)	$ 59

iii) Real estate

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

	2009	2008	2007
Depreciation expense	**$ 61**	$ 67	$ 61

iv) Derivatives

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, 2009, 2008 and 2007, the Company recorded $335, $(451) and $343, respectively to the foreign exchange gains (losses) in OCI, net of taxes, for U.S. GAAP purposes.

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

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

v) Other-Than-Temporary-Impairment

Bonds

As described in Note 26C, the Company presents and discloses OTTI in accordance with FASB ASC Topic 320, beginning on April 1, 2009. Securities whose fair value is less than their carrying amount are considered to be impaired and are evaluated for potential other-than-temporary impairment. If the Company intends to sell, or if it is more likely than not that it will be required to sell an impaired security prior to recovery of its cost basis, the security is considered other-than-temporarily impaired and the Company records a charge to earnings for the full amount of impairment (the difference between the current carrying amount and fair value of the security). Otherwise, losses on securities which are other-than-temporarily impaired are separated into two categories, namely, credit loss and non-credit loss. The credit loss portion is charged to net realized gains (losses) in the consolidated statements of operations, while the non-credit loss is charged to other comprehensive income (loss). When an unrealized loss on a fixed maturity is considered temporary, the Company continues to record the unrealized loss in other comprehensive income (loss) and not in earnings. To compute the credit loss component of OTTI for corporate bonds on the date of transition (April 1, 2009), both historical default (by rating) data, used as a proxy for the probability of default, and loss given default (by issuer) projections were applied to the par amount of the bond. For corporate bonds post-transition, the present value of future cash flows using the book yield is used to determine the credit component of OTTI. If the present value of the cash flow is less than the security's amortized cost then the difference is recorded as a credit loss. The difference between the estimates of the credit related loss and the overall OTTI was concluded to be the non-credit-related component.

For those securities where the Company does not have the intent to sell and it is not more likely than not that the Company will be required to sell, the Company employs a portfolio monitoring process to identify securities that are other-than-temporarily impaired. The Company has a Credit Committee comprised of professionals from its investment and accounting functions which meets at least quarterly to review individual issues or issuers that may be of concern. In determining whether a security is other-than-temporarily-impaired, the Credit Committee considers the factors described below. The process involves a quarterly screening of all impaired securities, with particular attention paid to identify those securities whose fair value to amortized cost percentages have been less than 80% for an extended period of time. Discrete credit events, such as a ratings downgrade, are also used to identify securities that may be other-than-temporarily impaired. The securities identified are then evaluated based on issuer-specific facts and circumstances, such as the issuer's ability to meet current and future interest and principal payments, an evaluation of the issuer's financial position and its near term recovery prospects, difficulties being experienced by an issuer's parent or affiliate, and management's assessment of the outlook for the issuer's sector. In making these evaluations, the Credit Committee exercises considerable judgment. Based on this evaluation, issues or issuers are considered for inclusion on one of the Company's following credit lists:

"Monitor List"- Management has concluded that the Company's amortized cost will be recovered through timely collection of all contractually specified cash flows, but that changes in issuer-specific facts and circumstances require monitoring on a quarterly basis. No OTTI charge is recorded in the Company's consolidated statements of operations for unrealized loss on securities related to these issuers.

"Watch List"- Management has concluded that the Company's amortized cost will be recovered through timely collection of all contractually specified cash flows, but that changes in issuer-specific facts and circumstances require continued monitoring during the quarter. A security is moved from the Monitor List to the Watch List when changes in issuer-specific facts and circumstances increase the possibility that a security may become impaired within the next 24 months. No OTTI charge is recorded in the Company's consolidated statements of operations for unrealized loss on securities related to these issuers.

"Impaired List"- This list includes securities that the Company has the intent to sell or more likely than not will be required to sell. In addition, it includes those securities that management has concluded that the Company's amortized cost will not be recovered due to expected delays or shortfalls in contractually specified cash flows. For these investments, an OTTI charge is recorded or the security is sold and a realized loss is recorded as a charge to income. Credit OTTI losses are recorded in the Company's consolidated statement of operations and non-credit OTTI losses are recorded in other comprehensive income (loss).

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

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

Structured securities, typically those rated single A or below, are subject to certain provisions in FASB ASC Topic 325, Investments—Other, previously issued by Emerging Issues Task Force ("EITF") Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continued to Be Held by a Transferor in Securitized Financial Assets." These provisions require the Company to periodically update its best estimate of cash flows over the life of the security. In the event that fair value is less than carrying amount and there has been an adverse change in the expected cash flows (as measured by comparing the original expected cash flows to the current expectation of cash flows, both discounted at the current effective rate), then an impairment charge is recorded to income. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third parties, along with assumptions and judgments about the future performance of the underlying collateral. Losses incurred on the respective mortgage backed securities portfolios are based on expected loss models, not incurred loss models. Expected cash flows include assumptions about key systematic risks (e.g. unemployment rates, housing prices) and loan-specific information (e.g. delinquency rates, loan-to-value ratio.)

There are inherent risks and uncertainties in management's evaluation of securities for OTTI. These risks and uncertainties include factors both external and internal to the Company, such as general economic conditions, an issuer's financial condition or near-term recovery prospects, market interest rates, unforeseen events which affect one or more issuers or industry sectors, and portfolio management parameters, including asset mix, interest rate risk, portfolio diversification, duration matching and greater than expected liquidity needs. All of these factors could impact management's evaluation of securities for OTTI.

For securities that are assessed to have incurred a credit loss, the amount of credit loss is calculated based upon the cash flows that the Company expects to collect given an assessment of the relevant facts and circumstances for the issuer and specific bond issue. Such factors include the financial condition, credit quality, and the near-term prospects of the issuer, as well as the issuer's relative liquidity, among other factors.

The Company recorded credit OTTI losses in its consolidated statement of operations totalling $167 for the year ended December 31, 2009 for OTTI on its available-for-sale bonds. The credit loss OTTI recorded during the year was concentrated in corporate bonds. These impairments were driven primarily by adverse financial conditions of the issuers.

The other-than-temporary impairment recognized for the year ended December 31, 2009 on available-for-sale bonds:

Total other-than-temporary impairment recognized under Canadian GAAP	**$ 46**
Total other-than-temporary impairment recognized under U.S. GAAP	**474**
Additional other-than-temporary impairment taken under U.S. GAAP	**428**
Less: non-credit portion of other-than-temporary impairment recognized in other comprehensive income	**308**
Additional net impairment losses recognized in the U.S. GAAP Consolidated Statement of Operations	**$ 120**

The following table rolls forward the amount of credit losses recognized in earnings on debt securities held on the date of transition, April 1, 2009, for which a portion of the OTTI was also recognized in other comprehensive loss.

Cumulative other-than-temporary impairment credit losses of available-for-sale debt securities

Credit losses of other-than-temporarily impaired debt securities upon the adoption of Topic 320 (FSP FAS115-2 and 124-2) as at April 1, 2009	**$ 512**
Credit losses recognized in income on debt securities not previously impaired	**119**
Credit losses recognized in income on debt securities that have previously been impaired	**2**
Reductions due to securities sold	**(253)**
Balance at end of the year	**$ 380**

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

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

Stocks

All equity instruments in an unrealized loss position are reviewed quarterly to determine if objective evidence of impairment exists. Objective evidence of impairment for an investment in an equity instrument includes, but is not limited to, the financial condition and near-term prospects of the issuer, including information about significant 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 amount will not be recovered, and a significant or prolonged decline in the fair value of an equity instrument below its cost. If, as a result of this review, the security is determined to be other-than-temporarily impaired, it is written down to its fair value.

In addition to the review process described above, the Company applies presumptive impairment tests to determine whether there has been a significant or prolonged decline in the fair value of an equity instrument below its cost. Unless extenuating circumstances exist, all equity instruments exhibiting the following characteristics are presumed to be other-than-temporarily impaired and are written down to their fair value:

- Fair value less than cost for longer than 12 months;
- Fair value less than cost for longer than 6 months and fair value less than 60% of cost; or
- Fair value less than 50% of cost

In all circumstances, if the Company does not have the intent and ability to retain its investment in an equity instrument for a period of time sufficient to allow for the anticipated recovery of its cost, the instrument is written down to fair value.

For the year ended December 31, 2009, impairment charges of $352 were recognized related to available-for-sale stocks.

vi) Gross unrealized gains (losses) on available-for-sale bonds and stocks

	2009			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses)** [1]	**Estimated Fair Value**
Issued or guaranteed by:				
Canadian federal government	**$ 2,894**	**$ 78**	**$ (20)**	**$ 2,952**
Canadian provincial and municipal governments	**6,362**	**570**	**(101)**	**6,831**
U.S. Treasury and other U.S. agencies	**1,051**	**58**	**(18)**	**1,091**
Other governments	**2,562**	**252**	**(32)**	**2,782**
Corporate	**30,301**	**1,568**	**(1,001)**	**30,868**
Asset-backed securities				
Commercial mortgage-backed securities	**1,158**	**40**	**(115)**	**1,083**
Residential mortgage-backed securities	**552**	**23**	**(20)**	**555**
Collateralized debt obligations	**222**	**2**	**(31)**	**193**
Other	**86**	**2**	**(10)**	**78**
Total bonds	**$ 45,188**	**$ 2,593**	**$ (1,348)**	**$ 46,433**

(1) The gross unrealized losses include the before tax non-credit OTTI loss of $617, that is recorded as a component of accumulated other comprehensive loss (AOCI) for assets still held at the reporting date.

	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

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

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

The gross unrealized gains (losses) on available-for-sale stocks are as follows:

	Original Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Total 2009	**$ 3,253**	**$ 393**	**$ (10)**	**$ 3,636**
Total 2008	$ 3,901	$ 135	$ (640)	$ 3,396

vii) Unrealized loss positions for which an OTTI has not been recognized

The following table shows the Company's investments' fair value and gross unrealized losses, which includes temporary unrealized losses and the portion of non-credit OTTI losses recognized in AOCI, 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, 2009. The Company's policies and procedures for determining which securities are other than temporarily impaired are included in Section Ev) of this note.

	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						
Issued or guaranteed by:						
Canadian federal government	**$ 1,128**	**$ (17)**	**$ 19**	**$ (3)**	**$ 1,147**	**$ (20)**
Canadian provincial and municipal Governments	**1,945**	**(98)**	**71**	**(3)**	**2,016**	**(101)**
U.S. Treasury and other U.S. agencies	**283**	**(12)**	**24**	**(6)**	**307**	**(18)**
Other governments	**1,111**	**(27)**	**143**	**(5)**	**1,254**	**(32)**
Corporate	**3,581**	**(190)**	**4,935**	**(811)**	**8,516**	**(1,001)**
Asset-backed securities						
Commercial mortgage-backed obligations	**111**	**(2)**	**322**	**(113)**	**433**	**(115)**
Residential mortgage-backed securities	**42**	**—**	**26**	**(20)**	**68**	**(20)**
Collateralized debt obligations	**75**	**(14)**	**16**	**(17)**	**91**	**(31)**
Other	**4**	**—**	**21**	**(10)**	**25**	**(10)**
Stocks	**211**	**(10)**	**—**	**—**	**211**	**(10)**
Total temporarily impaired securities	**$ 8,491**	**$ (370)**	**$ 5,577**	**$ (988)**	**$ 14,068**	**$ (1,358)**

As at December 31, 2009, a total of 2,135 debt securities were in an unrealized loss position, of which 916 were in a continuous loss position for less than 12 months and 1,219 positions for 12 months or more. Of the 2,135 debt securities, unrealized losses less than 12 months included 486 positions with an aggregate fair value of $1,653 (159 positions with an aggregate fair value of $200 for 12 months or more) having unrealized losses of less than one hundred thousand dollars per individual holding. A total of 48 stock positions were in a loss position as at December 31, 2009, of which 48 were in a continuous loss position for less than 12 months and no positions for 12 months or more. Of the 48 stock positions, unrealized losses less than 12 months included 21 positions with an aggregate fair value of $135 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)

The following table shows the Company's investments' fair value and gross unrealized losses 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)

As at December 31, 2008, a total of 2,945 debt securities were in an unrealized loss position, 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.

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:

	2009			
	Future Income Tax Asset (1)		Future Income Tax Liability (1)	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Investments	$ 319	$ (127)	$ 742	$ 23
Actuarial liabilities	(70)	1,471	(442)	104
Deferred acquisition costs	381	(1,674)	(5)	(39)
Losses available for carry forward	372	448	(249)	(173)
Other	77	588	(33)	156
Future tax asset/liability before valuation allowance	1,079	706	13	71
Valuation allowance	(25)	(25)	79	91
Total	$ 1,054	$ 681	$ 92	$ 162

	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

(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 Lincoln U.K. on October 1, 2009 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.

	Lincoln U.K.	
	Cdn. GAAP	**U.S. GAAP**
Invested assets acquired	**$ 1,249**	**$ 1,249**
Other assets acquired [1]	**88**	**276**
Segregated funds assets acquired	**—**	**6,629**
	1,337	**8,154**
Actuarial liabilities and other policy liabilities acquired	**1,058**	**1,100**
Other liabilities acquired	**72**	**58**
Segregated funds liabilities acquired	**—**	**6,629**
	1,130	**7,787**
Net balance sheet assets acquired	**$ 207**	**$ 367**
Consideration:		
Cash cost of acquisition	**$ 380**[2]	**$ 361**
Transaction and other related costs	**7**	**—**
	$ 387	**$ 361**
Goodwill on acquisition	**$ 180**	**$ (6)**[3]

(1) Other assets acquired included value of business acquired of $190 under U.S. GAAP.

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

(3) Negative goodwill has been recognized in net investment income.

The following supplemental unaudited consolidated pro forma information has been prepared to give effect to the acquisition of Lincoln U.K., as if the transaction had been completed at the beginning of each year presented. The consolidated pro forma information is calculated by combining the results of operations of the Company with those of Lincoln U.K. prior to the acquisition date. The consolidated 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.

	2009	2008
Revenue	**$ 20,138**	$ 14,090
Total common shareholders' net income before realized gains	**2,541**	$ 206
Net realized gains/(losses)	**(154)**	(954)
Common shareholders' net income	**$ 2,387**	$ (748)
Weighted average number of shares outstanding (in millions)	**561**	561
Basic earnings per share	**$ 4.25**	$ (1.33)
Common shareholders' net income on a diluted basis	**2,381**	(762)
Weighted average number of shares outstanding on a diluted basis (in millions)	**562**	561
Diluted earnings (loss) per share	**$ 4.24**	$ (1.36)

The revenue of $60 and earnings of $13 from Lincoln U.K. since the closing date are included in the 2009 Consolidated Financial Statements.

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:

	2009		2008		2007	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Common shareholders' net income (loss)	**$ 534**	**$ 2,324**	785	(749)	2,219	1,646
Less: Effect of stock awards of subsidiaries	**6**	**6**	14	14	20	20
Common shareholders' net income (loss) on a diluted basis	**$ 528**	**$ 2,318**	$ 771	$ (763)	$ 2,199	$ 1,626
Weighted average number of shares outstanding (in millions)	**561**	**561**	561	561	569	569
Add: Adjustments relating to the dilutive impact of stock options	**1**	**1**	1	—(1)	3	3
Weighted average number of shares outstanding on a diluted basis (in millions)	**562**	**562**	562	561	572	572

(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:

	2009	2008	2007
Deposits and withdrawals reclassified to financing activities:			
Deposits to policyholders' accounts	**$ 5,519**	$ 5,020	$ 4,141
Withdrawals from policyholders' accounts	**$ 5,693**	$ 7,076	$ 7,090

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, 2009, 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, 2009:

Benefit type	**Account Balance**	**Net Amount at Risk**	**Weighted Average Attained Age of Contract Holders**
Minimum death	$ 35,372	$ 4,099	63
Minimum income	$ 1,640	$ 1,498	53
Minimum accumulation, withdrawal and reinsured minimum income	$ 22,335	$ 1,104	61

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, 2009:

	Minimum Guaranteed Death Benefit	Guaranteed Minimum Income Benefit	Total
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
Benefit ratio and assumption changes	**(76)**	**23**	**(53)**
Incurred guaranteed benefits	**48**	**16**	**64**
Paid guaranteed benefits	**(114)**	**(23)**	**(137)**
Interest	**21**	**(1)**	**20**
Effect of changes in currency exchange rates	**(31)**	**(10)**	**(41)**
Balance as at December 31, 2009	**$ 151**	**$ 198**	**$ 349**

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 policy owner benefits.

Guaranteed minimum accumulation benefits and withdrawal benefits and reinsured minimum income benefits that are net settled are considered to be derivatives under FASB ASC Topic 815, Derivative and Accounting, of which was previously issued as FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and are recognized at fair value through earnings. Liabilities for the guaranteed minimum accumulation and withdrawal benefits and reinsured income benefits were $936 and $2,374 as at December 31, 2009 and December 31, 2008, respectively.

xiii) Disclosures relating to fair value measurements:

On January 1, 2008, the Company adopted FASB ASC Topic 820, formerly FAS 157, which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. The Company utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs.

As a result of the adoption of FASB ASC Topic 820, the Company recorded an increase in net income of $47 in 2008 (net of taxes of $35).

In compliance with FASB ASC Topic 820, the Company has categorized its assets and liabilities measured at fair value, based on the priority of the inputs to the valuation technique, into a three-level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

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

During 2009, the FASB issued additional guidance on estimating fair value, when the volume and level of activity for the asset or liability have significantly decreased, as well as guidance on identifying circumstances that indicate a transaction is not orderly. FASB also provided clarification regarding the valuation techniques required to be used to measure the fair value of liabilities where quoted prices in active markets for identical liabilities are not available. The Company reviewed its pricing sources and methodologies and has concluded that its various pricing sources and methodologies are in compliance with new guidance, which are now a part of FASB ASC Topic 820.

Financial instruments measured at fair value as of December 31, 2009 are categorized and presented by the hierarchy level in Note 5A(iii) as a result of adoption of amendments to CICA Handbook Section 3862, Financial Instruments — Disclosures during 2009. Additional financial assets and liabilities measured at fair value by the hierarchy level under FASB ASC Topic 820 are presented in the following table:

	Level 1	Level 2	Level 3	Total
Segregated funds net assets	**$ 38,303**	**$ 41,448**	**$ 787**	**$ 80,538**
Embedded derivative liabilities	**$ —**	**$ —**	**$ 1,093**	**$ 1,093**

The following table shows a reconciliation of the beginning and ending balances for additional assets and liabilities which are categorized as Level 3 under FASB ASC Topic 820 for the year ended December 31, 2009:

	Beginning balance	Total realized and unrealized gains (losses) [2]		Purchases, issuances, and settlements (net)	Transfers in and/or (out) of level 3[1]	Ending balance	Change in unrealized gains (losses) included in earnings relating to instruments still held at the reporting date [2]
		Included in net income	Included in other comprehensive income				
Segregated funds net assets	**$ 1,187**	**$ (81)**	**$ —**	**$ (277)**	**$ (42)**	**$ 787**	**$ 167**
Embedded derivative liabilities	**$ 2,469**	**$ (1,620)**	**$ —**	**$ 244**	**$ —**	**$ 1,093**	**$ (1,346)**

(1) Transfers in and/or (out) of level 3 during 2009 are primarily attributable to changes in the transparency of inputs used to price the securities.

(2) For liabilities, gains are indicated in negative numbers.

Financial instruments measured at fair value as of December 31, 2008 are not required to be disclosed by the hierarchy level under amendments to CICA Handbook Section 3862, Financial Instruments Disclosures. As a result, Note 5A(iii) does not contain these disclosures. The following table presents the Company's total assets and liabilities that are carried at fair value on a recurring basis, by FASB ASC Topic 820 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

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

	Level 1	Level 2	Level 3	Total
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

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:

	Beginning balance	Total realized and unrealized gains (losses) [1]		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]
		Included in earnings	Included in other comprehensive income				
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 guaranteed minimum 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:

The liability for unrecognized tax benefits (UTBs) related to permanent and temporary tax adjustments, exclusive of interest, was $707 as at December 31, 2009 ($550 as at December 31, 2008). Of this total, $419 ($498 as at December 31, 2008) 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, 2008 are as follows:

UTB balance as at January 1, 2008	$ 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
Increase (decrease) related to tax positions in prior year	**(81)**
Increase (decrease) related to tax positions in current year	**281**
Increase (decrease) related to foreign exchange movement	**(43)**
UTB balance as at December 31, 2009	**$ 707**

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 $39 of net interest and penalties accrued related to UTBs as at December 31, 2009 ($51 as at December 31, 2008). During 2009, the Company recorded a decrease of gross interest and penalties of $17 ($17 decrease in 2008) in the consolidated statements of operations. The foreign exchange effect of the accrued interest is recorded in the currency translation account.

The Company expects that certain tax positions, including the proceedings before the courts in the United Kingdom, will be resolved in 2010. Favourable resolution of these issues could have a material impact on the Company's effective tax rate; however, the outcomes are not reasonably determinable at this time.

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	2005 - forward
U.S.	2001 - forward
U.K.	2003 - forward

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

The Company consolidates variable interest entities for which it is the primary beneficiary. To determine whether the Company is the primary beneficiary of a variable interest entity, it performs an assessment of each investor participant's interest in controlling the entity generally by means other than voting rights. Factors considered in the assessment includes sufficiency of the equity investment at risk, the presence and relative strength of various essential characteristics of a controlling financial interest, and the significance of voting rights in relation to economic interests. If the Company is exposed to a majority of the expected losses, a majority of the expected residual returns, or both, from a VIE, it is the primary beneficiary.

VIEs in which the Company has an interest are primarily structured entities with insufficient equity at risk. The carrying amount of the Company's significant variable interest in VIEs is 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 sheet at December 31, 2009 and their change in the consolidated statement of operations for the year 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.



Lesley Thomson
Fellow, Canadian Institute of Actuaries

Toronto, Canada
February 10, 2010

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, 2009 and 2008 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, 2009. 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, 2009 and 2008, 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, 2009 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, 2009, 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 10, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

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

Toronto, Canada
February 10, 2010

Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Differences

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 10, 2010, 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 10, 2010

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, 2009, 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 Management's Report on Internal Control over Financial Reporting contained in Management's Discussion and Analysis. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

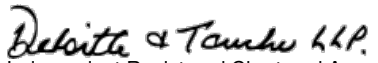
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material 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, 2009, 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, 2009 of the Company and our report dated February 10, 2010 expressed an unqualified opinion on those financial statements and included a separate report titled Comments by Independent Registered Chartered Accountants on Canada-United States Reporting Difference referring to changes in accounting principles.



Independent Registered Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 10, 2010

Exhibit 3

Annual Information Form

Sun Life Financial Inc.

For the Year Ended December 31, 2009

February 11, 2010



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, 2009, 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, 2009, and

(ii) SLF Inc.’s Consolidated Financial Statements and accompanying notes (Consolidated Financial Statements) for the year ended December 31, 2009.

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 Information

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 information within the meaning of securities laws. Forward-looking information 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 creditworthiness of guarantors and counterparties to derivatives; the performance of equity markets; the cost, effectiveness and availability of risk-mitigating hedging programs; interest rate fluctuations; other market risks including movement in credit spreads; possible sustained economic downturn; 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 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 performance of the Company’s investments and investment portfolios managed for clients such as segregated and mutual funds; the impact of mergers and acquisitions; insurance risks including mortality, morbidity, including the occurrence of natural or man-made disasters, pandemic diseases and acts of terrorism; risks relating to product design and pricing; risks relating to policyholder behaviour; the inability to maintain strong distribution channels and risks relating to market conduct by intermediaries and agents; risks relating to operations in Asia including risks relating to joint ventures; the impact of competition; currency exchange rate fluctuations; 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; uncertainty in the rate of mortality improvement; the impact of adverse results in the closed block of business; the potential for financial loss related to changes in the environment; the availability, cost and effectiveness of reinsurance; the ineffectiveness of risk management policies and procedures; and the potential for losses from multiple risks occurring simultaneously or in rapid progression. The Company does not undertake any obligation to update or revise its forward-looking information 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

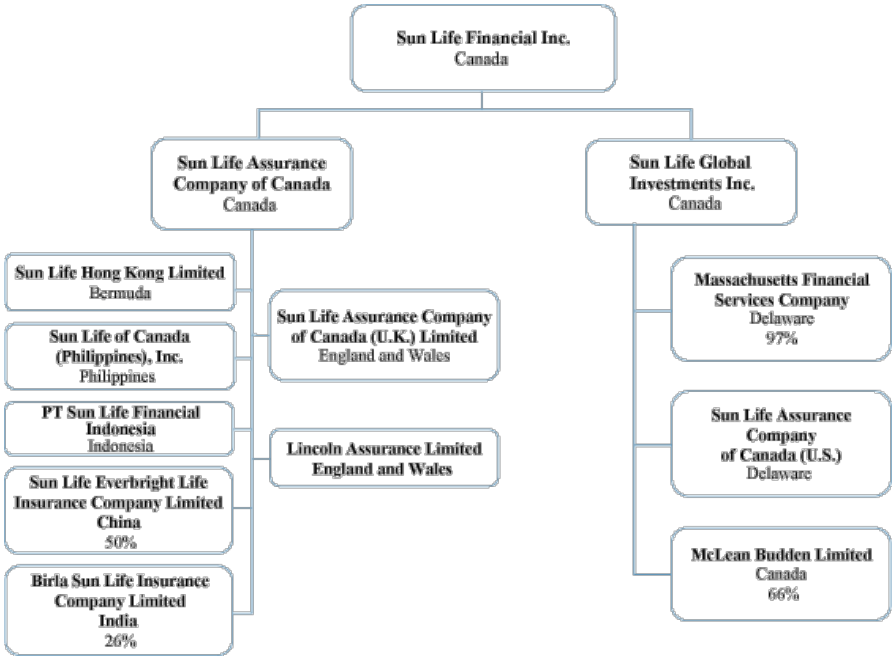
SLF Inc. was incorporated under the Insurance Companies Act, Canada (the Insurance Act) on August 5, 1999, for the purpose of becoming the holding company of Sun Life Assurance Company of Canada (Sun Life Assurance) following its demutualization.

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.

The head and registered office of SLF Inc. 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, 2009, including its principal direct subsidiaries, indirect subsidiaries and joint ventures, 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. Additional information on subsidiary and affiliate companies of SLF Inc. can be found in the Company's 2009 Annual Report.



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, 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.

Business Segment	Business Units
SLF Canada	Individual Insurance & Investments Group Benefits Group Wealth
SLF U.S.	Annuities Individual Insurance Employee Benefits Group
MFS Investment Management	—
SLF Asia	—
Corporate	SLF U.K. Corporate Support

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 of its operations in emerging markets against the more established businesses in mature markets. In a similar way, the Company's 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

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 2009 Consolidated Financial Statements.

Acquisition of U.S. Group Benefits Business

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.

Disposition of CI Financial Income Fund

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

Acquisition of U.K. Business

On October 1, 2009 the Company completed the acquisition of the United Kingdom operations of Lincoln National Corporation for $387 million. The purchase price is subject to adjustment related to market and business performance prior to October 1, 2009, the final amount of which has not yet been determined. The acquisition increased Sun Life U.K.'s assets under management over 60% to $20 billion and doubled the number of policies in force to 1.1 million. The two complementary operations of SLF U.K. and Lincoln National U.K. each held books of business in life insurance, pensions and annuities. The combined operations carry the Sun Life Financial of Canada name, a brand that has been active in the U.K. for more than a century.

Other Developments

On July 29, 2009, the Company entered into an agreement with the China Everbright Group Company (China Everbright) to introduce strategic investors to Sun Life Everbright Life Insurance Company Limited (Sun Life Everbright). The restructuring will allow Sun Life Financial and China Everbright to supplement their alliance with strong local partners, providing Sun Life Financial a significant stake in a larger domestic financial services company with greater reach across China's growing financial services sector. Once complete, the Company's ownership is expected to be reduced from 50% to a less than 25% interest in the restructured and repositioned company and the Company will continue to provide its international governance, risk management and actuarial expertise and standards to Sun Life Everbright.

On July 15, 2009, Sun Life Financial and CIMB Group received regulatory approval to form a joint venture to distribute Sun Life Financial's life, accident and health insurance products through the 600-plus retail branches of PT Bank CIMB Niaga in Indonesia.

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.

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.

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 2009 MD&A which is incorporated by reference in this AIF and should be read in conjunction with SLF Inc.'s 2009 Consolidated Financial Statements. These documents are available on SEDAR at www.sedar.com and with the SEC at www.sec.gov.

Protection and Wealth Businesses

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 a range of health care services. Lastly, concern about the adequacy of 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.

Market conditions remained volatile throughout 2009. Economic data in the U.S. and globally is beginning to show signs of recovery from the worst recessionary period in more than 60 years. In response to the global financial crisis, governments and regulators are working to develop the appropriate level of financial regulation required to ensure that capital, liquidity and risk management practices are sufficient to withstand severe economic downturns. While the impacts on the life insurance sector are not known, it remains probable that increased regulation (including at the holding company level) will lead to higher levels of required capital and liquidity and limits on levels of financial leverage which could result in lower returns on capital for shareholders.

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. Economic instability over the past 18 months has not led to substantive industry consolidation. However, future consolidation remains probable as insurers re-focus their operations on strategically important businesses, and divest non-core lines of business.

Regulation of the financial services industry in North America has 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, which compete directly with various products and services offered by the Company.

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. While there is some variation in sales patterns and results of operations within certain business units of the Company, the impacts are not material to Sun Life Financial.

Number of Employees

At December 31, 2009 the Company had approximately 14,260 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. Six series of Class A Preferred Shares have been created and designated as Class A Non-Cumulative Preferred Share Series 1, Series 2, Series 3, Series 4, Series 5 and Series 6R. The following table outlines the issued share capital of SLF Inc. as at February 5, 2010, including stock exchange listings.

Issued Share Capital

Security	Number of Shares	Exchanges [1]		
		TSX	NYSX	PSE
Common Shares	564,580,672	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		
Series 6R	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
Series 6R	0.375000	June 30, 2014	May 8, 2009

The shares in each series of the Class A Preferred Shares 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 2009:

Common Shares

	Price ($)			Trading volume (thousands)
	High	Low	Close	
January	29.99	22.00	24.96	33,018
February	25.78	18.06	19.91	49,065
March	24.26	14.97	22.84	61,948
April	29.48	27.81	27.90	46,368
May	30.44	26.11	28.71	36,083
June	33.70	28.99	31.40	30,708
July	38.50	27.81	36.82	32,664
August	38.13	30.87	32.40	29,882
September	33.70	29.83	33.55	29,299
October	33.75	28.31	29.93	26,655
November	30.52	27.00	29.16	44,970
December	30.85	27.51	30.25	26,776

Class A Preferred Shares

	Series 1				Series 2			
	Price ($)			Trading volume (thousands)	Price ($)			Trading volume (thousands)
	High	Low	Close		High	Low	Close	
January	17.73	15.95	16.95	589	17.20	16.45	16.80	657
February	16.95	15.15	15.52	219	16.89	15.50	15.75	201
March	15.74	13.30	15.70	291	15.97	13.15	15.89	224
April	17.41	17.15	17.09	273	17.64	17.39	17.37	211
May	18.58	16.95	17.98	439	18.67	17.30	18.19	218
June	18.09	17.61	17.94	485	18.75	17.85	18.56	265
July	19.54	17.63	19.54	1,118	19.68	18.32	19.68	315
August	21.86	19.67	20.94	407	21.94	19.59	21.36	572
September	20.85	20.00	20.40	274	21.23	20.06	20.40	289
October	20.40	19.60	19.95	343	20.40	19.53	20.04	232
November	20.52	19.75	20.00	186	20.79	19.80	20.21	256
December	20.84	19.84	20.70	203	20.83	19.99	20.66	451

	Series 3				Series 4			
	Price ($)			Trading volume (thousands)	Price ($)			Trading volume (thousands)
	High	Low	Close		High	Low	Close	
January	16.24	15.00	15.50	445	16.10	15.05	15.70	392
February	15.69	14.55	14.90	262	15.85	14.50	15.19	240
March	14.90	12.60	14.90	139	15.39	12.50	14.69	358
April	16.15	15.88	16.14	187	16.22	16.10	15.99	142
May	17.17	16.09	16.70	271	17.30	15.99	16.97	413
June	17.20	16.55	16.77	202	17.25	16.60	16.80	297
July	18.76	16.70	18.48	443	18.84	16.67	18.46	452
August	20.49	18.40	19.80	332	20.60	18.30	19.82	220
September	19.75	18.67	18.67	318	19.75	18.62	18.71	366
October	18.87	18.14	18.60	218	18.87	18.16	18.40	517
November	19.47	18.37	18.83	214	19.25	18.36	18.74	337
December	19.15	18.58	19.00	236	19.18	18.51	19.12	337

	Series 5				Series 6R			
	Price ($)			Trading volume	Price ($)			Trading volume
	High	Low	Close	(thousands)	High	Low	Close	(thousands)
January	16.38	15.26	15.82	373	—	—	—	—
February	15.83	14.31	15.00	310	—	—	—	—
March	15.10	12.80	15.05	113	—	—	—	—
April	16.63	16.20	16.63	110	—	—	—	—
May	17.40	16.34	17.15	565	25.94	25.55	25.80	1,291
June	17.78	16.75	17.20	303	26.45	25.75	26.44	452
July	18.99	16.85	18.99	145	27.57	26.05	27.10	274
August	20.55	18.77	19.89	298	27.70	26.45	27.11	302
September	19.85	18.80	18.95	299	27.87	26.78	27.10	510
October	19.12	18.31	18.68	287	27.50	26.85	27.05	286
November	19.47	18.55	18.92	241	27.65	26.95	27.20	166
December	19.29	18.60	19.29	431	27.70	27.05	27.53	150

Sales of Unlisted Securities

SLF Inc. has issued the following unlisted securities since January 1, 2009.

On March 31, 2009, SLF Inc. issued $500 million principal amount of Series 2009-1 Subordinated Unsecured 7.90% Fixed/Floating Debentures (Series 2009-1) due in 2019.

On June 30, 2009, SLF Inc. issued $300 million principal amount of Series D Senior Unsecured 5.70% Debentures due 2019.

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.

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

	2009	2008	2007
Common Shares	$ 1.44	$ 1.44	$ 1.32
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	$1.112500
Series 4	$1.112500	$1.112500	$1.112500
Series 5	$1.125000	$1.125000	$1.019435
Series 6R	$0.921580	—	—

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 and Sun Life Capital Trust II, 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 (in the case of the SLEECS issued by Sun Life Capital Trust) or six month (in the case of SLEECS issued by Sun Life Capital Trust II) 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 (MCCSR) 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.

During the fourth quarter of 2008, Standard & Poor's (S&P), Moody's Investors Service (Moody's), A.M. Best and Fitch Ratings (Fitch) revised their respective outlooks for the North American life insurance sector to negative from stable. Following this change, these rating agencies downgraded the financial strength ratings of Sun Life Assurance in the first quarter of 2009. Commensurate with downgrade of Sun Life Assurance, a number of the Company's securities ratings were lowered in accordance with rating agency practices. The table below provides the most recent security ratings for the Company.

The Company provides S&P, Moody's and DBRS with confidential, in-depth information, access to management and business plans in support of the rating process. The Company does not engage Fitch and therefore does not provide them with any non-public information or access to management.

Security Ratings

	DBRS[1]		S&P[2]		Moody's[3]		Fitch[4]	
	Rating	**Rank**	**Rating**	**Rank**	**Rating**	**Rank**	**Rating**	**Rank**
Class A Preferred Shares								
Series 1-6R	Pfd-1(low)	1 of 6	P-1(low)/A-	1 of 5[5]	Baa2	4 of 10	BBB[6]	4 of 10
Senior Unsecured Debentures								
Series A-D	AA (low)	2 of 10	A+	3 of 10	NR[7]		A-	3 of 10
Subordinated Unsecured Debentures								
Series 2007-1, Series 2008-1, Series 2008-2 and Series 2009-1	A(high)	3 of 10	A	3 of 10	NR[7]		BBB+	4 of 10

[1] DBRS Limited
[2] Standard & Poor's, a division of McGraw-Hill Companies
[3] Moody's Investors Service has only provided a rating for SLF Inc.'s Series 2 preferred shares
[4] The Company does not solicit ratings opinions from Fitch and the ratings by Fitch are based on publicly available information
[5] Reflects Canadian scale and corresponds to a 4 of 20 on a Global scale
[6] On January 29, 2010, Fitch Ratings downgraded over 200 preferred and hybrid capital instruments of issuers in the insurance sector; as part of this exercise SLF Inc.'s preferred shares were downgraded one notch from BBB+ to BBB
[7] Not Rated

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

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, 5 and 6R 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.

Moody's Investors Service

Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honoured as promised. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default. Moody's generally does not rate the securities of SLF Inc., however it does provide an Insurance Financial Strength rating to SLF Inc.'s major subsidiaries. Moody's has provided a rating of Baa2 on SLF Inc. Series 2 preferred shares. Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Fitch Ratings

Fitch's credit ratings provide an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. Fitch's credit ratings do not directly address any risk other than credit risk. In particular, ratings do not deal with the risk of a market value loss on a rated security due to changes in interest rates, liquidity and other market considerations. The primary credit rating scales (those featuring the symbols AAA – D and F1 – D) are used for debt and financial strength ratings. An A rating denotes expectations of low default risk and the capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. A BBB rating indicates that expectations of default risk are currently low and the capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity. The modifiers + or — may be appended to a rating to denote relative status within major rating categories.

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 2009 MD&A under the Capital and Liquidity Management section under the heading Asset Securitizations.

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 5/F, HSBC Centre 3058 Fifth Avenue West Bonifacio Global City Taguig City, 1634, Philippines
Hong Kong	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong

Preferred Shares and Debentures

CIBC Mellon Trust Company is the transfer agent for SLF Inc.'s Class A Preferred Shares, and is the trustee and the registrar for SLF Inc.'s senior unsecured debentures, Series A, B, C and D and its subordinated debentures, Series 2007-1, Series 2008-1, Series 2008-2 and Series 2009-1. The registers for those securities are maintained in Toronto, Ontario, Canada.

Directors and Executive Officers

Board of Directors

At December 31, 2009, the Board of Directors of SLF Inc. had five standing committees: Audit Committee, Governance and Conduct Review Committee, Investment Oversight 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 2010. 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	Investment Oversight Management Resources
John H. Clappison Ontario, Canada	Corporate Director	2006	Audit Risk Review
David A. Ganong, CM New Brunswick, Canada	Chairman, Ganong Bros. Limited	2002	Audit Governance and Conduct Review
Germaine Gibara Quebec, Canada	President, Avvio Management Inc.	2002	Investment Oversight Management Resources
Krystyna T. Hoeg Ontario, Canada	Corporate Director	2002	Audit Risk Review
David W. Kerr Ontario, Canada	Managing Partner, Edper Financial Group	2004	Investment Oversight Management Resources
Idalene F. Kesner Indiana, USA	Associate Dean of Faculty and Research 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	Investment Oversight 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	Governance and Conduct Review
Hon. Hugh D. Segal, CM Ontario, Canada	Senator, Government of Canada	2009	Governance and Conduct Review Investment Oversight
Donald A. Stewart Ontario, Canada	Chief Executive Officer, SLF Inc. and Sun Life Assurance	1999	None
James H. Sutcliffe London, England	Corporate Director	2009	Audit Risk Review

Each director of SLF Inc. has been engaged for more than five years in his or her present principal occupation or in other capacities with the company or organization (or predecessor thereof) in which he or she currently holds his or her principal occupation, except: Mr. Clappison, who prior to December 2005, was the Managing Partner of the Greater Toronto Area office of PricewaterhouseCoopers LLP; Ms. Hoeg, who prior to February 2007, was President and Chief Executive Officer of Corby Distilleries Limited; Mr. Kerr, who prior to August 2006, was Chairman of Falconbridge Limited; Mr. Merin, who prior to September 2005, was President and Chief Operating Officer of Morgan Stanley Investment Management, Senator Segal, who was also President, Institute for Research on Public Policy prior to May 2006, 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) Mr. Kerr is a director of CanWest Global Communications Corp. In October 2009, it filed for protection under the Companies' Creditors Arrangement Act (CCAA) and filed for recognition and ancillary relief under Chapter 15 of the Bankruptcy Code in the United States;

(ii) 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.;

(iii) 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

(iv) Mr. Osborne was a director of Nortel Networks Corporation and Nortel Networks Limited (collectively, Nortel) when on April 10, 2006 the Ontario Securities Commission (OSC) issued a management cease trade order prohibiting all directors, officers and certain other current and former employees of Nortel from trading in securities of Nortel until two business days following receipt by the OSC of all filings required to be made by Nortel pursuant to Ontario securities laws. This order resulted from Nortel's need to restate certain previously reported financial results and related delays in filing certain of its 2005 financial results. This order was revoked effective June 8, 2006. Mr. Osborne is no longer a director of Nortel.

Audit 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 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 OSC 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. Mr. Baillie is a member of the Public Accountants Council for the Province of Ontario and until October 2008, was the Chair of the Auditing and Assurance Standards Oversight Council. 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 chairman of the audit committee of Cameco Corporation, a director and member of the audit committee of 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 and Roy Thomson Hall and Massey Hall Endowment Foundation.

David A. Ganong is Chairman of Ganong Bros. Limited, a confectionery manufacturer. Prior to July 2008, he was President of Ganong Bros. Limited. Mr. Ganong joined the Board of Directors of SLF Inc. and Sun Life Assurance in 2002. He served on the Risk Review Committee and the Management Resources Committee from 2002 to 2009, and the Governance and Conduct Review Committee from 2002 to 2006. Mr. Ganong joined the Audit Committee and re-joined the Governance and Conduct Review Committee in 2009. Mr. Ganong was a director of Air Canada from 1988 until 2004 and a director of New Brunswick and Canada Railway from 1985 to 2004. He is a member of the Board of Governors of The University of New Brunswick, a Canadian representative on the North American Competitiveness Council and a director of the Canadian Council of Chief Executives.

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 a director and Group Chief Executive Officer. He also served as a director of Nedbank Group Limited, a public company and a subsidiary of Old Mutual plc, from 2001 to 2008. Mr. Sutcliffe joined the Board of Directors, the Audit Committee and the Risk Review Committee of SLF Inc. and Sun Life Assurance in February 2009. Mr. Sutcliffe is a director and a member of the audit and risk committee and the remuneration committee of Lonmin plc, and a director and a member of the group audit and actuarial committee and the risk committee of Liberty Holdings Limited. In June 2009, Mr. Sutcliffe was appointed as the Chairman of the Board for Actuarial Standards and as a director of the Financial Reporting Council. In September 2009, he was appointed as a Senior Advisor to the Global Financial Institutions Advisory Board of CVC Capital Partners. Mr. Sutcliffe 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 as at February 11, 2010.

Name	Province/State and Country of Residence	Position
Donald A. Stewart	Ontario, Canada	Chief Executive Officer
Jon A. Boscia	Ontario, Canada	President
Dean A. Connor	Ontario, Canada	Chief Operating Officer
Claude A. Accum	Massachusetts, USA	Executive Vice-President, Actuarial and Risk Management
Thomas A. Bogart	Ontario, Canada	Executive Vice-President and General Counsel
Kevin P. Dougherty	Ontario, Canada	President, SLF Canada and President, Sun Life Global Investments
Colm J. Freyne	Ontario, Canada	Executive Vice-President and Chief Financial Officer
Stephen C. Peacher	Massachusetts, USA	Executive Vice-President and Chief Investment Officer
Mark S. Saunders	Ontario, Canada	Executive Vice-President and Chief Information Officer
Michael P. Stramaglia	Ontario, Canada	Executive Vice-President and Chief Risk Officer

Each executive officer of SLF Inc. has held his current position or other senior positions with the Company during the past five years with the following exceptions. Prior to joining Sun Life Financial in October 2008, Mr. Boscia was Chairman and Chief Executive Officer of Lincoln Financial Group until July 2007. Prior to September 2006, Mr. Connor was President, Americas, Mercer Human Resource Consulting (Mercer) and prior to May 2005, he was President, US, Mercer. Prior to October 2009, Mr. Peacher was Managing Director, Head of Fixed Income and Liquidity Strategies at Columbia Management Group. Prior to March 2009, Mr. Saunders was Senior Technology Officer, Barclays Commercial Bank and prior to October 2006, he was Senior Vice President, Enterprise Infrastructure, BMO Financial Group.

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 all directors, officers and employees. 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 Governance and Conduct Review Committee reviews the effectiveness of, and compliance with, the Code of Business Conduct, reports on its review to the Board of Directors on an annual basis, and makes recommendations on amendments as required. No waivers of the Code for directors or executive officers have been granted.

Shareholdings of Directors and Executive Officers

As at December 31, 2009, SLF Inc.'s directors and executive officers, as a group, owned, directly or indirectly, or had voting control or direction over 220,730 Common Shares of SLF Inc., or less than 1% of the total Common Shares outstanding.

Principal Accountant Fees and Services

Audit fees were billed 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 billed to the Company by its external auditors for the past two years.

Audit Fees

($ millions)	Year Ended December 31 2009	2008[1]
Audit Services	20.0	20.1
Audit-Related Services	3.1	2.1
Other Services	0.2	0.2

1 The 2008 amounts have been adjusted from those previously disclosed to remove $1.8 million in fees relating to fiscal 2007 audits and include $3.0 million in fees relating to fiscal 2008 audits. These fees could not be estimated at the date of the Company's prior annual information form.

Fees for audit-related services were billed 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.

No material fees were billed for tax services by the Company's external auditors in the past two years.

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).

Interest 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.

Lesley Thomson, the Appointed Actuary of SLF Inc., has provided an opinion on the value of policy liabilities for SLF Inc.'s consolidated balance sheet as at December 31, 2009 and the change in the consolidated statement of operations for the year ended December 31, 2009. Ms. Thomson owned beneficially, directly or indirectly, less than 1% of all outstanding securities or other property of SLF Inc. or its affiliates when she prepared that opinion, or after that opinion was prepared, and she 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 government 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 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 out 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 MCCSR that applies 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 these 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, (v) off-balance sheet activity exposure and (vi) foreign exchange risk. The total capital required is the sum of the capital required calculated for each of these six risk components. 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 life insurance companies to maintain an MCCSR of 150% or greater.

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, unrealized gains and losses on available-for-sales equities, qualifying preferred shares, innovative capital instruments and subordinated debt, unamortized deferred realized gains not taken into account in the valuation of liabilities and a portion of actuarial liabilities related to future policyholder termination dividends. 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 credit taken on reserves on reinsurance ceded to unregistered reinsurers. OSFI may require that a higher amount of capital be available, taking into account factors such 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 insurer's changes, or to reflect other risks.

OSFI is considering new guidelines that would establish stand-alone capital adequacy requirements for operating life insurance companies, such as Sun Life Assurance, and that would update OSFI's regulatory guidance for non-operating insurance companies acting as holding companies, such as SLF Inc. OSFI is also reviewing the use of internally-modeled capital requirements for segregated fund guarantees. The outcome of these initiatives is uncertain and could lead to higher levels of required capital and liquidity and limits on levels of financial leverage.

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 that, 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 in Canada, 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. The primary regulator of an insurance company, however, is located in its state of domicile. 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 authority to limit or prohibit the ability to issue new policies if, in their judgment, 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 generally 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. As a special purpose financial captive insurance company, 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 certain intercompany 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 surplus notes issued by Sun Life Assurance Company of Canada (U.S.) (Sun Life (U.S.)) affect its 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 or distributions from its capital and surplus only to the extent that its total adjusted capital following the payment 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 with various degrees of supervision, ranging from increased monitoring to certain business limitations. For the 12 months ended December 31, 2008, the most recent period for which results are available, the U.S. Branch and SLF Inc.'s U.S. life insurance subsidiaries were within the usual ranges for most of the IRIS ratios. The ratios which were outside the usual ranges 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). 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. life 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 size 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.

The move toward a principles-based approach for determining reserves and regulatory minimum capital for life and variable annuity business continues in the United States. This approach uses more sophisticated model-based approaches that capture the wide range of risks in insurance products instead of static ratios and formulas for determining solvency requirements. The NAIC Variable Annuity Commissioners Annuity Reserve Valuation Method (VACARVM) is a new principles-based reserve standard designed to improve statutory reserving for variable annuity products with guaranteed death and living benefits. While VACARVM was effective December 31, 2009, the U.S. life insurance industry and the NAIC are continuing to work through several implementation issues. Preliminary analysis of the effect of VACARVM on the NAIC reserves required for the U.S. Branch and SLF Inc.'s U.S. life insurance subsidiaries indicates that modest reserve strengthening may be required.

For year-end 2009 reporting purposes, risk-based capital (RBC) for residential mortgage-backed securities (RMBS) will be determined using a financial model instead of credit ratings pursuant to a recently adopted NAIC proposal. The process will rely on a proprietary model developed by an outside vendor selected by the NAIC. A preliminary analysis performed by the U.S. Branch and SLF Inc.'s U.S. life insurance subsidiaries using the model indicates an adverse impact on their RBC ratios. Nevertheless, the RBC ratios for the U.S. Branch and SLF Inc.'s U.S. life insurance subsidiaries as of December 31, 2009 exceeded the levels under which any regulatory or corrective action would be required.

Risk-based Capital Requirements

All states have 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 and to measure the risk characteristics of a company's assets, liabilities and certain off-balance sheet items. The RBC formula for life insurance companies measures the ratio of the company's statutory capital to the minimum capital required by the RBC formula. The RBC formula for life insurance companies measures exposures to investment risk, insurance risk, interest rate and other market risks and general business risk 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. The RBC ratio is calculated by dividing total adjusted capital by RBC. Total adjusted capital consists of statutory capital, surplus and the AVR. RBC is normally expressed in terms of the company action level (CAL) with the adequacy of an insurance company's capital being assessed against its CAL. Insurers considered to have inadequate capital are subject to varying degrees of regulatory action, depending on the level of capital inadequacy. If a company's RBC is less than or equal to 100% of the CAL, a comprehensive plan will need to be submitted to the company's state regulator. The RBC ratios for the U.S. Branch and SLF Inc.'s U.S. life insurance subsidiaries as of December 31, 2009 exceeded the levels under which any regulatory or corrective action would 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(s) in which they are licensed and the types of business that they transact.

The U.S. Branch, as the branch of an alien 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. Generally, these assets are available only 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. As at December 31, 2009, the U.S. Branch had assets in trust in excess of Michigan's requirements.

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.

Legislation has been introduced in recent years which could result in the U.S. federal government's assuming a more direct role in the regulation of the life insurance industry. The U.S. Congress is considering legislation that would establish a federal insurance office in the Department of Treasury. If that legislation is enacted, the U.S. federal government would have authority to monitor aspects of the life insurance industry, collect data on the industry, and exercise certain other powers, although it would not have direct regulatory authority over life insurers.

Under U.S. Federal legislation, the *USA PATRIOT Act of 2001* (PATRIOT Act) applies 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 U.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. 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, including insurers, to protect the security and confidentiality of customer information and to notify customers about the institution's policies and practices relating to its collection, use, and disclosure of customer information and its 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 contracts, policies and funds offered or managed by these subsidiaries are subject to regulation under U.S. federal securities laws and administered by the SEC and under certain state securities laws.

Several of SLF Inc.'s U.S. subsidiaries issue products, such as variable annuity contracts and variable life insurance policies, which are registered with the SEC as investment companies under the Investment Company Act of 1940, as amended (1940 Act) and the Securities Act of 1933, as amended (Securities Act). Certain of SLF Inc.'s U.S. subsidiaries provide investment management services to other products, such as the MFS funds, which similarly are registered as investment companies under the 1940 Act and the Securities Act. The 1940 Act and the Securities Act impose various obligations on registered investment companies, including disclosure, operational, recordkeeping and reporting requirements and, in the case of the 1940 Act, prohibitions on certain transactions with affiliates.

To the extent that variable annuities, variable life insurance or any other products are deemed to be securities under U.S. federal or state securities laws, they are qualified for sale as needed in certain states in the United States and the District of Columbia. Marketing and sales of securities products are subject to the Securities Exchange Act of 1934, as amended (Exchange Act), and regulations promulgated by the Financial Industry Regulatory Authority.

The investment management activities of SLF Inc.'s U.S. subsidiaries are subject to federal and state laws and regulations in the jurisdictions where they conduct business. MFS and certain of SLF Inc.'s other U.S. subsidiaries are registered as investment advisers under the Investment Advisers Act of 1940, as amended, which imposes various obligations on registered investment advisers, including fiduciary duties, disclosure, operational, recordkeeping and reporting requirements.

Registered investment companies and investment advisers are regulated by and subject to examination by the SEC. The SEC is authorized to institute proceedings and impose sanctions for violations of the U.S. federal securities laws. Failure to comply with applicable securities laws could subject SLF Inc.'s investment advisory subsidiaries to a range of regulatory sanctions, including censure, limitations on the registrant's activities, and termination of registration, and could subject its registered investment companies to a cessation of sales or rescission of securities sold.

Sun Life (U.S.) files periodic reports with the SEC under the Exchange Act. Certain of SLF Inc.'s U.S. subsidiaries are registered as broker-dealers under the Exchange Act and are subject, for example, to the SEC's net capital rules, and are members of, and subject to regulation by, the Financial Industry Regulation Authority. 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 recently adopted Rule 151A, which will prospectively require SEC registration and regulation of these products as securities rather than exclusively as insurance products.

United Kingdom

Insurance Regulation

SLF Inc. does not carry on business and is not regulated as an insurance company in the United Kingdom but is the indirect owner of the capital stock of several U.K. insurance subsidiaries that are regulated by the United Kingdom Financial Services Authority (FSA). SLF Inc.'s U.K. life insurance subsidiaries, Sun Life Assurance Company of Canada (U.K.) Limited (Sun Life (U.K.)) and Lincoln Assurance Limited (LAL) carry on certain regulated activities as principal and by way of business in the United Kingdom in relation to long-term contracts of insurance and are required to be authorized and regulated under the *Financial Services and Markets Act 2000* (FSM Act) by the 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 and the Prudential Sourcebook for Insurers (INSPRU) (which are part of the FSA Handbook) to file financial

statements and other information 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.) and LAL are also required to comply with the conduct of business standards of the Irish Financial Services Regulatory Authority 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, each of Sun Life (U.K.) and LAL are 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 their non-life insurance business, if any, or to shareholders. Within their respective long-term insurance funds, each of Sun Life (U.K.) and LAL maintain separate sub-funds in respect of assets and liabilities attributable to its participating insurance business and to its non-participating insurance business. The FSA rules set out in the INSPRU impose restrictions on Sun Life (U.K.) and LAL from applying assets attributable to their long-term insurance businesses for purposes other than their long-term businesses.

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 its 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.) and LAL meet their 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, each of Sun Life (U.K.) and LAL are 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 operates are written by the FSA, however, although the two organizations operate closely together, they are operationally independent. The Financial Ombudsman Service 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, to investigate the business of the insurance company and to require the company to take appropriate actions 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. During 2009, this approach has been reaffirmed in a number of key note addresses. The FSA has also highlighted that as part of outcomes focussed regulation that it wishes to work more closely with firms, particularly as strategic initiatives are announced, to fully work through the implications of any such changes and challenge managements thinking at an early stage to ensure the correct regulatory outcomes. Treating Customers Fairly continues to be a major factor within the scope of regulatory reviews. 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. 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.

Securities Laws

Lincoln Investment Managers (LIM) and Lincoln Unit Trust Managers (LUTM) are authorised and Regulated by the FSA. They carry on certain regulated activities as principal and by way of business in the United Kingdom in relation to investment activity and therefore are required to be authorized and regulated under the FSM Act by the FSA. They 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, including the Principles for Businesses contained in the High Level Standards of the FSA Handbook. These include a requirement for firms, including investment 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. They are required under the FSM Act and under the General Prudential Sourcebook to file their financial statements and other information 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.

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 in SLF Inc.'s 2009 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 is owed by 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), structured securities, 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 and/or when the counterparty's credit rating or risk profile otherwise deteriorates. Credit risk can also arise in connection with deterioration in the value of or ability to realize on any underlying security that may be used to collateralize the debt obligation (e.g. real estate property values in the case of mortgage obligations). Credit risk can occur at multiple levels: as a result of broad economic conditions, challenges within specific sectors of the economy, or from issues affecting individual companies. Events that result in defaults, impairments or downgrades of the securities in its investment portfolio would cause Sun Life Financial to record realized or unrealized losses and increase its provisions for asset default, adversely impacting earnings.

Continued volatility in the capital markets, including deteriorating credit and negative real estate risk indicators, fluctuations in macro economic factors, and assumed loss given default expectations, may 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 its investment portfolio would cause Sun Life Financial to record realized or unrealized losses and increase its provisions for asset default, adversely impacting earnings. For example, the Company's asset-backed portfolio is highly sensitive to fluctuations in macro economic factors, assumed default rates for the underlying collateral pool and loss given default expectations. In addition, the Company's asset-backed portfolio has exposure to lower rated securities that are highly leveraged, with relatively small amounts of subordination available below the Company's securities to absorb losses in the underlying collateral pool. For these securities, if a relatively small percentage of the underlying collateral pool defaults, the Company may lose all of its principal investment in the security.

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 or its 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 market risk is the potential for financial loss arising from price changes or volatility in equity markets. Equity market price declines and volatility impacts both assets and liabilities and could adversely affect Sun Life Financial's business, profitability and capital requirements in several ways.

The Company's primary exposure to equity risk is through its segregated fund products and variable annuities which provide benefit guarantees linked to underlying fund performance. These benefit guarantees may be triggered upon death, maturity, withdrawal or annuitization, depending on the market performance of the underlying funds. The Company provides these guarantees through the individual segregated fund business reported in its SLF Canada business segment, the variable annuities business reported in its SLF U.S. business segment, and in the Run-off reinsurance business reported in its Corporate business segment.

The ultimate cost of providing for these guarantees with respect of the Company's segregated fund and variable annuity products is uncertain, and will depend upon a number of factors including general capital market conditions, policyholder behaviour and insurance experience, and may result in negative impacts on net income and capital. The Company has implemented hedging programs, involving the use of derivative instruments to help mitigate a portion of the equity market-related volatility in the cost of providing for these guarantees.

These programs are primarily focused on hedging the expected economic costs associated with providing the above-mentioned segregated fund and variable annuity guarantees. Since the economic value of benefits being hedged will generally differ from the financial statement value (due to different valuation methods and the inclusion of valuation margins in respect of financial statement values), this approach will result in residual volatility to equity market shocks in reported income and capital. The general availability and cost of these hedging instruments may be adversely impacted by a number of factors, including volatile and declining equity and interest rate market conditions.

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 (i.e. frequent rebalancing of short-dated equity futures derivative contracts) hedging techniques.

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, liquidity risk, 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. 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 primarily with highly rated counterparties and transacting through ISDA agreements that generally include applicable credit support annexes), residual risk and potential reported earnings and capital volatility remain.

The Company actively monitors its overall equity market exposure and may implement tactical hedge overlay strategies (primarily in the form of equity futures contracts) to align expected earnings sensitivities with enterprise risk management objectives.

The Company derives a portion of its revenue from fee income generated by its asset management businesses and from certain insurance and annuity contracts where fee income is levied on account balances that directionally move in line with general equity market levels. 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 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 holds private equity investments where the timing and amount of income is difficult to predict causing investment income to vary from quarter to quarter.

Real estate equity market 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. Fluctuations in the value of these asset types will also impact the Company's profitability and financial position. Sun Life Financial holds direct equity real estate investments supporting general account liabilities and surplus.

Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes or volatility in interest rates and/or 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. 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 in place 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, 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 these events may have an adverse impact on Sun Life Financial's profitability and financial position. Lower interest rates and/or a narrowing of credit spreads can also cause a 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 the Company's core insurance offerings, requiring a significant repositioning of the product portfolio. This may contribute to adverse developments in revenues and cost trends and, hence, overall profitability.

Credit spreads on corporate bonds experienced significant moves during the fourth quarter of 2008 and in early 2009. Credit spreads widened to levels of about three times their long term average and then, for most asset classes, narrowed back to levels generally near their long term average by the end of 2009. A subsequent widening of credit spreads may have a material impact on the value of fixed income assets, resulting in further 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 and repurchase agreements 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), pledging collateral or making payments to courterparties (for the decline in the market value of specific assets), 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

In 2008, global capital markets significantly deteriorated, leading to a worldwide economic downturn. Although capital markets have somewhat recovered in 2009, economic growth has been weak. Due to the ongoing economic uncertainty, a sustained global economic downturn or low economic growth environment beyond 2009, with negative economic characteristics associated with inflation or deflation, is possible. Characteristics of either scenario could be higher unemployment, lower family incomes and corporate earnings, and lower consumer spending and business investment. These outcomes could have multiple effects on the Company's business, including reduced demand for Sun Life Financial's insurance and financial 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 regimes 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 AIF including, in particular, credit risk, equity market risk, interest rate risk, liquidity risk and interaction of risks.

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 turmoil, regulators in many countries, including Canada, are considering changes to legislation and regulations designed to strengthen regulation of systemic risks to the global financial system for banks and other financial institutions like insurers. Regulators and governments are focusing on specific practices that are believed to have led to the financial crisis. Future regulation could involve higher capital reserve requirements, limits on executive compensation, especially for short-term performance, and other measures. There can be no assurance that changes to regulatory requirements will not adversely affect Sun Life Financial's businesses in certain countries. These changes, along with the changing role of governments that are participating more directly in the business sector (e.g. equity participation), could adversely impact the Company's business.

For example, in Canada OSFI is considering new guidelines that would establish stand-alone capital adequacy requirements for operating life insurance companies, such as Sun Life Assurance, and that would update OSFI's regulatory guidance for non-operating insurance companies acting as holding companies, such as SLF Inc. OSFI is also reviewing the use of internally-modeled capital requirements for segregated fund guarantees. The outcome of these initiatives is uncertain and could have a material adverse impact on the Company or on its position relative to that of other Canadian and international financial institutions with which it competes for business and capital. In addition, it is expected that OSFI will change the definition of available regulatory capital for determining regulatory capital to align insurance definitions with any changed definitions that emerge for banks under the proposed new Basel Capital Accord.

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 Adequacy Risk section in this AIF.

In the United States, the valuation, capital and accounting rules are regulated by the states of domicile and the other jurisdictions in which Sun Life Financial does business. Model laws and regulations are promulgated by the NAIC, but individual jurisdictions can and do have differing rules. NAIC's standards, including those for reserves and capital, are continually in a state of flux. All of these factors increase the difficulty of ensuring compliance. As an example of the complexity of 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.

There is also a continued expectation that enhanced transparency and disclosure requirements will be established through international standards such as International Financial Reporting Standards (IFRS), the Basel Capital Accords, and Solvency II Pillar 3, which could also impact SLF's business, financial reporting, accounting processes, decision making and costs.

The European Union is in the process of implementing major regulatory changes as part of the Solvency II directive. This would implement a far reaching change to insurance companies' regulatory framework, designed to implement firm-specific and risk-based solvency requirements to reflect the risks that companies face. This would also amend the current supervisory system so that it is consistently implemented across all member states. The rules for Solvency II are in draft, although it is expected that Solvency II will be implemented in 2012.

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.

In addition, discussion is underway regarding potential reforms to Canada's retirement savings plan system and the U.S. health care system. If implemented, these changes may adversely impact the Company's business by creating products and services that will compete directly with certain products and services offered by Sun Life Financial. For our US business, there is also a further risk of the government taking measures to pay for this reform such as higher taxation of our products as well as higher taxation on employees.

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's reputation 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 action lawsuits.

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 and 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, its profitability and future financial results. In addition, there is heightened litigation risk generally arising from this conduct.

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 due to 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 (such as maturities, principal repayments, 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 also 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 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 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 and derivative contracts 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 is limited relative to that available before the recent financial market crisis. 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.

SLF 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 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.

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. In addition, regulatory changes being considered by the OSFI and/or other regulators world-wide may increase the amount of capital required to be held by SLF Inc. and its insurance subsidiaries.

Financial Strength and Credit Ratings

Financial strength and credit ratings risk is the risk of a downgrade by rating agencies of Sun Life Financial and/ or its insurance subsidiaries' 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 SLF Inc.'s insurance company subsidiaries are a key competitive factor in marketing products and in attracting and retaining agents and distributors. Should the financial strength rating of one or more of those subsidiaries decline materially, the Company's competitive position and results of operations could be negatively impacted through loss of sales, higher level of surrenders and withdrawals, and higher reinsurance, and may potentially require the Company to reduce prices for products and services to remain competitive.

Certain rating agencies have a negative outlook on various subsidiaries of the Company and/or the life insurance industry. The outlooks of the rating agencies are predicated on deterioration and volatility in credit and equity markets, economic uncertainty, and the impact of unrealized investment losses on the Company's profitability and capital levels. The ratings of many insurance companies were downgraded in 2009 and there can be no assurance, nor can the Company predict, that there will be further downgrades.

The ratings of various subsidiaries are based the implicit support from the Sun Life Financial group of companies. For example, Moody's has a published financial strength rating of Aa3 (stable outlook) on Sun Life Assurance and Aa3 (negative outlook) for Sun Life (U.S.). Sun Life (U.S.) has a stand-alone rating of A3 and Moody's provides the stand alone rating of Sun Life (U.S.) a 3-notch uplift (to Aa3) as it recognizes the support it receives from the Sun Life Financial group of companies. Should the stand-alone rating of Sun Life (U.S.) be independently downgraded from its negative outlook status, it will result in the published rating of Sun Life (U.S.) being lower by a commensurate amount.

In addition, rating agencies 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.

Sun Life Financial has established financing arrangements that support medium term note programs and the excess NAIC statutory reserves required for universal life policies with no lapse guarantees 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.

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.

In Sun Life Financial's insurance based business, 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.

In Sun Life Financial's wealth management business, investment performance, along with achieving and maintaining superior distribution and client services, is critical. Accordingly, 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.

Mergers Acquisitions and Divestitures

Sun Life Financial regularly explores opportunities to selectively acquire other financial services businesses or to divest itself of all or part of certain 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. This risk 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, the inappropriate choice of acquisition target or mis-estimation and/or deterioration in any key experience factors or assumption upon which the transaction was based. There is no assurance that Sun Life Financial will achieve its financial or strategic objectives or anticipated cost savings following an acquisition.

The purchase and sale agreements that support acquisition transactions typically include various indemnifications provided from the seller to the acquiring entity. Sun Life Financial would therefore be exposed to the credit risk of the selling party with respect to its ability to perform if an indemnification trigger were to occur.

Sun Life Financial 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 as well as expose Sun Life Financial to potential future obligations if an indemnification trigger were to occur.

Insurance Risk- Mortality, Morbidity and Longevity

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 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, and inadvertent introduction of toxic elements into the environment) as well as pandemics such as the H1N1 virus and the avian flu.

These factors could result in a significant increase in mortality and/or morbidity experience above the assumptions used in the 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.

Longevity risk is the potential for economic loss, accounting loss or volatility in earnings arising from uncertain ongoing changes in rates of mortality improvement, and/ 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.

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 that 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 that assumed at the time the product is designed, adversely affecting the product's financial performance.

Policyholder Behaviour

Policyholder 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, and/ or to develop online sales and customer support capabilities and technologies, 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. The capability to reach certain customers through online sales and services is becoming increasingly important in the insurance industry. Sun Life Financial competes with other financial institutions to attract and retain these customers.

Distribution channels are growing rapidly in some businesses in certain countries, which may heighten the risks of market conduct and channel conflicts or overlaps.

Operations in Asia

The future success of Sun Life Financial's businesses in Asia depends in large part on the Company's ability to grow and 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, asset/liability management risk, and its ability to expand and diversify distribution channels.

If Sun Life Financial is unable to attract, retain and engage qualified employees and executives with relevant 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 the Company 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 the Company's Asian operations to higher asset-liability management costs and potential risk.

Sun Life Financial's joint venture operations in India, China, and Indonesia 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 strategy and 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 the Company's 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. These 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 in different countries (e.g. Canadian GAAP, U.S. GAAP, IFRS, etc.) may create differences in reported earnings, potentially causing Sun Life Financial to be at a disadvantage compared to some of its competitors in certain of its businesses.

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 cash flows. 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 to be aligned with the currency of aggregate liabilities and minimum required surplus. This approach provides an operational hedge against disruptions in local operations caused by currency fluctuations. Changes in exchange rates, however, could adversely affect Sun Life Financial's net income and surplus when results in local currencies are converted 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.

Model Risk

Model risk refers to unexpected 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 models' 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. The nature of the life retrocession industry is such that there is reliance on the original underwriting decisions made by Sun Life Financial's clients. Erroneous or untimely reporting of data from these clients may result in inaccurate model calculations and valuations and create volatility in the Company's earnings.

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.

Business Continuity

Sun Life Financial's businesses are dependent on the availability of trained employees, physical locations to conduct operations and computer and Internet-enabled technology. A significant business disruption to Sun Life Financial's operations can result if one or more of these key elements are negatively impacted.

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, operations, and its employees. These failures can result from disruption of the Company's systems from utility outages, fires, floods, severe storms, terrorism and other man-made attacks, natural disasters and other events. In addition to these key business processes and system disruptions, these unanticipated events, including disease pandemics such as the H1N1 virus, can also negatively affect staff, preventing them from getting to work or from operating business processes. Also, because some of Sun Life Financial's business processes are performed by third parties and some of the Company's systems interface with and/or are dependent on third-party systems, the Company could experience service interruptions if these third party operations or systems fail.

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 and/ 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 or events. 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. These events could have an adverse effect on the Company's results of operations and reputation.

Sun Life Financial retains data for business transactions and financial reporting, personal information about its customers and employees in its computer and other record retention systems, and also enables customers 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 is taken to ensure these changes succeed, it is not possible to fully eliminate the risk of business disruption. Some of these changes and 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 and entities to which the Company has outsourced certain functions) do not provide the contracted service at the cost and quality levels expected.

Sun Life Financial obtains services from 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 in the manner agreed to could materially and adversely affect Sun Life Financial's ability to market or service its products and customers. Even if contingency plans are developed for significant outsourcing arrangements there can be no assurance that the Company would be able to find alternate sources for these 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 continues to be a priority and strong area of focus. 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.

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 Company's Board of Directors for these insurance policies. The Company may have to make additional contributions to these closed blocks, resulting in losses to shareholders, should experience be sufficiently adverse that the funds can no longer meet the reasonable expectations of policyholders in these blocks.

Environmental Risk

Environmental risk is the potential for financial, operational or reputation loss arising from environmental issues or concerns, from Sun Life Financial's direct ownership of property, or from loans, bonds or stocks in which the Company has invested, or from its business operations.

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, or if major multinational clients, shareholder groups or other key stakeholders deem that Sun Life Financial's environmental practices are inadequate. Sun Life Financial may be disqualified from bidding on business opportunities due to a potential client's supply chain policies. Environmental practices may relate to carbon disclosure, response to regulatory and public policy developments and contribution to climate change through operating footprint, investments or lending practices.

In addition, the Company's financial performance may be adversely affected if Sun Life Financial does not adequately prepare for the potential direct or indirect negative economic impacts of climate change which may affect the Company. Potential economic impacts of climate change include:

- Business losses and disruptions caused by climate change resulting from extreme weather, rising sea levels, heat waves, severe storms, wildfires, floods and droughts and the resulting disruption to water, air and food supplies;
- Implications of the development of a legal and regulatory framework to address climate change, such as potential disruption or increased cost of oil-dependent transportation, increased fuel and electricity costs and costs associated with new building requirements; and
- Health risks and increased mortality resulting from pollution and climate change and its impact on water and food supply, changes in distribution and burden of organism-borne, food-borne and waterborne infectious diseases.

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 markets. 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 underwrite 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.

Interaction of Risks

The risks outlined above may occur independently or in various combinations. Multiple risks may occur simultaneously or in rapid chained progression, giving rise to losses. 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, FINRA 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, 2009, (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 SLF Inc. or the auditors of SLF Inc. 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 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 SLF Inc.'s expense.

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 SLF Inc.'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.

2. In conducting its review of the quarterly and annual financial statements, it:

   a) discusses with the External Auditor 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 judgements 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; and
   f) considers emerging industry, regulatory and accounting standards and the possible impact on the Corporation's principal accounting practices and policies.

External Auditor

3. Reviews the independence of the External Auditor, including the requirements relating to such independence of the laws governing Sun Life Financial and the applicable rules of stock exchanges on which Sun Life Financial's securities are listed. At least annually, the Committee receives from and reviews with the External Auditor their written statement delineating relationships with Sun Life Financial 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 Auditor's 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. Discusses with the External Auditor the finance and control-related aspects of material transactions that are being proposed by Sun Life Financial.
15. Reviews, and discusses with the External Auditor and the Chief Actuary such reports and regulatory returns of the Sun Life Financial 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 including management's responses and recommendations.
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, Sun Life Financial'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 Sun Life Financial'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. Specific prohibitions are set out in Appendix I.

Each engagement of the External Auditor to provide services will require the approval in advance of the Audit Committees of SLF Inc. and/or Sun Life Assurance, 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 SLF Inc's Senior Vice-President & 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 SLF Inc. 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 SLF Inc. or any subsidiary.

Personnel of SLF Inc. and its subsidiaries employed in the key financial reporting oversight roles described in Appendix II shall not use the External Auditor to prepare either their personal tax returns or those of their dependents.

SLF Inc.'s Senior Vice-President & 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 I — 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 Sun Life Financial 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 II — Key Financial Reporting Oversight Roles

The incumbents in the following financial reporting oversight roles are not permitted to use SLF Inc.'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
- Executive Vice-President, Actuarial and Risk Management
- Executive Vice-President and Chief Risk Officer
- Senior Vice-President and Chief Auditor
- Senior Vice-President and Controller
- Senior Vice-President, Tax
- Senior Vice-President, Treasurer
- Appointed Actuary
- Vice-President and Chief Accountant
- Vice-President, Strategic and Financial Planning

The comparable positions in subsidiaries are similarly prohibited from using SLF Inc.'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.

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: 416-643-8073
Fax: 416-601-6590
www.deloitte.ca

Consent of Independent Registered Chartered Accountants

We consent to the incorporation by reference in the Registration Statements Nos. 333-90920, 333-105310 and 333-151733 on Form S-8 and to the use of our reports dated February 10, 2010 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 Difference relating to changes in accounting principles) 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, 2009.

/s/ "Deloitte & Touche LLP"

Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
February 10, 2010

Membre de / Member of Deloitte Touche Tohmatsu

EXHIBIT 6

Deloitte.

Deloitte & Touche LLP
Brookfield Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

Tel: 416-643-8073
Fax: 416-601-6590
www.deloitte.ca

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 10, 2010, 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.

/s/ "Deloitte & Touche LLP"

Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
February 10, 2010

Membre de / Member of Deloitte Touche Tohmatsu

EXHIBIT 7

CONSENT OF APPOINTED ACTUARY

I consent to the use and incorporation by reference of the following report in this Annual Form 40-F of Sun Life Financial Inc.:

My report dated February 10, 2010 on the valuation of the policy liabilities of Sun Life Financial Inc. and its subsidiaries for its consolidated balance sheet at December 31, 2009 and their change in the consolidated statements of operations for the year ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

Dated February 11, 2010

/S/ “Lesley Thomson”
Lesley Thomson

Fellow, Canadian Institute of Actuaries
Toronto, Canada

EXHIBIT 8

CERTIFICATION

pursuant to
18 U.S.C. Section 1350
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 40-F of Sun Life Financial Inc. (the "Company") for the year ended December 31, 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 with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 11, 2010

/S/ "Donald A. Stewart"
Donald A. Stewart
Chief Executive Officer

Date: February 11, 2010

/S/ "Colm J. Freyne"
Colm J. Freyne
Executive Vice-President and
Chief Financial Officer

This certificate has not been, and shall not be deemed to have been, "filed" with the Securities and Exchange Commission.

EXHIBIT 9

CERTIFICATION

I, Donald A. Stewart, Chief Executive Officer of Sun Life Financial Inc, certify that:

1. I have reviewed this annual report on Form 40-F of Sun Life Financial Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and 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 11, 2010

/S/ "Donald A. Stewart"
Donald A. Stewart
Chief Executive Officer

CERTIFICATION

I, Colm J. Freyne, 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 11, 2010

/S/ "Colm J. Freyne"
Colm P. Freyne
Chief Financial Officer