*Insight beyond the rating.*

**Rating Report**

**Report Date:**
December 23, 2009

**Previous Report:**
July 14, 2008

# Sun Life Financial Inc. and Affiliates

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**The Company**

Sun Life Financial Inc. is one of the largest financial services companies based in Canada, with $411 billion of assets under management as of September 30, 2009. Its major operating subsidiary, The Sun Life Assurance Company of Canada (representing about 75% to 80% of its consolidated earnings and policy liabilities), provides financial protection products in Canada, the United States and Asia, including life and health insurance for individuals and groups. A second subsidiary, Sun Life Global Investments Inc., houses wealth management operations such as variable annuities and mutual fund and institutional investment management, largely conducted by a 94%-owned subsidiary, MFS Investment Management.

**Recent Actions**

**December 16, 2009**
Confirmed

## Rating Table

| Issuing Entity | Debt | Rating Action | Rating | Trend |
|---|---|---|---|---|
| Sun Life Assurance Company of Canada | Claims Paying Ability | Confirmed | IC-1 | Stable |
| | Subordinated Debt | Confirmed | AA (low) | Stable |
| Sun Life Financial Inc. | Senior Unsecured Debentures | Confirmed | AA (low) | Stable |
| | Subordinated Unsecured Debentures | Confirmed | A (high) | Stable |
| | Preferred Shares | Confirmed | Pfd-1 (low) | Stable |
| Sun Life Capital Trust | SLEECS Series B | Confirmed | A (high) | Stable |
| Sun Life Capital Trust II | SLEECS Series 2009-1 | Confirmed | A (high) | Stable |

## Rating Rationale

On December 16, 2009, DBRS confirmed the ratings for Sun Life Financial Inc. (SLF or the Company); its major operating subsidiary, Sun Life Assurance Company of Canada (SLA); and its affiliates (collectively, the Group), with Stable trends. The ratings are based on the strong market position enjoyed by SLA in the Canadian life insurance industry, where it is one of the three competitors that dominate the largely oligopolistic market in most insurance and wealth management lines for both individuals and groups. The Canadian operations are complemented by a strategically evolving U.S. market presence in annuity products, individual life insurance and group benefits operations, as well as a growing presence in Asia, notably in Hong Kong, India and China, all of which benefit from the Company's financial strength and reputation. (Continued on page 2.)

## Rating Considerations

**Strengths**

(1) Well-diversified products, markets and distribution
(2) Excellent Canadian market presence
(3) Financial strength advantage
(4) Comprehensive risk management and controls

**Challenges**

(1) Exposure to equity market volatility
(2) Achieving revenue growth in mature markets
(3) Improving productivity and profitability
(4) Reduced financial flexibility

## Recent Developments

The market turmoil of the past 12 months has had an adverse impact on SLF and its affiliates. Earnings in 2008 were adversely affected by increased credit costs, largely reflecting $500 million of losses on U.S. bonds of Lehman Brothers Holdings Inc. (Lehman) and Washington Mutual, Inc. (WaMu), increased reserves for credit losses related to rating downgrades, lower interest rates and lower fee income tied directly to the lower market values of its assets under management (AUM). The negative impact of lower equity markets on the Company's variable annuity and segregated fund product guarantees, which hurt the results of many of its peers, has been partially mitigated by use of equity market hedges. (Continued on page 2.)

## Financial Information

| | 9 mo. ended Sept.30 | | Year ended December 31 | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Return on common equity (core) | 2.0% | 5.7% | -0.3% | 14.4% | 12.6% | 12.0% | 11.6% |
| Return on assets under management (core) | 0.10% | 0.24% | -0.21% | 0.56% | 0.49% | 0.51% | 0.50% |
| Debt plus preferreds / capital (consolidated) | 29.7% | 27.8% | 27.0% | 24.4% | 24.1% | 22.8% | 21.3% |
| MCCSR (Sun Life Assurance Company of Canada) | 219% | 202% | 232% | 213% | 222% | 216% | 238% |
| Expense ratio | 59.4% | 47.5% | 64.4% | 37.7% | 37.5% | 38.0% | 38.1% |
| Operating expenses / assets under management | 0.73% | 0.70% | 0.74% | 0.74% | 0.72% | 0.77% | 0.76% |
| Net income available to common ($ millions) | 238 | 656 | 785 | 2,219 | 2,089 | 1,843 | 1,680 |
| Common equity ($ millions) | 15,490 | 15,024 | 15,808 | 15,641 | 15,842 | 14,749 | 14,338 |
| General assets ($ millions) | 119,507 | 113,211 | 119,833 | 114,291 | 117,831 | 110,866 | 107,803 |
| Assets under management ($ millions) | 411,903 | 388,679 | 381,122 | 425,264 | 441,432 | 390,889 | 359,650 |

## Rating Rationale (continued from page 1.)

The Group's Sun Life Global Investments Inc. subsidiary holds the Group's asset management businesses, including the 96%-ownership in MFS Investment Management (MFS), which complement the more stable protection businesses, with growth opportunities in retail mutual funds and institutional managed assets, albeit with larger exposures to the more volatile equity markets. In response to negative pressure on earnings in 2008 and 2009, the Company continues to leverage its extensive enterprise risk management (ERM) framework to continue to enhance product pricing and design, especially in the U.S. annuity segments. To address the Company's earnings performance in its U.S. segments, a new management team was hired in the United States (primarily former executives of Lincoln National Corporation (Lincoln National)) that has now completed a strategic review of the Company's U.S. operations and has recommended the Company refocus on sustainable and profitable market segments. To complement the strategic shift in the U.S. business segments, there is a renewed focus on marketing and distribution, including a high-profile advertising campaign intended to broaden the awareness of the Sun Life brand that DBRS believes should address some of the U.S. segment's earnings deficiencies over time.

In response to market developments, a heightened sense of caution and low-cost funding opportunities, the Company has raised $1.25 billion in additional capital over the past year in the capital markets, on top of having raised $2.2 billion from the sale of a 37% stake in CI Financial Corporation (CI) to the Bank of Nova Scotia (BNS), which has been retained and/or redeployed into the Company's operating subsidiaries as regulatory capital as required. At SLA, the Minimum Continuing Capital and Surplus Requirements (MCCSR) regulatory capital ratio has been kept well in excess of 200% at close to 230% (pro forma the recent Sun Life Capital Trust II SLEECS Series 2009-1 issue(the SLEECS issue)), which is acceptable to DBRS given the risk exposures at SLA and the current uncertain economic and market environments. Additionally, $1.3 billion capital has been advanced over the past 12 months to Sun Life (U.S.), which houses the annuity business that experienced most of the losses associated with credit deterioration and the weaker equity markets, and to the U.S. Branch, which houses the protection business.

However, as capital has increased, DBRS believes that the Company is content to operate with a higher level of financial leverage than it had previously, bringing it into alignment with the more aggressive capitalization of Great-West Lifeco Inc. and Manulife Financial Corporation (Manulife). Pro forma the recent $500 million SLEECS issue, the Company's third-quarter total debt-to-capital ratio, including its Preferred Shares, would be 31.3%, up from 24.4% at the end of 2007. At this level of financial leverage, given the current ratings, the Company's financial flexibility is limited to resources on hand unless it chooses to issue common equity or reduce its common dividend. DBRS feels that the Company has little latitude to issue additional debt instruments without threatening the currently assigned credit ratings.

## Recent Developments (Continued from page 1.)

Reported returns on equity (ROEs) were marginally negative in 2008, if the $825 million gain on the disposition of a 37% stake in CI is excluded. For the first nine months of 2009, core ROE was similarly depressed at just 2%, largely reflecting the required increase in reserves related to changes in actuarial assumptions and the continuing lower level of average AUM.

The Company's intention was to channel the $2.2 billion in proceeds from the sale of CI into acquisition opportunities as the life insurance industry consolidated in the wake of financial stress and market deterioration. While such opportunities remain, it was in retrospect prudent for the Company to have raised capital in lieu of a common equity issue.

The Company's new U.S. management team has articulated a new vision for the U.S. operations, with a focus on more profitable and less capital intensive products than the Company's traditional no-lapse guarantee universal life product, which had represented close to 90% of individual life insurance sales. The integration of the Genworth Financial Inc. employee benefits acquisition has moved the Company into the top ten in U.S. group benefits. Variable annuities have been redesigned and only fixed annuities are being sold as pricing is supported by attractive investments. The new focus on centralized marketing, more effective wholesaling and deeper distribution relationships seems to be paying off with strong sales performance in 2009.

Despite weak equity markets, the fund performance at MFS has been excellent, with more than 90% of its funds performing in the top half of their respective categories in the three-, five- and ten-year periods, a criterion by which fund managers are being measured as investors are increasingly sensitive to the value added by fund managers.

## Rating Considerations Details

**Strengths**

(1) SLF's operations are diversified by product, including life and health protection for individuals and groups and a growing wealth management and pension administration business. The Group's strategy is to strike a balance between the more stable protection business and the faster-growing, but potentially more volatile, wealth management business, where fees are earned according to market values of AUM. Geographical diversification is extensive, anchored in the relatively mature, but highly profitable Canadian market. The new management team in the United States is expecting to leverage the Company's traditional operating strengths into a broader market penetration of the more fragmented U.S. market through more effective marketing and deeper distribution relationships. Similarly, distribution expansion is key to the Company's future success in the fast-growing Asian markets (6%) of China and India, along with the traditional markets of Hong Kong and Indonesia. Distribution channels remain well diversified and effective use of distribution channels continues to be the focus of the Group's long-run strategy. Individual life and investment products in Canada are sold by a dedicated sales force, complemented by growing wholesale distribution channels. Group products are sold through a group field force as well as insurance brokers, consultants and managing general agencies (MGAs). SLF is also at the forefront of third-party distribution in the United States and in the bancassurance channel in Asia. The balance of revenues is related to the U.K. runoff block and global reinsurance businesses.

(2) Representing close to half of the Group's normalized earnings (and substantially more than that in 2008 and 2009 given the recent market-related earnings deterioration in the U.S. business), the Canadian operations form a solid platform for the Group's global expansion efforts. As one of the three largest competitors in the Canadian industry, SLA has the scale and the information systems platform to provide a marketing and service cost advantage, especially with respect to web-based client services across both the protection and wealth management lines of business. A high degree of customer satisfaction keeps lapse rates in Group Benefits markedly lower than the average for the Canadian industry. A conscious attempt to deepen its direct relationships with ultimate customers has yielded a 52% asset-retention ratio in the pension rollover market in 2009. The relative maturity of the Canadian financial services market and the insurance market specifically means that organic growth in this market will be driven largely by favourable demographics and institutional challenges, which are imposing more of the responsibility for life-cycle financial protection onto individuals rather than governments and employers. The Company is well positioned to deepen its relationships with customers over periods of various financial needs, including protection, wealth accumulation and payout, thereby earning a margin on the customer's assets for a longer period.

(3) SLF is benefiting from its relatively high financial-strength ratings as advisors are more sensitive to counterparty quality given the recent deterioration in many U.S. life insurance companies related to ineffective risk management and overexposure to poor-quality fixed income investments. Combined with its brand awareness advertising campaign, the Company's financial strength should position it well to pick up overall market share in the U.S. market. Currently, the Group targets high-net-worth individuals and writes large policies (number two policy size in the Universal Life (UL) segment). This market is only available to the highest-rated insurance companies with ready access to letters of credit or capital markets in order to maintain the required reinsurance reserves for related policy liabilities. Similarly, the weakness in certain large Asian insurance companies such as American International Group, Inc. (AIG) will likely benefit financially strong competitors such as SLF.

(4) SLF has comprehensive risk-assessment processes and controls, with accountability resting largely with the board of directors, which in turn drives a conservative risk management culture throughout the organization. Business lines and products are tested for sensitivity to changes in interest rates and equity price movements and hedged where deemed necessary and affordable. Asset-liability management is prudent, with only a small net negative sensitivity to a drop in interest rates. Product pricing and design are driven by extensive risk analysis. The investment portfolio is conservative, despite the 2008 losses due to Lehman and WaMu, with more than 90% of its invested assets in high-grade bonds, mortgages and policyholder loans. Liquidity is strong, with $11 billion in cash, of which $270 million is at the holding company, a significant increase from the prior year due to an investment moratorium. Cash on hand and standby credit facilities are adequate to meet financial obligations under reasonable stress scenarios. The Company is constantly upgrading its risk management processes, including the development of an economic capital model that should result in the more efficient allocation of capital on a risk-adjusted basis.

**Challenges**

(1) The Company's exposure to equity market risk is the natural result of product evolution in insurance and wealth management products, including variable universal life and variable annuities/segregated funds. Additionally, the Company is indirectly exposed to equity market risk through its investments in asset management businesses such as its 96% stake in MFS and its 56% interest in McLean Budden Limited (McLean Budden). In total, asset management businesses account for an additional $219 billion in AUM above the Company's general and segregated funds. The sale of the Company's stake in CI at year-end 2008 will have somewhat reduced the Company's economic exposure to the equity markets. While the Company hedges most of the equity market exposure related to its guarantees, there are no hedges in place to cover the risk of lower fee income related to lower AUM.

(2) Achieving organic profitable growth in mature markets is the true test of a financial service company's business model. With consolidation of the mature Canadian life insurance industry, the Company's potential for growth in Canada is limited to taking market share away from other competitors. Maintaining market share is sufficiently challenging, requiring a constant focus on cost efficiencies and product innovation. In the U.S. market, where the Company has traditionally been focused on specific product niches and a narrow distribution model, the new management team expects to broaden the appeal of SFL products through brand awareness, more centralized marketing, a stronger commitment to wholesaling and deeper relationships with existing distribution channels. Certain products will be de-emphasized, while others will be promoted, with some being offered only on an opportunistic basis as minimum profitability targets are established. The continuing challenge of funding AXXX (i.e, Actuarial Guideline 38) reserves against no-lapse guarantee UL insurance policies has forced the Company to raise prices on the product and to focus on the promotion of alternative product designs such as current assumption insurance. Asian exposure provides a good growth opportunity, but given its relatively small base, the market is not yet material. Maintaining added value in its asset management businesses, such as relatively strong fund performance and excellent customer service, is key to the long-term success of those segments, especially given increasing competition from alternative investment products in both the retail and institutional markets and lower-cost forms of distribution that may disadvantage the traditional financial advisor.

(3) Related to the Group's need for revenue and business growth is the challenge of achieving higher profitability. Even though the Group has reported steady growth in profitability in recent years, it continues to lag the industry. Most notably, returns in the United States are below those in Canada, reflecting suboptimal scale in most product lines, especially with respect to distribution channels. Future acquisitions and their associated integration risks are likely, given SLF's need for effective scale. Leveraging the Group's expertise and capabilities across its global operations is key to enhancing profits and reducing expense ratios, which are higher than those of its peer group. Investments in Asia will take some time to pay off in terms of earnings.

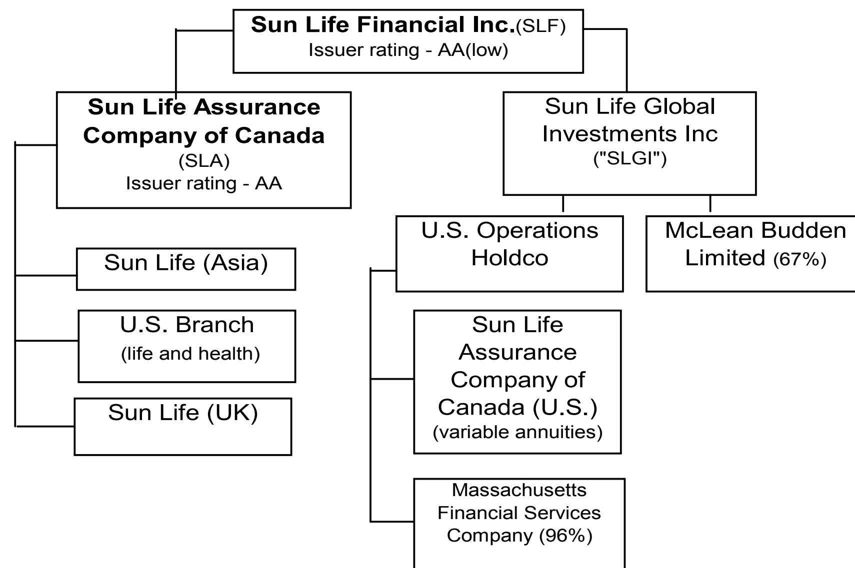
(4) Capital issues over the course of the last year have increased the Company's debt ratios to the upper end of the permissible range for the credit rating. Pro forma the recent $500 million SLEECS issue, the Company's consolidated total debt ratio is at 31.1%, up from 24.4% at the end of 2007. Adjusted debt, given some equity treatment to certain capital market instruments, is 19.5%. While these ratios are not out of line with the corresponding ratios at its peers, there is little latitude to issue additional debt instruments without threatening the credit ratings of the Company or its affiliates. On a normalized basis, the Company estimates that it should earn between $1.4 billion and $1.7 billion annually at its current size. Given a debt service obligation of close to $500 million annually, the fixed charge coverage ratio is expected to be about 5.0 times, which is down from the average of more than 8.0 times prior to 2008. Fortunately, the Company is sufficiently well capitalized in terms of regulatory capital that it is unlikely to need additional capital at present. Moreover, having not tapped the equity market over the past 12 months, unlike its peers, the equity market is likely to be receptive to any required equity issues.

## Rating Drivers

**What Factors Would Have Positive Rating Implications?**
- Stronger and larger U.S. operations
- Improvement in overall profitability
- More conservative capitalization

**What Factors Would Have Negative Rating Implications?**
- Loss of market share in Canada
- Increased debt ratios from current levels
- Reputational risk

## Description of Operations




SLF is one of Canada's oldest and largest life insurance concerns, with general assets of $119 billion, segregated funds of $73 billion and other funds managed (mutual funds and managed institutional funds) of $219 billion as of September 30, 2009. According to the Company, the value of new business generated in the last 12 months ended September 30, 2009, was derived 60% from the sale of protection products and 40% from the sale of wealth management products. Operations are segmented as follows:

(1) **Sun Life Financial Canada** (40% of 2009 revenue to date and 29% of AUM) offers individual life and health insurance; group life and health insurance; wealth management products such as annuities, mutual funds and segregated funds; and pension fund administration (with a 38% share of defined contribution pension activity). As one of the three largest life insurance companies, the Company enjoys a high market profile and efficient scale in Canada, making it an effective competitor in all product lines. While the Sun Life brand has the largest exclusive sales force in the Canadian industry (Sun Life Financial Advisor Sales Force), the Company is increasing its use of wholesale distribution in Canada to broaden its market coverage. The Canadian business also includes its 67% interest in McLean Budden, a specialized institutional investment management company ($40 billion in AUM as of September 30, 2009). In late 2008, the Company sold its 37% interest in CI to BNS for $2.2 billion. Earnings in Canada are classified by Individual Insurance and Investments (55% of the 2009 to date total); Group Benefits (26%), where SLF has a more than 20% market share; and Group Wealth (19%), which consists largely of defined contribution pension administration, where the Group has a 38% share of the Canadian market activity. In 2007, SLF collapsed the Clarica brand into Sun Life in order to pursue an integrated brand strategy in the Canadian market, supported by a major advertising campaign ("Life's brighter under the Sun") that is increasing its profile at the street level.

(2) **Sun Life Financial U.S.** (44% of revenue and 17% of AUM) is dominated by sales of the following products: (a) annuity products, including fixed annuities, fixed indexed annuities and variable annuities such as the Income ON Demand® guaranteed minimum withdrawal benefit (GMWB) product, which are wealth management products with embedded protection options (52% of 2009 U.S. revenues to date and $41 billion in AUM) distributed through third parties, including banks, wire houses and financial planners; (b) Individual Insurance (28% of 2009 U.S. revenues to date), traditionally focused on selling UL insurance (especially no-lapse guaranty) to high-income and high-net-worth individuals and corporate- and bank-owned life insurance; and (c) Employee Benefits Group (19.4% of U.S. revenues), focusing equally on disability, medical stop-loss and life insurance for small and medium-sized companies, distributed through a growing team of wholesalers. The 2007 acquisition of Genworth's Group Benefits business increased revenues in this segment by about 44% in 2007, becoming one of the top ten providers of employee benefits in North America. A new management team at Sun Life U.S. is refining its approach to the market with the intention of broadening the appeal of Sun Life through a new brand awareness advertising campaign, the hiring of additional wholesalers and the re-pricing and/or repositioning of certain products, while de-emphasizing others altogether, with the intention of pursuing those lines that have the best potential for profitable growth. Correspondingly, the U.S. operations of SLF are in a state of transition.

(3) **MFS** (4% of revenue and 43% of AUM) is Sun Life's U.S. mutual fund and investment management subsidiary (US$175 billion AUM at September 30, 2009, and a top ten mutual fund company in the United States). MFS has a global investment platform, with solid long-term performance in a variety of management styles. AUM are 52% institutional, including management of life insurance variable annuities or segregated funds, and 48% retail mutual funds compared with 83% retail in 1999. About 25% of AUM is now sourced outside of the United States, up from 5% five years ago. Correspondingly, over the past five years, the portion of non-U.S. equity funds under management has increased to 40% of total AUM from 17%. To improve U.S. mutual fund inflows, MFS has actively improved its investment performance, undertaken a brand awareness campaign and increased its wholesaling capabilities on a global basis.

(4) **Sun Life Asia** (6% of revenues and 5% of AUM) represents an attractive growth market with good long-term earnings potential. Sun Life has become one of the top ten life insurance companies in Hong Kong since the 2005 acquisition of certain insurance and pension operations of the Commonwealth Bank of Australia. The Group also has good market presence in the Philippines and Indonesia, where the Group attempts to incorporate best practices in life insurance, wealth management and investment management. Recent expansion efforts have been focussed on relatively undeveloped, but high-potential Asian markets such as India, where SLF operates a 26%-stake joint venture with the Aditya Birla Management Corporation under the name Birla Sun Life, which operates in 256 cities and has more than 600 branches. In China, Sun Life has operated in a joint venture with the China Everbright Group since 2002. This operation is to be recapitalized as a domestic insurance company, of which SLF is expected to own 20%, with a broader market reach.

(5) **Sun Life U.K.** is in runoff mode, but it is expected to provide a steady stream of high-margin earnings, without any business development costs. In October 2009, SLF acquired an additional runoff block of U.K. business from Lincoln National that will double the number of policies administered by the Company in the U.K. market.

(6) **Reinsurance** consists of a largely life retrocession business in North America, where SLA has a 34% share of the global market (behind Manulife with 43%). Due to poor profitability and reduced market potential, SLF is de-emphasizing this business.

In order to better leverage its capabilities, the Company centralizes some of its areas of expertise such as Asset Management, Variable Annuities and Actuarial. The intention is that best practices can be easily transferred even where an individual business segment may not have the scale required to develop such expertise.

| **Revenues** | 9 months ended September 30 | | | | For the year ending December 31 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ($ millions) | 2009 | | 2008 | | 2008 | | 2007 | | 2006 | | 2005 | | 2004 | |
| United States | 10,805 | 47.9% | 4,301 | 39.7% | 5,198 | 33.4% | 9,517 | 44.9% | 12,127 | 49.9% | 10,809 | 49.3% | 11,129 | 51.2% |
| Canada | 9,116 | 40.4% | 5,875 | 54.2% | 7,927 | 50.9% | 9,285 | 43.8% | 9,333 | 38.4% | 8,658 | 39.5% | 8,162 | 37.6% |
| Asia & Japan | 1,460 | 6.5% | 370 | 3.4% | 498 | 3.2% | 977 | 4.6% | 1,022 | 4.2% | 759 | 3.5% | 694 | 3.2% |
| Corporate & eliminations | 1,198 | 5.3% | 297 | 2.7% | 1,940 | 12.5% | 1,409 | 6.6% | 1,805 | 7.4% | 1,692 | 7.7% | 1,745 | 8.0% |
| Total | 22,579 | 100.0% | 10,843 | 100.0% | 15,563 | 100.0% | 21,188 | 100.0% | 24,287 | 100.0% | 21,918 | 100.0% | 21,730 | 100.0% |

## Earnings and Outlook

| **Profitability Ratios** | To September 30 | | For the year ended December 31 | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Return on common equity (reported) | 2.0% | 5.7% | 5.0% | 14.1% | 12.5% | 11.6% | 11.2% |
| Return on common equity (core) | 2.0% | 5.7% | -0.3% | 14.4% | 12.6% | 12.0% | 11.6% |
| Return on average assets (core) | 0.35% | 0.82% | -0.68% | 2.05% | 1.90% | 1.83% | 1.67% |
| Return on average AUM | 0.10% | 0.24% | -0.21% | 0.56% | 0.49% | 0.51% | 0.50% |
| Pre-tax income / total revenue | -0.6% | 7.3% | -3.3% | 13.7% | 10.6% | 11.5% | 9.6% |
| Pre-tax income / net operating revenue | -3.6% | 17.4% | -10.3% | 34.1% | 32.0% | 33.3% | 28.9% |
| Underwriting claim ratio | 87.4% | 83.3% | 90.2% | 72.6% | 76.4% | 75.5% | 77.1% |
| Expenses / net operating revenue | 59.4% | 47.5% | 64.4% | 37.7% | 37.5% | 38.0% | 38.1% |
| Operating expenses / average AUM | 0.73% | 0.70% | 0.74% | 0.74% | 0.72% | 0.77% | 0.76% |
| Fee income / net operating revenue | 48.9% | 46.3% | 58.8% | 37.8% | 37.5% | 38.1% | 40.4% |
| Interest coverage | 0.5 | 3.8 | -0.3 | 9.3 | 9.0 | 10.3 | 8.5 |
| Fixed charge coverage | 0.6 | 3.2 | 0.5 | 7.5 | 7.6 | 9.2 | 8.5 |
| Investment yield | 5.35% | 5.89% | 5.86% | 5.94% | 6.42% | 6.17% | 6.06% |
| Tax rate | 322.7% | 7.9% | 111.5% | 18.3% | 15.1% | 22.5% | 14.3% |

### Summary

The crisis in financial markets had a direct impact on the earnings of SLF as slumping equity markets, lower interest rates and credit deterioration combined to reduce income largely through the impact on actuarial reserves, investment management fee income and outright credit losses. Equity markets in 2008 had an adverse impact on net income of $1 billion in 2008; lower interest rates, $43 million; and credit, $1.3 billion, largely related to fixed income holdings of U.S. financial services companies. In 2009, to the end of September, earnings have been adversely affected by changes to actuarial reserve assumptions related to equity markets, interest rates and credit risk, which have reduced net income by $513 million. Credit-related allowances and losses in the U.S. annuity segment have also had a negative impact on 2009 earnings. At the same time, a recovery in the equity markets in the second and third quarters of 2009 has allowed for some release of actuarial reserves. Core ROE for the Company was, therefore, negative in 2008 and marginal, at 2%, in the first nine months of 2009. The reported ROE of 5% in 2008 captures the $825 million after-tax gain realized on the late 2008 sale of the Company's stake in CI to BNS.

While the industry has been negatively affected by increased equity market exposures through segregated fund guarantees, especially on GMWB products, SLF has hedged a portion of this direct guaranteed exposure. However, it is still vulnerable to lower equity markets through the impact on fee income assumptions in current income and through adjustments to actuarial reserves.

Prior to the 2008 crisis, profitability had been steadily improving following the acquisition of Clarica, largely on margin improvement, but it remained behind that of its peer group. Productivity measures showed steady improvement, related to increased scale and efficiencies, largely stemming from the successful integration of acquisitions. This improvement reflects the Group's successful operational strategy and supports both the profitability and the Company's rating over the long term.

Earnings from Canadian operations remained positive in 2008 and in 2009 on good mortality and morbidity experience, notwithstanding the cost associated with the weaker equity markets, lower interest rates and adverse credit experience. There has been some shift in product sales from segregated funds with equity exposures to fixed rate annuity products. Sales of life insurance and group products remain healthy, reflecting the Company's strong market position in these products.

U.S. operating results have been most adversely affected by the weak equity markets and credit losses. Changes in actuarial assumptions have added to the negative pressures on earnings. However, new sales of core insurance products such as UL have been strong in 2009, reflecting the new wholesaling and distribution efforts being made by the Company and a flight to quality in a relatively weak industry. The Company has re-priced and de-risked its variable annuity products substantially in order to better capture the costs of hedging the embedded equity market risk. Group benefits results remain strong as the Company leverages its effective scale advantages in this line. The Company's financial strength has supported new sales.

MFS income in 2009 is well below 2008 levels, reflecting a 22% reduction in average AUM over the period. Operating margins have dropped to 24% from 33% a year ago as operating leverage has worked in reverse. Positive net sales in the first nine months of 2009, following consistent net redemptions in 2008, combined with a recovery in global equity markets, can be expected to support earnings in this segment. Earnings contributions from Asia increased in 2009 on improved market conditions, including equity markets and corporate bonds. U.K. runoff operations and reinsurance were adversely affected by credit costs in 2009, especially related to holdings of U.K. financial institutions.

**Outlook**

DBRS believes that SLF is well positioned to report consistent profitability in its Canadian operations. In the United States, the Company has struggled in the past with its strategy as it tried to achieve effective scale. New approaches to the market through a centralized marketing and distribution platform supporting more profitable products, combined with increasing brand awareness, are expected to be favourable for the Company's U.S. results. The Company's financial strength favours a pickup in market share at the expense of some of the weaker industry competitors. MFS is well positioned to leverage its core investment management skills, which will translate superior fund performance into higher AUM, improving margins and higher earnings. Asia will continue to be a growth opportunity, largely self-funded, barring a major acquisition.

The Company strategy of providing a range of protection and wealth management products throughout the lives of its customers is expected to return the Company to consistent profitability. The demographics of the industry are especially favourable at the current juncture, with baby boomers in North America confronting their retirement income and health-care challenges just as governments and employers are finding themselves less capable of meeting citizens' previous expectations. In the short run, however, the life insurance industry is going to experience lower levels of profitability, with expected ROE in the low double digits. This lower level of expected profitability reflects the current uncertain economic environment and a corresponding increase in conservatism, both at the Company and at the regulators, with respect to actuarial reserve assumptions and regulatory capital requirements. However, if the worst-case scenario does not occur, the eventual release of actuarial reserves could well support increased future profitability.

The Group's risk management processes should continue to mitigate exposures to equity and credit market volatility through the dynamic hedging strategies at which the Company excels. ERM is incorporated into product design and pricing decisions and supports the premise that the Company will only promote the sale of products that have sustainable profitability. The marketing and distribution efforts and infrastructure are in close alignment with this objective.

The improved U.S. equity fund performance at MFS has resulted in positive net sales of managed and mutual funds. DBRS expects earnings from MFS to continue to grow, given the embedded operating leverage in the Company. MFS can, therefore, be expected to continue to pay dividends to SLF in the short run since no additional capital investment in the franchise is expected until AUM approaches $300 million.

DBRS expects the Company to use some of its capital and liquidity to fund acquisitions and investments to build more efficient scale in certain U.S. businesses as well as in the fast-growing Asian markets. Although the anticipated increase in mergers and acquisitions (M&A) activity has yet to emerge in the life insurance industry, DBRS believes that SLF will be among those playing the role of consolidator.

## Asset Quality and Outlook

| **Asset Quality Ratios** | At September 30 | | At December 31 | | | | |
|---|---|---|---|---|---|---|---|
| ***Investment Portfolio*** | 2009 | 2008 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Cash | 11.0% | 6.6% | 8.4% | 5.4% | 5.8% | 5.1% | 6.1% |
| Bonds | 56.1% | 63.1% | 64.5% | 63.9% | 70.3% | 71.4% | 71.9% |
| Mortgages | 13.4% | 15.4% | 15.4% | 15.1% | 14.9% | 14.6% | 14.1% |
| Stock | 4.4% | 4.5% | 4.2% | 5.1% | 4.6% | 3.9% | 3.5% |
| Real estate | 4.5% | 4.6% | 4.7% | 4.2% | 3.6% | 3.2% | 3.2% |
| Policyholder loans and other | 4.1% | 5.5% | 4.4% | 5.4% | 5.6% | 5.7% | 6.1% |
| | | | | | | | |
| Government bonds / total bonds | 25.1% | 23.5% | 25.3% | 23.8% | 18.3% | 18.4% | 23.8% |
| BBB and lower bonds / total bonds | 36.1% | 32.4% | 31.3% | 31.1% | 31.2% | 31.1% | 30.5% |
| BB and lower bonds / total bonds | 4.6% | 3.3% | 3.0% | 2.4% | 2.5% | 3.4% | 3.1% |
| Commercial mortgages/mortgages | 81% | 81% | 82% | 81% | 81% | 75% | 72% |
| Non-performing investments / investments | 0.26% | na | 0.14% | 0.08% | 0.18% | 0.32% | 0.45% |
| Loan loss reserves / gross non-performing investments | 25.3% | na | 15.3% | 39.7% | 48.5% | 43.6% | 59.6% |
| Net non-performing investments / investments | 0.20% | 0.09% | 0.12% | 0.05% | 0.09% | 0.18% | 0.18% |
| Net non-performing investments / equity | 1.35% | 0.57% | 0.80% | 0.29% | 0.59% | 1.13% | 1.14% |
| Actuarial credit reserves / investments | 2.62% | 3.11% | 2.20% | 2.88% | 2.40% | 2.42% | 2.21% |

**Summary**

SLF maintains a very conservative investment portfolio, with more than 90% of its financial assets invested in either cash or fixed income securities such as bonds, mortgages and policyholder loans. The Company's exposure to credit risk has increased in the wake of the financial crisis and the subsequent weaker economy, with about 36% of the bond portfolio invested in securities rated BBB and lower, up from 31.2% at year-end 2008. Similarly, securities rated BB and lower have risen to 4.6% of the bond portfolio, up from 3%. While these ratios are higher than those reported by the peer group, they are largely a reflection of the U.S. fixed annuity business, which has traditionally required the Company to invest in higher-yielding assets to remain competitive.

Exposures to some of the more controversial asset classes remain modest relative to those in the industry. At September 30, 2009, the Company's bond portfolio included $4.4 billion in asset-backed securities, including commercial mortgage-backed securities (CMBS), collateralized debt obligations (CDOs), agency and non-agency residential mortgage-backed securities (RMBS) and sub-prime and Alt-A mortgage exposures. These holdings represented just 7.1% of the Company's bond portfolio and were primarily originated prior to 2007and, therefore, should avoid some of the losses that might be experienced on later vintages.

Non-performing investments, which are not marked to market (largely mortgages), have understandably increased, given the weaker economic environment, but they remain at a lower level relative to common equity, than following the last slowdown in 2002 and 2003.

SLF maintains prudent specific credit loss reserves at 25.3% of non-performing assets and actuarial reserves for credit losses of $2.8 billion, or 2.6% of invested assets, which have been factored into product pricing. These reserves protect earnings from all but the most extreme asset quality deterioration and have increased relative to the size of the investment portfolio over the past ten years as actuarial reserve assumptions have become more conservative.

**Outlook**
DBRS believes that the Company's investment portfolio will become more conservative as effective risk management has addressed some of the deficiencies that gave rise to the 2008 credit losses. Stricter oversight and new exposure limits have been introduced, along with changes in product offerings, which reduces the need for the Company to take on incremental yield and risk exposures such as fixed annuities. The Company's investment policy already does not allow the purchase of non-investment-grade bonds.

ERM also ensures that the asset mix of the investment portfolio supports the asset/liability management requirements for duration and cash flow matching. Portfolio diversification is required under the terms of strictly enforced investment policies and guidelines.

## Financial Risk Profile and Outlook

| Balance Sheet Ratios | At September 30 | | At December 31 | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Assets / total equity | 6.8 | 6.8 | 6.8 | 6.7 | 7.0 | 7.3 | 7.6 |
| Assets / common equity | 7.5 | 7.5 | 7.4 | 7.4 | 6.8 | 6.9 | 7.2 |
| Debt / capital (consolidated) | 19.7% | 18.0% | 18.1% | 15.2% | 17.1% | 17.8% | 20.1% |
| Debt plus hybrids & preferred / capital (consolidated) | 29.7% | 27.8% | 27.0% | 24.4% | 24.1% | 22.8% | 21.3% |
| Adjusted debt ratio | 19.4% | na | 17.3% | 14.2% | 12.5% | 12.4% | 13.7% |
| Debt / capital (unconsolidated) | 9.9% | 8.4% | 5.1% | 7.2% | 8.0% | 8.9% | - |
| Debt plus hybrids & preferred / capital (unconsolidated) | 19.0% | 16.7% | 13.3% | 15.3% | 14.7% | 13.1% | - |
| Hybrids and preferreds / common | 18.7% | 17.6% | 16.7% | 16.9% | 15.1% | 12.6% | 8.0% |
| MCCSR ratio (Sun Life Assurance) | 219% | 202% | 232% | 213% | 222% | 216% | 238% |
| Tier 1 equivalent (Sun Life Assurance) | 167% | 170% | 195% | 186% | 196% | 196% | 201% |
| RBC Ratio (SLA (US)) | 357% | 358% | 357% | 358% | 339% | - | - |
| Dividend payout ratio | 249.6% | 92.5% | -2022.5% | 33.2% | 31.5% | 30.5% | 29.6% |
| Internal equity growth | -3.0% | 0.4% | -5.4% | 9.6% | 8.6% | 8.4% | 8.2% |
| General funds/AUM | 29.0% | 29.1% | 31.4% | 26.9% | 26.7% | 28.4% | 30.0% |
| Segregated funds/AUM | 17.7% | 17.8% | 17.3% | 17.2% | 16.0% | 15.6% | 15.7% |
| Other managed funds/AUM | 53.3% | 53.1% | 51.3% | 55.9% | 57.3% | 56.0% | 54.3% |

**Summary**
Regulatory capital of the Company's major operating subsidiary, SLA, continues to be conservative, with an MCCSR ratio approaching 230%, following the SLEECS Series 2009-1 issue, which is above the Company's formal target range. The Company has continued to employ more innovative Tier 1 capital instruments such as preferred shares and capital trust securities in the form of the SLEECS issue, which will have taken the ratio of alternative Tier 1 capital to more than 21% of the Company's common equity. However, since the Office of the Superintendent of Financial Institutions (OSFI) limits the Tier 1 credit given to these instruments when they exceed 15% of available capital, only a portion of the recent SLEECS issue actually qualifies as Tier 1 capital. The portion that does not receive Tier 1 credit will receive Tier 2 credit and improve the overall MCCSR ratio. However, the Company does not generally target Tier 1 capital ratios, which, at more than 170%, are nevertheless strong on a pro forma basis. The Company's Sun Life (U.S.) operation reported a risk-based capital (RBC) ratio of 359% in 2008, which remains above the Group's target.

Like most industry competitors, the Company remains cautious about the economic and market outlook and wants to be protected from having to issue new capital in a stressed market environment. (The Company has the option to redeem at par the first SLEECS issue of $950 million in 2011.) As earning growth has slumped and embedded risks have called for additional capital over the past 12 months, the Company has raised more than $1.2 billion in fixed income capital instruments. Although the $825 million gain on the sale of a 37% interest in CI was a proxy for the common equity issues that have been completed by most of the Company's peer group, the total CI sale proceeds of $2.2 billion have been freed up to be injected into the Company's operating subsidiaries as capital.

As a result of the capital-raising exercise, the Company's total debt ratio has migrated up to the broad DBRS threshold for the rating category of 30%, where it is in line with the respective ratios for its peer group. Increasingly, new capital is being issued at the holding company level, which has also created an increase in double leverage, albeit at a level in line with the rating.

Liquidity is very strong, can address most contingencies and has been increased as a result of the Company's caution and appetite for investments in growth by acquisition. The Group also maintains $1 billion in available bank lines.

**Outlook**

The Company's annual dividend payout of just over $800 million represents a dividend payout on normalized earnings of approximately 50%, which is partially offset by a dividend reinvestment plan program (DRIP). With expected normalized ROE of 10%, this would suggest an internal equity growth rate of 5%, which is probably in line with the Company's growth prospects.

DBRS expects that SLA will continue to meet its MCCSR ratio target of 180% to 200%, given the current excess capital cushion in both Canada and the United States. In fact, DBRS expects that the Company will maintain its regulatory capital ratios well in excess of its targets, given the uncertain economic and market outlook. Fortunately, the excess capital on hand should keep the Company from being forced to issue in the debt and preferred share markets, where any additional debt or debt-like issuance could weigh on the Company's credit rating in absence of a new equity issue.

Since the Company is keen to play the role of consolidator in the U.S. life insurance market, DBRS would not be surprised by a large acquisition but is comfortable that it would be financed in such a way that the Company's credit rating would not be affected. DBRS believes that the Company is actively gaining from its financial strength ratings and would be loath to compromise them.

## Rating Approach

In January 2005, the Company completed a reorganization, the net effect of which was to transfer most of the wealth management operations of SLA to an affiliated company, Sun Life Global Investments Inc. For the nine months ended September 30, 2009, SLA represented 83% of the Company's consolidated net income, 77% of consolidated Company general assets and just 34% of Company AUM, given the $175 billion in AUM at MFS.

The rating approach taken by DBRS is to analyze the financial performance of the Company on a consolidated basis, taking special notice of the operations of SLA, but recognizing that the two branches of the Company remain well integrated with each other.

The ratings of SLF reflect the fact that it is a regulated holding company with diversified interests in stable and regulated financial protection products as well as in potentially more volatile wealth management operations. Correspondingly, DBRS has recognized the structural subordination of the SLF credit relative to its regulated subsidiary, SLA, with a one-notch differential, especially in the context of the potential limitation of the free flow of upstream dividends, the vast majority of which come from SLA.

**Sun Life Financial Inc.**

**Report Date:**
December 23, 2009

# Segmented Data – Sun Life Financial

| **Revenue** | 9 months ended September 30 | | | | For the year ending December 31 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ($ millions) | 2009 | | 2008 | | 2008 | | 2007 | | 2006 | | 2005 | | 2004 | |
| Canada | 9,116 | 40% | 5,875 | 54% | 7,927 | 51% | 9,285 | 44% | 9,333 | 38% | 8,658 | 40% | 8,162 | 38% |
| *Individual insurance & investments* | *4,518* | *20%* | *2,222* | *20%* | *3,133* | *20%* | *4,554* | *21%* | *4,675* | *19%* | *4,387* | *20%* | *4,252* | *20%* |
| *Group benefits* | *3,163* | *14%* | *2,686* | *25%* | *3,632* | *23%* | *3,525* | *17%* | *3,472* | *14%* | *3,134* | *14%* | *2,807* | *13%* |
| *Group wealth* | *1,435* | *6%* | *967* | *9%* | *1,162* | *7%* | *1,206* | *6%* | *1,186* | *5%* | *1,137* | *5%* | *1,103* | *5%* |
| U.S. | 9,896 | 44% | 3,230 | 30% | 3,817 | 25% | 7,830 | 37% | 10,465 | 43% | 9,161 | 42% | 9,429 | 43% |
| *Annuities* | *5,188* | *23%* | *580* | *5%* | *(154)* | *-1%* | *3,434* | *16%* | *6,321* | *26%* | *5,517* | *25%* | *5,660* | *26%* |
| *Individual life* | *2,786* | *12%* | *1,220* | *11%* | *2,021* | *13%* | *2,635* | *12%* | *2,923* | *12%* | *2,524* | *12%* | *2,744* | *13%* |
| *Group life & health* | *1,923* | *9%* | *1,429* | *13%* | *1,950* | *13%* | *1,761* | *8%* | *1,221* | *5%* | *1,120* | *5%* | *1,025* | *5%* |
| MFS | 909 | 4% | 1,071 | 10% | 1,381 | 9% | 1,687 | 8% | 1,662 | 7% | 1,648 | 8% | 1,700 | 8% |
| SLF Asia | 1,460 | 6% | 370 | 3% | 498 | 3% | 977 | 5% | 1,022 | 4% | 759 | 3% | 694 | 3% |
| Corporate | 1,198 | 5% | 311 | 3% | 1,940 | 12% | 1,634 | 8% | 2,164 | 9% | 1,995 | 9% | 2,137 | 10% |
| *SLF (UK)* | *679* | *3%* | *(40)* | *0%* | *236* | *2%* | *787* | *4%* | *1,170* | *5%* | *1,152* | *5%* | *1,258* | *6%* |
| *Reinsurance* | | | | | | | *555* | *3%* | *583* | *2%* | *455* | *2%* | *452* | *2%* |
| *Corporate support* | | | | | | | *292* | *1%* | *411* | *2%* | *388* | *2%* | *427* | *2%* |
| *adjustments* | | | | | | | *(225)* | *-1%* | *(359)* | *-1%* | *(303)* | *-1%* | *(392)* | *-2%* |
| Total | 22,579 | 100% | 10,857 | 100% | 15,563 | 100% | 21,188 | 100% | 24,287 | 100% | 21,918 | 100% | 21,730 | 100% |

| **Net income** | 9 months ended September 30 | | | | For the year ending December 31 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ($ millions) | 2009 | | 2008 | | 2008 | | 2007 | | 2006 | | 2005 | | 2004 | |
| Canada | 623 | 262% | 700 | 107% | 645 | 82% | 1,050 | 47% | 995 | 48% | 963 | 52% | 907 | 54% |
| *Individual insurance & investments* | *342* | *144%* | *354* | *54%* | *224* | *29%* | *622* | *28%* | *585* | *28%* | *572* | *31%* | *523* | *31%* |
| *Group benefits* | *161* | *68%* | *210* | *32%* | *284* | *36%* | *255* | *11%* | *247* | *12%* | *246* | *13%* | *252* | *15%* |
| *Group wealth* | *120* | *50%* | *136* | *21%* | *137* | *17%* | *173* | *8%* | *163* | *8%* | *145* | *8%* | *132* | *8%* |
| U.S. | (456) | -192% | (337) | -51% | (1,016) | -129% | 581 | 26% | 448 | 21% | 495 | 27% | 392 | 23% |
| *Annuities* | *(374)* | *-157%* | *(362)* | *-55%* | *(1,082)* | *-138%* | *340* | *15%* | *338* | *16%* | *324* | *18%* | *240* | *14%* |
| *Individual life* | *(242)* | *-102%* | *(22)* | *-3%* | *77* | *10%* | *169* | *8%* | *58* | *3%* | *118* | *6%* | *106* | *6%* |
| *Group life & health* | *116* | *49%* | *75* | *11%* | *79* | *10%* | *72* | *3%* | *52* | *2%* | *51* | *3%* | *46* | *3%* |
| MFS | 103 | 43% | 164 | 25% | 194 | 25% | 281 | 13% | 234 | 11% | 179 | 10% | 173 | 10% |
| SLF Asia | 49 | 21% | 17 | 3% | 33 | 4% | 123 | 6% | 101 | 5% | 42 | 2% | 45 | 3% |
| Corporate | (81) | -34% | 112 | 17% | 929 | 118% | 184 | 8% | 311 | 15% | 188 | 10% | 235 | 14% |
| *SLF (UK)* | *(40)* | *-17%* | *169* | *26%* | *209* | *27%* | *213* | *10%* | *171* | *8%* | *192* | *10%* | *173* | *10%* |
| *Reinsurance* | | *0%* | | *0%* | | *0%* | *97* | *4%* | *93* | *4%* | *5* | *0%* | *72* | *4%* |
| *Corporate support* | | *0%* | | *0%* | | *0%* | *(126)* | *-6%* | *47* | *2%* | *(33)* | *-2%* | *(82)* | *-5%* |
| Total | 238 | 100% | 656 | 100% | 785 | 100% | 2,219 | 100% | 2,089 | 100% | 1,843 | 100% | 1,680 | 100% |

| **Assets Under Management** | At September 30 | | | | For the year ending December 31 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ($ millions) | 2009 | | 2008 | | 2008 | | 2007 | | 2006 | | 2005 | | 2004 | |
| Canada | 123,680 | 29% | 119,890 | 31% | 112,886 | 30% | 127,861 | 30% | 124,103 | 28% | 114,339 | 30% | 105,150 | 29% |
| *Individual insurance & investments* | *47,769* | *11%* | *45,725* | *12%* | *44,047* | *12%* | *46,200* | *11%* | *43,330* | *10%* | *40,610* | *10%* | *38,738* | *11%* |
| *Group benefits* | *10,458* | *2%* | *10,301* | *3%* | *10,273* | *3%* | *10,414* | *2%* | *9,944* | *2%* | *9,744* | *3%* | *9,390* | *3%* |
| *Group wealth* | *65,453* | *15%* | *63,864* | *16%* | *58,006* | *15%* | *71,247* | *17%* | *70,829* | *16%* | *63,985* | *17%* | *57,022* | *16%* |
| U.S. | 71,535 | 17% | 68,782 | 18% | 74,543 | 20% | 68,800 | 16% | 73,519 | 17% | 67,956 | 18% | 67,235 | 19% |
| *Annuities* | *40,925* | *10%* | *39,527* | *10%* | *33,855* | *9%* | *42,099* | *10%* | *50,720* | *11%* | *49,534* | *13%* | *50,782* | *14%* |
| *Individual life* | *27,543* | *6%* | *26,353* | *7%* | *24,660* | *6%* | *23,961* | *6%* | *21,210* | *5%* | *17,109* | *4%* | *15,262* | *4%* |
| *Group life & health* | *3,067* | *1%* | *2,902* | *1%* | *2,757* | *1%* | *2,740* | *1%* | *1,589* | *0%* | *1,313* | *0%* | *1,191* | *0%* |
| MFS | 199,375 | 47% | 172,251 | 44% | 163,561 | 43% | 199,836 | 47% | 218,803 | 50% | 190,073 | 49% | 176,221 | 49% |
| SLF Asia | 23,199 | 5% | 18,009 | 5% | 19,930 | 5% | 18,883 | 4% | 13,868 | 3% | 7,326 | 2% | 2,492 | 1% |
| Corporate | 6,222 | 1% | 8,945 | 2% | 9,886 | 3% | 9,884 | 2% | 11,139 | 3% | 7,695 | 2% | 8,552 | 2% |
| *SLF (UK)* | | *0%* | | *0%* | | *0%* | *16,099* | *4%* | *18,151* | *4%* | *15,603* | *4%* | *17,430* | *5%* |
| *Reinsurance* | | *0%* | | *0%* | | *0%* | *1,319* | *0%* | *1,504* | *0%* | *1,222* | *0%* | *1,152* | *0%* |
| *Corporate support and adjustments* | | *0%* | | *0%* | | *0%* | *(7,434)* | *-2%* | *(8,516)* | *-2%* | *(9,130)* | *-2%* | *(10,030)* | *-3%* |
| Total | 424,011 | 100% | 387,877 | 100% | 380,806 | 100% | 425,264 | 100% | 441,432 | 100% | 387,389 | 100% | 359,650 | 100% |

**Sun Life Financial Inc.**

**Report Date:**
December 23, 2009

# Sun Life Financial Inc.

## Balance Sheet

| | At September 30 | | As at December 31 | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2008 | 2007 | 2006 | 2005 | 2004 |
| **Assets:** | | | | | | | |
| Cash & deposits | 11,831 | 6,614 | 8,879 | 5,500 | 6,239 | 5,091 | 5,958 |
| Bonds | 60,129 | 56,639 | 59,074 | 59,756 | 69,230 | 66,154 | 64,496 |
| Corporate loans | 5,756 | 5,877 | 6,035 | 5,274 | | | |
| Mortgages | 14,303 | 15,489 | 16,267 | 15,468 | 15,993 | 14,561 | 13,862 |
| Shares | 4,710 | 4,505 | 4,458 | 5,226 | 4,899 | 3,856 | 3,463 |
| Real estate | 4,826 | 4,638 | 4,908 | 4,303 | 3,825 | 3,241 | 3,148 |
| Policyholder loans & other | 4,344 | 5,516 | 4,588 | 5,546 | 6,013 | 5,689 | 5,984 |
| Accrued investment income | 1,200 | 1,000 | 1,208 | 1,093 | 1,190 | 1,161 | 1,121 |
| Total investments | 107,099 | 100,278 | 105,417 | 102,166 | 107,389 | 99,753 | 98,032 |
| Derivatives | 1,535 | 1,468 | 2,669 | 1,947 | | | |
| Intangibles | 937 | 827 | 878 | 775 | 777 | 801 | 751 |
| Goodwill | 6281 | 6235 | 6598 | 6,018 | 5,981 | 5,963 | 5,471 |
| Other | 3,655 | 4,403 | 4,271 | 3,385 | 3,684 | 4,349 | 3,549 |
| Total assets | 119,507 | 113,211 | 119,833 | 114,291 | 117,831 | 110,866 | 107,803 |
| | | | | | | | |
| Segregated fund assets | 72,984 | 69,042 | 65,762 | 73,205 | 70,789 | 60,984 | 56,564 |
| Mutual fund assets | 91,366 | 87,722 | 83,602 | 101,858 | 110,186 | 103,753 | |
| Other assets under management | 128,046 | 118,704 | 111,925 | 135,910 | 142,626 | 115,286 | 195,283 |
| Assets under management | 411,903 | 388,679 | 381,122 | 425,264 | 441,432 | 390,889 | 359,650 |
| | | | | | | | |
| **Liabilities & Equity:** | | | | | | | |
| Provision for policy benefits | 84,139 | 77,556 | 81,411 | 79,830 | 81,036 | 77,489 | 76,056 |
| Deposits | 4,125 | 3,758 | 4,079 | 3,747 | 3,599 | 3,382 | 3,144 |
| Deferred net realized gains | 232 | 258 | 251 | 276 | 4,152 | 3,859 | 3,466 |
| Other liabilities | 5,181 | 7,810 | 7,169 | 7,037 | 6,339 | 6,248 | 6,582 |
| Derivatives | 1,432 | 964 | 3,219 | 638 | | | |
| Other debt | 662 | 638 | 662 | 638 | 495 | 344 | 570 |
| Senior debentures | 2,162 | 1,863 | 1,863 | 1,864 | 2,341 | 1,342 | 770 |
| General fund liabilities | 97,933 | 92,847 | 98,654 | 94,030 | 97,962 | 92,664 | 90,588 |
| Subordinated debt | 3,050 | 2,553 | 2,576 | 1,796 | 1,456 | 1,456 | 1,462 |
| Hybrids (SLEECS) | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 |
| Minority interests | 36 | 42 | 44 | 98 | 79 | 50 | 188 |
| Preferred shares | 1,741 | 1,495 | 1,495 | 1,495 | 1,250 | 712 | 0 |
| Shareholders' equity | 17,938 | 18,265 | 18,202 | 18,391 | 17,179 | 16,249 | 15,435 |
| AOCI | (2,448) | (3,241) | (2,394) | (2,750) | (1,337) | (1,500) | (1,097) |
| Policyholders' equity | 107 | 100 | 106 | 81 | 92 | 85 | 77 |
| Total liabilities & equity | 119,507 | 113,211 | 119,833 | 114,291 | 117,831 | 110,866 | 107,803 |

**Sun Life Financial Inc.**

**Report Date:**
December 23, 2009

# Sun Life Financial Inc.

| Income Statement | To September 30 | | Year ending December 31 | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Annuities | 4,018 | 2,844 | 3,592 | 3,530 | 5,380 | 4,556 | 4,588 |
| Life insurance | 4,741 | 4,267 | 5,928 | 6,010 | 6,168 | 5,683 | 5,948 |
| Health insurance | 3,271 | 2,991 | 4,067 | 3,584 | 3,061 | 2,701 | 2,367 |
| Total premiums | 12,030 | 10,102 | 13,587 | 13,124 | 14,609 | 12,940 | 12,903 |
| Interest and dividend income | 4,200 | 4,587 | 6,078 | 6,223 | 6,654 | 6,100 | 5,945 |
| Change in fair value (incl amort of gains) | 5,064 | (5,384) | (7,636) | (1,456) | | | |
| Derivatives | (563) | (560) | (220) | 86 | | | |
| Loan loss expense | (51) | (1) | (4) | (1) | 10 | 47 | (21) |
| Net investment income | 8,650 | (1,358) | (1,782) | 4,852 | 6,664 | 6,147 | 5,924 |
| Insurance revenue | 20,680 | 8,744 | 11,805 | 17,976 | 21,273 | 19,087 | 18,827 |
| Policyholder benefits | 10,311 | 9,867 | 13,775 | 14,244 | 12,895 | 12,802 | 12,532 |
| Transfer to segregated funds | 654 | 473 | 539 | 952 | 835 | 704 | 582 |
| Increase (decrease) in policy reserves | 7,729 | (4,044) | (4,429) | (2,515) | 2,525 | 872 | 1,425 |
| Underwriting result | 1,986 | 2,448 | 1,920 | 5,295 | 5,018 | 4,709 | 4,288 |
| Fee and other income | 1,899 | 2,113 | 2,743 | 3,212 | 3,014 | 2,899 | 2,903 |
| Net operating revenue | 3,885 | 4,561 | 4,663 | 8,507 | 8,032 | 7,608 | 7,191 |
| Commission expense | 1,244 | 1,149 | 1,545 | 1,811 | 1,916 | 1,726 | 1,916 |
| Premium & other taxes | 166 | 171 | 227 | 240 | 205 | 190 | 182 |
| Other operating expenses (incl. Goodwill) | 2,307 | 2,168 | 3,003 | 3,208 | 3,014 | 2,889 | 2,737 |
| Operating expenses | 3,717 | 3,488 | 4,775 | 5,259 | 5,135 | 4,805 | 4,835 |
| Operating income before interest | 168 | 1,073 | (112) | 3,248 | 2,897 | 2,803 | 2,356 |
| Interest expense | 309 | 279 | 366 | 349 | 323 | 273 | 278 |
| Pre-tax income | (141) | 794 | (478) | 2,899 | 2,574 | 2,530 | 2,078 |
| Income taxes | (455) | 63 | (533) | 531 | 389 | 568 | 298 |
| Net income before minority interests | 314 | 731 | 55 | 2,368 | 2,185 | 1,962 | 1,780 |
| Minority interest | 10 | 20 | 23 | 35 | 27 | 23 | 28 |
| Income before non-recurring items | 304 | 711 | 32 | 2,333 | 2,158 | 1,939 | 1,752 |
| Non-recurring items | | | 825 | (43) | (14) | (63) | (59) |
| Consolidated net income | 304 | 711 | 857 | 2,290 | 2,144 | 1,876 | 1,693 |
| *allocated:* | | | | | | | |
| Participating policyholder income | | | | 908 | 853 | 811 | 822 |
| Policyholder dividends | | | | 906 | 846 | 802 | 809 |
| Net income - policyholder account | 8 | 2 | 2 | 2 | 7 | 9 | 13 |
| Net income - shareholder account | 296 | 709 | 855 | 2,288 | 2,137 | 1,867 | 1,680 |
| Preferred Shares - dividends | 58 | 53 | 70 | 69 | 48 | 24 | |
| Net income - shareholders | 238 | 656 | 785 | 2,219 | 2,089 | 1,843 | 1,680 |
| Common dividends | 594 | 607 | 809 | 752 | 663 | 581 | 515 |

**Sun Life Financial Inc.**

**Report Date:**
December 23, 2009

## Rating

| Issuing Entity | Debt | Rating Action | Rating | Trend |
|---|---|---|---|---|
| Sun Life Assurance Company of Canada | Claims Paying Ability | Confirmed | IC-1 | Stable |
| | Subordinated Debt | Confirmed | AA (low) | Stable |
| Sun Life Financial Inc. | Senior Unsecured Debentures | Confirmed | AA (low) | Stable |
| | Subordinated Unsecured Debentures | Confirmed | A (high) | Stable |
| | Preferred Shares | Confirmed | Pfd-1 (low) | Stable |
| Sun Life Capital Trust | SLEECS Series B | Confirmed | A (high) | Stable |
| Sun Life Capital Trust II | SLEECS Series 2009-1 | Confirmed | A (high) | Stable |

## Rating History

| | Current | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|
| Claims Paying Ability | IC-1 | IC-1 | IC-1 | IC-1 | IC-1 | IC-1 |
| Subordinated Debt | AA (low) | AA (low) | AA (low) | AA (low) | AA (low) | AA (low) |
| SLEECS Series B | A (high) | A (high) | A (high) | A (high) | A (high) | A (high) |
| Senior Unsecured Debentures | AA (low) | AA (low) | AA (low) | AA (low) | AA (low) | NR |
| Subordinated Unsecured Debentures | A (high) | A (high) | A (high) | NR | NR | NR |
| Preferred Shares | Pfd-1 (low) | Pfd-1 (low) | Pfd-1 (low) | Pfd-1 (low) | Pfd-1 (low)n | NR |

## Related Research

- DBRS Confirms Ratings of Sun Life Financial Inc. and Affiliates, December 16, 2009.

Note:
All figures are in Canadian dollars unless otherwise noted.

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