

Sun Life Financial Inc. And Its Canadian And U.S. Operating Subsidiaries

Major Rating Factors

Strengths:

- Top three Canadian life insurance franchise
- U.S. presence provides diversification but would benefit from greater scale
- Well diversified by customer, geography, and product
- Very strong operating earnings and solid capital strength
- Conservative credit risk appetite and reserving practices
- Strong enterprise risk management (ERM)

Weaknesses:

- Holding company's dependence on its operating companies for cash flow
- Weak earnings generated by U.S. annuities business
- Margin compression on fixed annuity product due to low interest rates
- Wealth management businesses are exposed to global equity market volatility

Rationale

The financial strength ratings on Sun Life Assurance Co. of Canada, Sun Life Assurance Co. of Canada (U.S.), and Sun Life Insurance & Annuity Co. of New York (collectively known as Sun Life), reflect what we view as the insurer's very strong consolidated capital strength, business franchise, and operating earnings profile, as well as the benefit derived from their related Canadian and U.S. mutual fund companies. Partially offsetting these strengths are the very challenging business and macroeconomic conditions, the strong competitive pressures

Holding Company:

Sun Life Financial Inc.

Counterparty Credit Rating

A+/Negative/A-1

Operating Companies Covered By
This Report

Financial Strength Rating

Local Currency

AA/Negative/—

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that Sun Life faces in its primary markets, and the susceptibility of its wealth management businesses to volatility and lower earnings given the uncertainties associated with the equity and credit markets and interest rates.

It is our belief that the investment portfolio could be susceptible to deterioration given Sun Life Financial Inc.'s exposure to 'BBB' bonds, financial institutions, and commercial mortgages; and its level of unrealized losses, which were reported to have ballooned considerably during the fourth quarter of 2008. Although we believe that the sale of Sun Life Financial's 37% stake in CI Financial Income Fund for C\$2.2 billion has allowed it to strengthen its balance sheet at an opportune time, we believe that its fixed-charge coverage ratio will likely remain under pressure, and that this could limit its capacity to issue debt or hybrids within the current rating category.

Of Sun Life Financial's rated operating subsidiaries, Standard & Poor's Ratings Services views Sun Life Assurance Co. of Canada (Sun Life Assurance), Sun Life Assurance Co. of Canada (U.S.), and Sun Life Insurance and Annuity Co. of New York as core subsidiaries; accordingly, these ratings are equalized with those on the primary operating company, Sun Life Assurance. The financial strength rating on Independence Life and Annuity Co. is based on the company's balance-sheet strength and the explicit claims guarantee for policyholder obligations from Sun Life Assurance (U.S.). Sun Life Capital Trust was established to issue Innovative Tier I capital in Canada. Sun Life of Canada Funding LLC was established to participate in the institutional annuities or spread type business, but the group has not been very active in the space recently as it has not viewed the underlying economics of this business as being very compelling. The financial strength rating on Sun Life Hong Kong Ltd. reflects the improved business position of the company's Hong Kong operations, the good operating performance, improving capital position, and strategic importance of this subsidiary to the Sun Life group. (See analysis on Sun Life Hong Kong published Feb. 3, 2009, on RatingsDirect.)

Because Canada remains a mature market with limited growth opportunities, Standard & Poor's believes Sun Life will generate a larger proportion of its future earnings from the more fragmented and very competitive U.S. and Asian insurance and wealth management markets. We expect Sun Life to maintain its franchise strength and market share position, achieve a consolidated fixed-charge coverage ratio of greater than 8.0x, and remain within a consolidated financial leverage ratio limit of 30%. Capital adequacy on a consolidated basis, as well as for the individual operating companies, is expected to remain very strong and redundant at an 'AA' confidence level, which is expected for the ratings.

Major rating factors on Sun Life include the following:

- Sun Life is one of the three largest life insurance groups operating in the Canadian market, and it has a good beachhead into the U.S. and a number of Asian markets. It is also the majority owner of the U.S.-based mutual fund company MFS Investment Management (MFS), a top 20* mutual fund company in the U.S.
- Standard & Poor's views Sun Life's consolidated capital strength as very strong. As of Dec. 31, 2008, Sun Life Assurance's Tier I minimum continuing capital and surplus requirement (MCCSR) ratio was 195%, and the combined U.S. operating companies maintained strong capitalization that is deficient at the 'AA' confidence level but redundant at 'A' confidence level.
- The company reported an operating loss of C\$40 million in 2008, excluding the gain from the sale of CI Financial, due to reserve strengthening requirements and realized credit losses and for its credit- and equity-related risk given the weak economic environment. The prior three years' earnings were

on a stable and improving trajectory, where it generated a net income of C\$1.9 billion, C\$2.1 billion, and C\$2.3 billion from 2005 to 2007.

- Sun Life maintains a well-diversified investment portfolio that has produced solid investment returns over the past five years, excluding the realized losses that were incurred during the back half of 2008. Its subprime, CMBS, and other asset-backed securities and monoline exposure is lower than that of its U.S. peers.
- Liquidity remains very strong as reflected by our liquidity model and by the secure liquidity characteristics of its insurance affiliates and subsidiaries.

Sun Life is a Security Circle insurer, which means it voluntarily underwent Standard & Poor's most comprehensive analysis and was assigned ratings in one of the top four categories for financial security.

Factors Specific To Holding Company

The ratings on Sun Life Financial are supported by the 'AA' financial strength ratings on its primary Canadian and U.S. insurance operating subsidiaries. The nonstandard notching between the holding company and core operating companies (two compared with three notches) reflects structural subordination and our expectation that the group's diversity and strength in earnings will be maintained. It also reflects our assessment of the holding company's cash holdings and capital structure. Senior debt raised at the holding company to date has been used for what we consider as operating leverage to finance redundant reserve requirements under regulation AXXX, whereas subordinated debt and preferred shares have been used for what we consider as financial leverage. The nonstandard notching also reflects our view that the Canadian regulatory regime would be more similar to those of Europe and Bermuda than those in some other jurisdictions, notably the U.S.

We could reconsider widening the notching between Sun Life Financial and its operating insurance companies to three notches from two, if we believe that the significant operating earnings contribution from the U.S. operations will not continue, Sun Life Assurance's MCCR will fall below 180%, or if pressure continues on the consolidated fixed charge coverage ratio.

Liquidity

As a regulated Canadian holding company, Sun Life Financial is reliant on its cash holdings and the cash flow that it receives from its regulated Canadian and U.S. insurance operating units and from its unregulated asset management companies to meet its fixed obligations, including the payment of interest, preferred and common shareholder dividends, and other expenses. The fixed-income obligations maintained at the holding company are very long dated and consist of: C\$1,525 million in noncumulative perpetual preferred shares, C\$1,150 million in subordinated debt, and C\$1,850 million senior unsecured debt. Sun Life Financial used the proceeds from the senior unsecured debt issues to purchase a high-grade investment securities portfolio that the company is using to back the collateral requirements for redundant AXXX reserves; Standard & Poor's considers this operating leverage. We view the sub debt and preferred shares issues as financial leverage.

In the Canadian regulatory framework, dividend payments from the operating company are restricted by minimum capital adequacy levels set by the regulators, not by an earnings test. The Insurance Companies Act in Canada prohibits the declaration or payment of any interest payments or dividend on shares of an insurance company, if there are reasonable grounds for believing a company is, or the payment of the dividend would cause the company to be, in contravention of its Canadian

regulatory capital level, or cause a liquidity strain and this is monitored by the Canadian regulator, the Office of the Superintendent of Financial Institutions (OSFI).

Sun Life Financial's overall liquidity profile is strong. This opinion is based primarily on the very strong liquidity profile and earnings profile of the primary insurance subsidiaries.

Financial profile

Sun Life Financial is the publicly traded holding company that was established to hold Sun Life Assurance Co. of Canada when it demutualized in March 2000.

Based on Sun Life's 2008 deconsolidated financial statements, there is little on the holding company balance sheet aside from its equity interest in its life insurance and asset management operating subsidiaries, cash and short-term securities; intercompany loans; very long dated capital market instruments (senior unsecured debt, subordinated debt, and preferred shares) all of which has been issued since the beginning of 2005; and policy and shareholders' equity. The preferred shares issued by Sun Life Financial directly represent about 7.9% of total adjusted capital (or core capital) as of year-end 2008. Preferred shares and hybrids issued by Sun Life Financial and its subsidiaries represented 17.8% of total adjusted capital as of 2008.

The company had a consolidated leverage ratio (debt + hybrids + preferreds-to-total capital) of 24.7%, a tangible leverage ratio of 38.1%, and a fixed-charge coverage ratio of 2.8x as of Dec. 31, 2008. Sun Life Financial had C\$8.0 billion of goodwill and identified intangibles, which represent just over 40% of the company's total adjusted capital. Standard & Poor's believes that management remains committed to maintaining satisfactory financial leverage and fixed-charge coverage for the current ratings.

Sun Life Financial de-stacked some of the operating companies from underneath the top holding company in 2005 to put the U.S. life insurance operating companies under a U.S. capital regime and lighten regulatory capital requirements and oversight for noninsurance operations such as the mutual fund businesses.

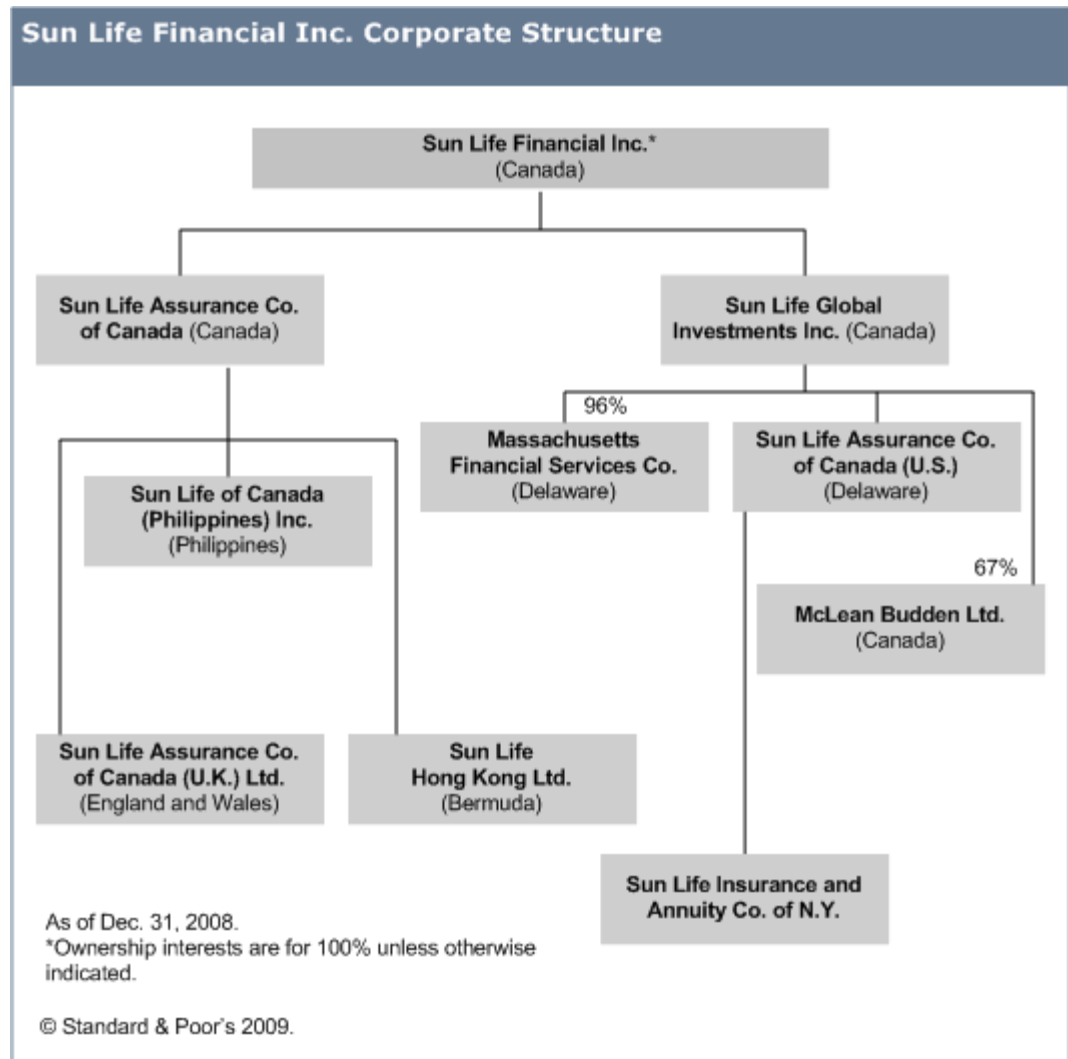
Outlook

The negative outlook reflects our view that further deterioration could occur within the group's investment portfolio. We could lower the ratings if we perceive the company's investment portfolio and its ability to absorb future losses within its existing capital cushion to weaken, if improvement is not seen within the U.S. operations, and/or if the global equity markets remain in a deep and prolonged decline. We could revise the outlook to stable if we believe that the group's core after-tax operating earnings are likely to remain above C\$1.75 billion on a normal run-rate basis, the fixed charge ratio is likely to improve to 8x on a core operating earnings basis, and asset quality issues will be less significant than for its North American peers.

Competitive Position: Leading Canadian Life Insurance Franchise, Improving Position In The U.S. And Hong Kong

Sun Life has a very strong business profile, given it is one of the top three life insurance groups in Canada and given its competitive and sustainable market position in the U.S. life and health protection and wealth management businesses. The company had C\$120 billion in general funds, C\$66 billion in segregated funds, and C\$195 billion in other assets under management (AuM) as of December 2008.

On a consolidated basis, the insurer has maintained a well-diversified product portfolio in annuities, life insurance, and health insurance.



Historical

Sun Life's geographic spread of operating earnings for the 12 months ended Sept. 30, 2008, was: Canada: 55%, U.S. insurance: 17%, MFS: 13% , U.K.: 11%, Asia: 4%.

Canada

The Canadian operations, which include individual annuities and life insurance, group retirement, and life and health products, represent Sun Life's largest pool of AuM when excluding U.S.-based mutual fund company MFS. In Canada, earnings are distributed on a normal run-rate basis as follows: individual insurance and investments (50%), group benefits (30%), and group retirement services (which include earnings from McLean Budden; 20%). In addition to distributing its products through the independent broker channel, Sun Life also distributes through its independent career advisors sales force that currently has about 3,500 advisors.

In the Canadian market, Sun Life ranks No. 3 with in-force individual life insurance (about 18% market share), No. 3 in the sale of individual life insurance (13%), No. 3 in segregated fund AuM (11%), No. 3 in critical illness market share (20%), No. 3 in group life and health (21%), and No. 1 in group retirement services (30%).

U.S.

Sun Life's stated objective is to reach a top 10 position in select protection and wealth management markets in the U.S., where its primary products are fixed and variable annuities, individual life, group life and health insurance, and investment products. The company acknowledges that has limited scale in the individual life insurance market and subscale within the annuities business, and continues to pursue opportunities to improve its position both organically and through acquisitions. The U.S. earnings contributions on a normal run-rate basis are approximately: annuities 55%, individual life 30%, and group life and health 15%.

Through its U.S. insurance subsidiaries and multichannel distribution network, Sun Life is a competitive provider of fixed-rate and variable annuities to middle- and upper-income individuals, individual life insurance to high net worth individuals, and group life and health insurance to midsize employers. The U.S. annuity operations continue to represent one of Sun Life's largest sources of AuM. Variable annuities are sold through three primary channels with the approximate breakdown: banks (20%), independent firms (35%), wirehouses/regionals (45%). The significant effort made in extending the product range and expanding and improving the wholesale distribution network continues to show signs of success. Fixed annuities are sold primarily through the bank channels. Overall, Sun Life ranks in the top 25 of the U.S. annuities and individual life insurance markets and top 10 of the U.S. group life and health market. Sun Life's position in the U.S. group life and health segment was enhanced with its purchase of Genworth's group business in 2007.

Sun Life has relied very little on earnings generated by institutional funding agreements given these were not viewed as attractive products in what was historically a narrow spread and flat yield curve environment. In total, Sun Life only has about C\$3 billion in institutional funding agreements outstanding.

MFS

Sun Life's subsidiary, MFS, is a top 20 mutual fund company in the U.S. Including institutional investment, it was managing slightly more than half of Sun Life's C\$381 billion in consolidated AuM as of December 2008. The bulk of the mutual fund assets are held in long-term funds, which generally have higher management fees. MFS' AuM declined largely due to the drop in the global equity markets during the second half of 2008. Retail mutual funds continued with their trend of negative net sales, but the improved Lipper and Morningstar rankings could favorably affect retail flows. Over the past few years, MFS has been quite successful in expanding the AuM in asset classes beyond U.S. equities, which has contributed to the reduction in operating earnings volatility and the favorable change in pretax operating margins. Following MFS' regulatory settlements relating to frequent trading and disclosure of brokerage allocations that took place at the end of 2003 and beginning of 2004, the firm's governance function has been strengthened considerably.

Asia

Asia represents a small piece of Sun Life's overall earnings, but it has become a more significant contributor in the sale of new individual life insurance. The 2005 acquisition of CMG Asia has enhanced the group's business position in the Hong Kong market, giving it a strong position in its primary business lines, and is in line with Sun Life's stated business strategy. Sun Life's operations in India, which operate as a joint venture, have continued their rapid expansion. The Philippine operation maintains its leading market position.

Reinsurance

The reinsurance business is focused primarily on the life retrocession business in North America where Sun Life holds about a one-third market share. Following the unfavorable claims experience and reserve strengthening requirements that were incurred in 2008, the company has announced that it would be withdrawing its activities within certain aspects of the reinsurance business.

Prospective

Sun Life is expected to maintain its position as one of the top three players in the Canadian life insurance sector. Standard & Poor's expects the company to maintain pricing discipline, given the three largest players that control two-thirds of the Canadian market must keep their shareholders' interest in mind. Although the second tier players do pursue a pricing strategy from time to time, their scale and overall balance-sheet position usually limit these activities to relatively short bursts.

We expect Sun Life to continue its pursuit of additional scale and scope in the U.S. and its other international markets through both organic growth and acquisitions. In our opinion, future transactions likely will be bolt-on in size.

The U.S. operation remains exposed to volatility in the equity markets with its variable annuities and wealth management businesses, and margin compression in its fixed annuity business line; however, steps continue to be taken to mitigate these risks through various hedging programs and innovative product designs. We expect MFS to remain an integral part of the company's wealth management franchise.

Ownership And Legal Status

As a Tier 1 insurance company, Sun Life Financial is broadly held and publicly traded. Both the operating insurance company and the holding company are supervised by OSFI and regulated by the federal Minister of Finance. The U.S. operations are supervised by the NAIC, with the regulation being led by the State of Michigan (Branch) and the State of Delaware (US Subsidiary).

Management And Corporate Strategy: Continue To Build Out U.S. And Asian Franchise

Strategic objectives

Sun Life Financial's business strategy remains centered on achieving scale, diversification, and operational excellence. In the past several years, this has been achieved through acquisitions, which have brought increased scale, product, and geographic diversification; secured the company's top three position in Canada; and put it in reach of achieving a top 10 position in its key U.S. markets. Sun Life

Financial also aspires to become a premium global asset manager and achieve long-term profitable growth in Asia.

Management has built a well-diversified portfolio of products, including individual life insurance and annuity, group life insurance, health insurance, and savings products. Off-balance-sheet, management has continued to develop what we consider innovative savings and retirement products, and has developed robust ERM to ensure that the options embedded in many of the company's products are effectively managed under all but the most severely stressed environments. We believe that Sun Life's asset management businesses remain a fundamental strength of the franchise, with more than C\$65 billion in segregated funds (only about half of these funds include mortality, accumulation, or income benefits) and about C\$195 billion in what are mostly institutional and mutual funds under management. As of year-end 2008, Sun Life Financial's holdings in asset managers would include its 96% interest in Boston-based MFS Investment Management (MFS) and 67% interest in McLean Budden Ltd.

In the U.S. business, Sun Life has taken steps to counter the challenges and risk associated with building out its product and distribution network. The company has acknowledged that it has limited scale in the individual life insurance market and subscale within the annuities business, and it continues to pursue opportunities to improve its position both organically and through small bolt-on acquisitions. In our view, its acquisition of Genworth's group life and health business was a win for the franchise.

The Asian market continues to be developed as a source of the company's future earnings and growth. The completion of the CMG Asia acquisition in 2006 significantly strengthened Sun Life Financial's presence in Hong Kong and gave it a strong position by boosting its sales force and customer base. Although India and China appear to be high potential markets, they have a significant amount of associated economic, political, and operational risk, and could become a draw on senior management's time if things unravel.

Operational management

We view operational management as strong and continuously improving, and the company's size gives it a significant scale advantage. Sun Life has paid a considerable amount of attention to optimizing IT, administrative, and expense management functions to gain operating efficiencies. The firm's ERM infrastructure also remains a clear and important initiative that has the full support of senior management. The company ensures its products are priced competitively but within its return targets. Sun Life effectively uses technology for productivity gains throughout its global operations, and capitalizes on its ability to export its best practices throughout the organization. The company has a strong and comprehensive corporate and risk management governance structure, and policies and procedures are in place with clear and strong accountability at all levels. Sun Life has also been pursuing cost and operational synergies such as moving to service centers to rationalize expenses, capitalize on time zone advantages, and reduce single location risk.

Financial management

Standard & Poor's considers Sun Life's overall balance-sheet risk to be appropriate for the ratings category. Investment portfolio has remained relatively static in the past few years, while the amount

and quality of capital are currently viewed as very strong for the company's asset and business risks. The company prudently uses reinsurance to limit its risk retention in all major product lines.

Enterprise Risk Management Is Strong

Standard & Poor's considers Sun Life's ERM program to be strong. ERM is a well-established and highly embedded discipline that touches on all of the group's decisions. Standard & Poor's believes it is unlikely that Sun Life would experience significant losses beyond its risk tolerance, except in the most extreme stressed business environments. The strength of the company's ERM infrastructure is expected to result in a continuation of the company's stable and consistent core earnings in most normal markets. While the firm did exhibit volatility in earnings during the second half of 2008, these were concentrated in two single-name exposures, and these were at levels that could safely be absorbed by the company's earnings, reserves, and capital. Major risks are well controlled. In particular, we find that Sun Life has strong control of its equity, interest rate risks, as well as strong programs for evaluating and preparing for emerging risks and for managing the risks of new products. ERM's importance to the rating on Sun Life is high, due to the company's complex and risky product portfolio and its geographically diverse businesses.

In our opinion, the risk management culture at Sun Life is strong. The company first appointed a chief risk officer more than six years ago and many of its risk reports and processes predate the formalization of the function. However, its program continues to evolve as evidenced by a combination of continuity and changes in its internal management and board reporting of its risk positions and risk mitigation actions. In addition, Sun Life's external disclosure of risk management is quite extensive. Sun Life clearly sets out roles for risk management policy setting, monitoring, and mitigation, with attention to appropriate separation of duties. Communication with the board risk committee and the full board is regular and substantive. Risk tolerance and risk limits are clearly and frequently communicated and are featured on key risk position reports.

Sun Life has practiced hedging to offset risks from its variable annuity (segregated fund) and equity index annuity products for a number of years. Those programs are now fully mature and the hedges are executed by a centralized trading area allowing the company to manage its risk positions on a centralized basis. Sun Life uses a combination of long dated and short-term hedges and rebalances positions frequently to satisfy a three Greek hedging program. The company incorporates frequent analysis of hedge gains and losses into its models and future hedging decisions.

Interest rate risk control at Sun Life is strong. It has adopted many best practices including attending to duration, convexity, and key rate duration matching between its assets and liabilities. The company has maintained a very stable reporting format that provides management with the key information to monitor the execution of ALM and to easily compare situations over time. In addition to targeting duration and convexity matching on asset purchases, it uses a range of interest rate derivatives to better match the risk characteristics of the liabilities including the minimum interest guarantees. The company uses stress testing as an additional tool on the entire portfolio as well as separately on derivative holdings. Sun Life has a complex limit system that provides different limit amounts at different confidence intervals, which further improves its control of the risk.

We find Sun Life's credit risk control to be adequate. Investment risks, including equity, credit, and interest rate, make up more than two-thirds of the risk profile and are very well controlled. Standard &

Poor's sees insurance risk as a noncorrelating risk to the large investment risks and as adequate. Sun Life has begun to monitor and limit/mitigate its life concentration risk.

In the area of emerging risk management, Standard & Poor's finds that Sun Life's execution of the dynamic capital adequacy testing process, which OSFI requires of Canadian companies, to be a strong practice. The company uses this methodology to run annual stress scenarios and considers and designs contingency plans for major emerging risks. Standard & Poor's expects that Sun Life's time spent on this process could be of value to the franchise, as it encourages senior management to consider unexpected loss or risk events, the impact of these on their organization, and what action steps they might take to mitigate these risks.

In general, we believe that the risk models at Sun Life are strong. Models supporting interest rates and equity risk management are strong. Sun Life is working toward a more fully coordinated set of risk models in the very near future.

Sun Life uses a risk reward evaluation to support major strategic decision making in what we find to be a strong strategic risk management program. The limit structure is tied to net revenue that provides automatic adjustments for variations in volumes and in profitability. The marginal impact of major management decisions is assessed in terms of its stand-alone risk reward and its impact on the combined group risk reward, reflecting diversification.

Accounting: Nothing Out Of The Ordinary

The financial analysis of Sun Life is conducted on the consolidated Canadian GAAP (CGAAP) statement of Sun Life Financial, as there are very few assets held under the top holding company other than the equity investments made in its various insurance subsidiaries, cash and cash equivalents, and intercompany loans.

Effective Jan 1, 2007, the new accounting standards (fair-value accounting) were introduced and included the Canadian Institute of Chartered Accountants (CICA) handbook, section 3855, among other adjustments. While the fair-value accounting changes have increased the variability of earnings as measured by CGAAP, especially during times of volatile markets, the long-term impact to earnings should theoretically be neutral. Philosophically, Standard & Poor's will look through changes brought about by fair-value accounting where they make limited economic sense, given the long-term nature of life insurance products. As there is only one accounting convention used in Canada, it is Standard & Poor's belief that this improves the integrity of the data. Based on the current timeline, the accounting standards for Canadian life insurance companies are expected to be transitioned to International Financial Reporting Standards beginning in 2011.

Sun Life also prepares a Source of Earnings statement in accordance with Canadian regulatory guidelines, as well as embedded value analysis. In our view, this statement provides very granular information on the various elements that drive net income, and is a valuable tool for assessing the underlying quality and consistency of a life insurance company's earnings. Deconsolidated financial statements are also reviewed at the top holding company and at various levels within the corporate structure. Standard & Poor's also completes analysis on the U.S. GAAP and U.S. statutory filings, but gives these statements only secondary consideration given the group manages its business on the basis of CGAAP. As operating and financial leverage is issued at both the holding and operating company level, we examine key financial ratios at all levels within the organization within our analysis. As well, we give the C\$1,150 million in Tier I innovative instruments in addition to the preferred shares and

deferrable sub debt outstanding hybrid equity treatment. The Innovative Tier One instruments were grandfathered following the regulatory and accounting changes that followed Canadian Institute of Chartered Accountants Guideline 3860.

Actuarial assumptions are reviewed at least annually both internally and externally to ensure that regulatory and professional requirements are met. The Canadian Institute of Actuaries sets out very detailed professional and governance standards. In addition to its internal reviews and the annual sign-off by the company's appointed actuary, Sun Life's actuarial reserves are subjected to three levels of external review annually: the qualified actuaries employed by the external auditors, a third-party actuarial firm (as stipulated under OSFI guideline E15), and the regulator's team of actuaries. Based on these reviews, it remains Standard & Poor's opinion that the firm's valuation practices are appropriate and consistent with actuarial practice.

Operating Performance: Earnings Under Pressure Due To Weak Global Credit And Equity Markets

In our opinion, Sun Life's operating earnings profile remains very strong given the company's well-diversified business mix and dominant franchise position in Canada. Nevertheless, like many of its peers', its earnings will remain under pressure until the global economy improves. It is our view that the substantial base of insurance protection products offsets some of the inherent instability associated with the company's wealth management businesses, reinsurance operations, and growing exposure to emerging market economies.

Historical

Until the second half of 2008, Sun Life Financial's operating earnings were on a stable and positive trajectory, despite the headwinds created by the appreciating Canadian dollar, which is the company's reporting currency.

Excluding the gain related to the sale of Sun Life Financial's 37% interest in CI Financial, the company reported an operating loss of C\$40 million in 2008, compared with operating earnings of C\$2.3 billion in 2007, and C\$2.1 billion in 2006. Although we believe that Sun Life Financial's sale of CI Financial for C\$2.2 billion has allowed it to strengthen its balance sheets at an opportune time, the current economic environment has placed a considerable amount of pressure on its earnings, reserves, and capital.

Sun Life Financial's 2008 operating loss reflected the realized credit losses and reserve strengthening requirements for its credit- and equity-related risk. The appreciating Canadian dollar, which is the reporting currency, also created an earnings headwind.

The C\$764 million in realized credit losses taken during 2008 was largely made up from Sun Life's exposure to U.S. financial institutions. The Lehman Brothers and Washington Mutual exposure accounted 60% of this loss.

Approximately C\$1.6 billion of the 2008 operating losses arose due to Canadian reserve strengthening requirements that reflected the steep decline in equity markets, added provisions for future credit losses, and the decline in long-term government treasury bonds through the year. With the S&P 500 down 38% and the S&P/TSX down 36% in 2008, about C\$1,050 million in reserve adjustments were made to reflect the present value of lower future fees, increased reserves requirements for long-term liabilities associated with segregated funds, variable annuities, and UL products. A half

billion in reserve adjustments was made to account for additional provisions required for credit downgrades, spread widening and changes to asset default assumptions, and about C\$45 million for a reduction in long-term interest rate assumptions.

The total impact from the appreciating Canadian dollar reduced earnings by just over C\$200 million in 2008. Given the rules for Canadian life insurance reserve requirements, further deterioration within the global credit and equity markets would lead to further realized losses and reserve strengthening requirements. These reserves could be released if economic conditions are reversed, as many of these adjustments are accounting accruals that do not reflect realized losses.

Although the various realized and unrealized charges touched Sun Life's businesses to varying degrees, the U.S. operations were affected the most, given the relative size of the U.S. fixed and variable annuities book. The losses in this division were compounded by the fact that the group's exposure to U.S. financial institutions were housed in the U.S. operations as this created a natural currency hedge.

Prospective

Although Sun Life continues to have a very strong earnings profile, we believe that earnings will remain under pressure until the economy begins to show signs of recovery. The depressed equity markets will likely result in lower fee-based revenues and high hedging costs. We also believe that the difficult credit environment will lead to unprecedented stress on the credit portfolios of life insurance companies over the next 12 to 18 months. If markets level off and remain relatively stable, we would expect Sun Life Financial to generate core after-tax operating earnings of C\$1.75 billion on a normal run-rate basis in 2009, the fixed charge coverage ratio to remain above 8x, asset quality issues to be slightly less than those of its North American peers, and reserve requirements for any additional equity or credit risk to not cause capital at the operating companies to fall below the 'AA' level as measured by our capital models.

Investments And Liquidity: Solid Investment Infrastructure

Sun Life's consolidated investment portfolio is strong as measured by asset class, diversification, quality, and return. Sun Life's subprime and CMBS exposure is lower than that of its U.S. peers, and based on our stress test, we don't expect it to result in anything more than a nominal loss. The group's significant exposure to 'BBB' bonds, financial institutions, and commercial mortgages could expose the investment portfolio to further loss if the credit environment continues to deteriorate.

Historical

The investment portfolio is well balanced among primary asset classes, in our view. Assets backing Canadian, U.S., U.K., and Asian liabilities are invested largely in their own currencies as this creates a natural hedge. As of Dec. 31, 2008, Sun Life's total investments were made up of: bonds (55%), mortgages and corporate loans (21%), cash and cash equivalents (8%), policy loans (3%), stock and equity indices (4%), real estate (5%), other investments (4%). The investment portfolio is spread over approximately 1,300 names worldwide, and the top 10 fixed income single-name exposures (including Canadian provinces and U.S. government-sponsored mortgage corporations) remain well spread and represent less than 10% of total invested assets.

At of December 2008, 68.7% of the bond portfolio was rated 'A' or better, 28.3% was rated 'BBB', and 3.0% was rated 'BB' or lower or not rated. Sun Life holds just under 60% of its bond portfolio in

'A'/BBB' bonds as part of its yield enhancement strategy. Sun Life's holdings of speculative-grade/not rated bonds have declined to the current level of 3% from a high of 5.5% as of year-end. Holding of speculative-grade bonds has ticked up slightly, due to deterioration within the credit markets. Government bonds represent 25% and financial institutions represent 26% of the bond portfolio on a fair value basis, and the average credit rating of the overall bond portfolio is 'A-'. Commercial mortgages represent about 12% of overall investments.

Sun Life's asset allocation varies by country. It is of lower credit risk in the U.K. where investments back a closed block of business, higher in the U.S. given the depth and breadth of this market, and is in the middle of the risk spectrum for Canada.

As a matter of policy, Sun Life does not purchase speculative-grade bond investments or third-party residuals. The noted exception is bond investments in the Philippines, where investment-grade ratings are constrained by the speculative-grade sovereign ceiling (Republic of Philippines; foreign currency issuer credit rating BB-/Stable/B).

As of December 2008, the mortgage portfolio was made up almost entirely of first mortgages on commercial (82%) and residential (18%) properties. A high loan-to-value ratio on residential properties is generally accepted only if the mortgage is insured with a government guarantee. The real estate investment portfolio, which is primarily office, retail, and industrial properties, is used primarily to support a closed block of par accounts. Sun Life's mortgages portfolio is of high quality, with net impaired loans of 0.48% at Dec. 31, 2008, remaining at very manageable levels. Net impaired corporate loans were 0.80% as of Dec. 31, 2008.

Within its disclosure, Sun Life has confirmed that it has no direct exposure to subprime mortgages without subordination, structured investment vehicles, or Canadian nonbank sponsored ABCP.

Sun Life's stated investment policy calls for very tight asset-liability management matching both on a cash flow and duration basis and the company does not take interest-rate risk. Sun Life segments its assets based on liability requirements. It has maintained a fairly close duration match in its interest-sensitive portfolios. Management closely monitors its mismatch position and uses derivative instruments for hedge purposes only to ensure that the financial risk of its position is small relative to the company's capital base. Sun Life has entered into derivative contracts with more than 30 counterparties that are generally rated 'AA' or better.

Prospective

We do not expect the company to materially change the relatively conservative nature of its investment portfolio, and it continues to rebalance its portfolio and maintain only a nominal amount of speculative-grade bonds. The overall investment yield on the portfolio is expected to reflect the current low interest-rate environment and remain in line with the company's asset mix, which consists primarily of fixed-income investments.

Capitalization: Solid And Conservative Capital Adequacy Position

Standard & Poor's views Sun Life's consolidated capitalization as very strong and its financial leverage ratios to be at levels that are in line with our expectations for its risk profile and the ratings.

Standard & Poor's believes that Sun Life's liquidity profile remains strong, given its C\$9 billion in cash and cash equivalent and C\$15 billion in government bonds held within its investment portfolio;

C\$900 million in unused bank credit facilities; cash at the holding company; and the long-term profile of its policy liabilities.

Historical

Sun Life Assurance Co. of Canada had a Tier I MCCR ratio of 195% and a MCCR ratio of 232% as of December 2008, which we view as extremely strong. Its consolidated U.S. insurance operations had a Standard & Poor's capital adequacy ratio that we viewed as strong.

Capital within the U.S. operations was eroded by the C\$1.0 billion loss incurred during 2008, but was replenished by the capital infusion made by the group for a like amount.

Sun Life Financial raised C\$2.2 billion when it sold its 37% interest in CI Financial to Scotiabank in December 2008 for a combination of cash, preferred, and common stock. Net of CI transaction, capital declined during 2008 as the company incurred a small operating loss in 2008 partially due to writedowns, but mostly due to increases in credit-and equity-related reserve requirements under CGAAP. The company made about C\$1 billion in common shareholder dividend and share buybacks during 2008. The decline in operating earnings depressed the fixed charge coverage ratio for 2008, and has limited its capacity to issue debt within the current ratings band. Common and preferred shareholder dividends have not been cut and continue to be paid.

We view the liquidity position of Sun Life's Canadian and U.S. operating companies collectively as very strong, based the results from our liquidity model. Within Sun Life Assurance Co. of Canada, about three-quarters of the liabilities had significant protection against surrender, including substantial surrender charges or market value adjustments. This is in contrast to the combined U.S. insurance operations in which only about one-third of the retail and group's liabilities had significant protection against surrender.

Sun Life's liquidity profile reflects its high-quality asset portfolio and stable block of liabilities, which only has a limited exposure to institutional guaranteed investment contracts with a well-spread maturity profile (US\$3 billion as of December 2008). Sun Life keeps a substantial portfolio of marketable government and investment-grade bonds. As of December 2008, Sun Life had about C\$68 billion of its C\$107 billion investment portfolio in government and corporate bonds and cash. Ongoing operations have consistently generated positive cash flows.

In general, both operating and financial debt maturities are in our view well laddered and the company has an amount of operating leverage on its balance sheet that we view as commensurate with the current rating.

Prospective

Standard & Poor's expects Sun Life's consolidated capital adequacy position to remain very strong, but it likely will stay under pressure if equity and credit markets experience prolonged weakness. Capital could also decline for an interim period if a large acquisition is pursued, although bolt-on acquisitions are a more likely scenario. We believe share repurchase activities will remain suspended for the foreseeable future to preserve capital.

We expect Sun Life to continue with the active management of its capital to maintain capital adequacy ratios on a consolidated basis, as well as for the individual operating companies, supportive of a 'AA' rating.

The very strong and diverse source of earnings and the highly liquid profile of the investment portfolio provide Sun Life with ample liquidity to absorb anticipated and unanticipated surrenders and withdrawals. We do not expect any material change in the company's liquidity characteristics. Sun Life has taken steps to further enhance its liquidity position during this current credit crisis by stockpiling cash and government bonds.

Financial Flexibility: Prudent And Conservative Balance-Sheet Risk

Standard & Poor's considers Sun Life's financial flexibility to be strong based on its well-diversified earnings profile, solid capital adequacy position, and demonstrated access to reinsurance and the capital markets.

Historical

Sun Life's capitalization historically has been maintained at extremely strong levels. Of late, capitalization metrics have shown increased fluctuation due to the turmoil seen within the global equity and credit markets. The company's debt obligations are structured in such a way that it issues both financial and operating leverage at its holding company and its operating companies. On a consolidated basis, Sun Life continues to have the capacity to issue operating debt within its current rating band, but further financial leveraged capacity is limited given the pressure that the depressed capital markets is having on the company's fixed charge coverage ratio. The dividend payout ratio has historically been in the low 30s, but exceeded earnings in 2008 due to the very difficult operating conditions.

The company uses reinsurance to manage its claims exposure and to limit exposure to large losses. During 2008, approximately 8% of direct written premiums was ceded to third-party reinsurers, while reinsurance assumed was about 4% of direct written premiums. To hedge its exposure to equity-market risk as it relates to its variable annuity product in the U.S., Sun Life originally acquired long-dated put options against the S&P 500, which allowed Sun Life to minimize reserve-strengthening requirements for guaranteed minimum death benefit exposure when the equity markets deteriorated in the early 2000s. More recently, it has put dynamic hedges in place to mitigate the equity risk contained in its variable annuities book.

Under the Canadian regulatory framework, life insurance companies have been required to allocate capital to their segregated fund risk since December 2000. This stands in contrast to the U.S. regulatory requirement, C-3 phase II, which was not implemented until the end of 2005. Continuous tail expectation (CTE): 60%-80% stochastic results for CGAAP reserves differ by business group—in December 2008 a CTE level of 75% was used in the U.S. business group and 80% in the Canadian business group where the vast majority of Sun Life's direct segregated fund and variable annuity portfolios reside. Regulatory capital against these businesses is held at the CTE level of 90%-98%, depending on the maturity profile of the guarantees.

Sun Life has been successful in finding a long-term solution for its AXXX reserve requirements. Standard & Poor's believes that there would be a de minimis probability that the performance of the underlying life insurance policies would cause a draw on the assets pledged as collateral in support of these liabilities.

Prospective

In our opinion, the company would be most vulnerable to persistently low future interest rates, severe and prolonged credit deterioration, embedded options associated with equity market-linked products (segregated funds and variable annuities), and adverse lapse experience as it relates to its term to 100 insurance products. Standard & Poor's expects Sun Life to maintain its very strong financial flexibility taking aside these business risks given the sale of its 37% stake in CI for C\$2.2 billion in December 2008, its prudent use of financial and operating leverage, reinsurance, and demonstrated access to the capital markets.

Sun Life Financial Corp. (Holding Company) Ratio Analysis

	2008	2007	2006	2005	2004	2003
INVESTMENT PORTFOLIO RATIOS (%)						
Market value of the investment portfolio (Mil. C\$)	108,010	105,912	112,888	105,358	102,798	102,252
Market to book value of the investment portfolio (%)	101.1	102.8	106.3	106.9	106.1	105.2
Invested Assets Portfolio Composition (%)						
Cash & short-term investments	8.3	5.3	5.9	5.2	6.2	5.1
Bonds	55.3	58.0	65.2	67.1	66.5	68.0
Mortgages*	20.9	20.1	15.1	14.8	14.3	14.0
Policy loans	3.4	4.2	5.7	5.8	6.2	6.1
Stocks	4.2	5.1	4.6	3.9	3.6	3.6
Real estate	4.6	4.2	3.6	3.3	3.2	3.2
Other investments	3.4	3.1	0.0	0.0	0.0	0.0
Mortgages/Common equity	140.1	131.9	100.4	98.2	96.2	97.3
Stocks/Common equity	28.0	33.2	30.7	26.0	24.0	24.8
Real estate/Common equity	30.8	27.4	24.0	21.8	21.8	21.9
FINANCIAL LEVERAGE & CAPITAL RATIOS (%)						
Total adjusted capital (TAC)	19,412	19,274	19,910	18,244	17,269	16,885
Total capital (TAC + direct debt)	21,189	20,271	20,567	18,901	17,932	17,816
Preferred stock/Total adjusted capital	7.7	7.8	6.3	3.9	0.9	0.9
Hybrids/Total adjusted capital	10.1	10.2	13.3	14.5	15.5	16.1
Preferred stock + hybrids/Total adjusted capital	17.8	17.9	19.6	18.4	16.3	17.0
Debt (direct)/Total capital	8.4	4.9	3.2	3.5	3.7	5.2
Debt (direct + indirect)/Total capital	23.8	23.8	21.4	15.2	13.1	13.6
Hybrids + preferreds/Total capital	16.3	17.0	18.9	17.8	15.7	16.2
Debt (direct) + hybrids + preferreds/Total capital	24.7	22.0	22.1	21.3	19.4	21.4
Debt (direct)/Total tangible capital	13.0	8.1	5.0	5.8	6.1	8.7
Debt (direct + indirect)/ Total tangible capital	36.7	39.3	33.9	25.2	21.5	22.8
Hybrids + preferreds/Total tangible capital	25.2	28.1	29.9	29.5	25.9	27.0
Debt (direct) + hybrids + preferreds/total tangible capital	38.1	36.2	35.0	35.2	32.0	35.7
Tier 1 MCCR - OPCO	195.4	186.3	196.0	196.1	201.5	193.9
MCCR - OPCO	231.6	213.3	221.6	216.3	238.0	238.1
LIQUIDITY RATIOS						

Sun Life Financial Corp. (Holding Company) Ratio Analysis (cont. 'd)						
	2008	2007	2006	2005	2004	2003
Operating leverage ratio (x)	5.9	5.6	5.9	6.1	6.5	6.8
PROFITABILITY RATIOS (%)						
EBITDA (mil. C\$)	1,571	3,213	2,904	2,738	2,391	2,104
EBIT (mil. C\$)	1,571	3,213	2,904	2,738	2,329	2,037
Revenue growth rate	(26.5)	(12.8)	10.8	0.8	(1.4)	(4.5)
Fee income/Revenue	17.6	15.2	12.4	13.2	13.3	12.7
Return on revenue (pretax)	3.5	13.4	10.5	11.1	9.5	8.0
Return on revenue	5.5	10.8	8.8	8.6	7.8	5.9
Return on assets (pretax)	0.5	2.5	2.2	2.2	1.9	1.5
Return on assets	0.7	2.0	1.9	1.7	1.6	1.1
Yield on invested assets	(0.7)	4.6	6.5	6.2	6.1	5.5
Return on common equity (Calculated)	5.4	14.4	13.8	12.7	11.8	9.0
Return on total equity (Calculated)	4.9	13.2	13.0	12.4	11.9	8.9
EFFICIENCY RATIOS						
General expenses ratio (%)	19.3	15.4	12.5	13.3	12.7	13.7
COVERAGE RATIOS (x)						
Interest coverage ratio	6.2	47.1	59.4	56.5	47.3	30.2
Fixed charge coverage	2.8	11.0	9.7	10.0	9.5	7.6
ASSET QUALITY RATIOS (%)						
Bonds Composition:						
Government - Canadian	15.5	15.2	12.7	13.0	17.5	17.1
Government - Foreign	9.8	8.6	5.6	5.4	6.2	6.9
Government - Total	25.3	23.8	18.3	18.4	23.8	24.1
Corporate	66.1	65.1	69.6	68.2	62.6	61.4
Mortgage-backed securities	8.6	11.1	12.1	13.4	13.6	14.5
Bonds Maturity:						
1 year or less	6.7	3.1	4.6	3.8	5.8	5.2
1 - 5 years	25.6	21.5	19.7	19.8	19.8	23.3
5 - 10 years	23.3	26.7	26.8	26.4	22.7	21.7
After 10 years	44.4	48.7	48.9	50.1	51.6	49.9
Bonds Quality:						
AAA	19.7	20.3	19.4	21.6	26.2	28.3
AA	18.3	18.5	17.4	15.3	13.5	12.0
A	30.7	30.1	32.0	32.0	29.7	28.7
Total A or above	68.7	68.9	68.8	68.9	69.5	69.0
BBB	28.3	28.7	28.7	27.6	27.4	27.2
BB or lower/Unrated	3.0	2.4	2.5	3.4	3.1	3.8
Mortgage Loans Breakdown:						

Sun Life Financial Corp. (Holding Company) Ratio Analysis (cont. 'd)

	2008	2007	2006	2005	2004	2003
Residential	18.2	19.4	19.4	25.0	27.8	29.7
Nonresidential	81.8	80.6	80.6	75.0	72.2	70.3
Impairments and Other:						
Gross NPI/Total invested assets	0.1	0.1	0.2	0.3	0.5	0.7
Net impaired investments/Total invested assets	0.1	0.1	0.1	0.2	0.2	0.3
Allowances for losses/Gross NPI	18.2	23.0	48.5	43.6	59.6	52.4
Actuarial Liabilities/Total invested assets	74.1	75.7	74.7	76.9	76.6	77.3

*Mortgages include corporate loans in 2007/2008.

Ratings Detail (As Of 23-Mar-2009)* (cont. 'd)

Holding Company: Sun Life Financial Inc.

Issuer Credit Rating	A+/Negative/A-1
Preferred Stock (5 Issues)	A-
Canadian Preferred Stock Rating (4 Issues)	P-1(Low)
Senior Unsecured (4 Issues)	A+
Subordinated (4 Issues)	A

Operating Companies Covered By This Report

Sun Life Assurance Co. of Canada

Financial Strength Rating	
Local Currency	AA/Negative/—
Counterparty Credit Rating	AA/Negative/A-1+
Preferred Stock (1 Issue)	A+
Canadian Preferred Stock Rating (1 Issue)	P-1
Subordinated (1 Issue)	A+
Subordinated (3 Issues)	AA-

Independence Life & Annuity Co.

Financial Strength Rating	
Local Currency	AA/Negative/—

Sun Canada Financial Co.

Issuer Credit Rating	AA-/Negative/—
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Sun Life Assurance Co. of Canada (U.S.)

Financial Strength Rating	
Local Currency	AA/Negative/—
Issuer Credit Rating	AA/Negative/—
Senior Secured (1 Issue)	AA
Senior Unsecured (12 Issues)	AA

Sun Life Assurance Co. of Canada (U.S. branch)

Financial Strength Rating	
Local Currency	AA/Negative/—
Issuer Credit Rating	
Local Currency	AA/Negative/—

Sun Life Capital Trust

Ratings Detail (As Of 23-Mar-2009)* (cont. 'd)

Preferred Stock (2 Issues)	A+
Canadian Preferred Stock Rating (2 Issues)	P-1
Sun Life Financial Global Funding LP	
Senior Secured (1 Issue)	AA
Sun Life Insurance & Annuity Co. of New York	
Financial Strength Rating	
Local Currency	AA/Negative/—
Issuer Credit Rating	AA/Negative/—
Senior Unsecured (2 Issues)	AA
Sun Life of Canada Funding LLC	
Senior Secured (5 Issues)	AA

Related Entities

Sun Life Hong Kong Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/—
Issuer Credit Rating	
Local Currency	A+/Stable/—

Domicile	Canada
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*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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