

Ultimate Parent: Sun Life Financial Inc

SUN LIFE ASSURANCE COMPANY OF CANADA

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Ultimate Parent#: 50913

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Data shown throughout this report is in Canadian dollars.

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the life/health members of Sun Life Group, which operate under a group structure, this group member is assigned a Best's Financial Strength Rating of A+ (Superior). The company is assigned the Financial Size Category of Class XV which is the Financial Size Category of the parent.

RATING RATIONALE

Rating Rationale: The rating of Sun Life Assurance Company of Canada (SLA) is based upon the consolidated financial strength and operating performance of the Sun Life Financial Group (the company). The rating also reflects the group's very strong positions in its core markets, diversified operations and continued profitable growth, achieved both organically and through acquisitions as well as its superior capital positions. Partially offsetting these strengths are the challenges the company faces due to stresses in the global macroeconomic environment, especially in its U.S. operations. While the company maintains a relatively high quality diversified investment portfolio, the company's exposure to real estate-linked assets through its investments in commercial mortgage loans, direct real estate and residential and commercial mortgage-backed securities may be subject to significant losses should deterioration occur in the commercial real estate market. A large portion of the real estate portfolio is underwritten in Canada, where it is expected to perform better than similar investments in the U.S.

Sun Life maintains leading market positions in several of its worldwide business units through its wealth management and protection subsidiaries. In Canada, Sun Life holds leading positions in Canada's individual life and health, annuity, group pension and group life and health markets. The company's retail market position in Canada is enhanced by its large career sales force, which has contributed to the company's sales growth and excellent persistency in recent years. Sun Life benefits from a diversified revenue stream from multiple regions, profitable operations in Canada and favorable risk-adjusted capitalization. The year-end regulatory capital ratio in Canada is considered very strong. Sun Life Financial is a Canadian-based holding company with a top three market position

in the Canadian insurance market. The company also maintains an expanding wealth management and life insurance operation in Asia. Additionally, the company benefits from a very integrated risk management framework to assist in managing, categorizing and monitoring risk exposures, ultimately reporting to the board's Risk Review Committee.

The prolonged weakness in the equity markets has negatively impacted both the company's insurance operations through higher reserve and capital charges and lower fee income and its asset management operation, MFS, which has recorded lower assets under management. The company's U.S. insurance operations recorded a loss in 2008 due to the impact of equity market declines, credit related losses and the unfavorable impact of changes in currency exchange rates. While risk-adjusted capital levels at the group remain very strong, the U.S. operations have required capital contributions, reducing financial flexibility for the group. Despite this additional funding, A.M. Best believes its target U.S. risk-based capital levels will remain modest relative to its peers. While its U.S. segment reported the weakest results in 2008, the company also recorded declines in earnings in its Canadian and Asian operations. A.M. Best believes that earnings will remain under pressure for the group, resulting in lower fixed coverage, due to continued equity market weakness and higher asset impairments. The company retains exposure to real estate-linked assets through its investments in commercial mortgage loans, direct real estate and residential and commercial mortgage-backed securities. A.M. Best notes that a large portion of the company's real estate portfolio is underwritten in Canada, which is expected to continue to perform better than similar investments in the United States.

Best's Financial Strength Rating: A+ g

Outlook: Stable

FIVE YEAR RATING HISTORY

<u>Date</u>	Best's <u>FSR</u>
02/27/09	A+ g
06/19/08	A++g
06/12/07	A++g
07/10/06	A++g
06/30/05	A++g
09/15/04	A++g
05/07/04	A++g

KEY FINANCIAL INDICATORS (\$000)

<u>Year</u>	<u>Assets</u>	Capital Surplus <u>Funds</u>	<u>AOCI</u>	Net Premiums <u>Written</u>	Net Invest <u>Income</u>	Net <u>Income</u>
2004	96,132,865	10,287,465	...	8,268,206	3,907,407	1,717,023

2005	68,738,349	8,890,043	...	8,294,156	4,013,981	1,327,544
2006	72,115,483	9,756,092	...	8,898,773	4,027,844	1,418,745
2007	64,842,854	9,882,939	-1,521,075	112,645	3,005,488	1,391,410
2008	73,253,625	10,399,170	-1,365,473	12,954,206	2,013,232	1,508,289

(*) Beginning 2007, Capital/Surplus includes Accumulated Other Comprehensive Income/(Loss) (AOCI).

Note: Assets include segregated funds prior to 2005.

Balances in the tables shown throughout the report are on a non-consolidated basis for Sun Life Assurance Company of Canada and for 2002 include the amalgamation of Clarica Life Insurance Company which occurred at December 31, 2002.

The Key Financial Indicators are based upon calculation derived from the non-consolidated financial segments of the Life-1 Annual Return.

BUSINESS REVIEW

The primary life insurance subsidiaries of Sun Life Financial, Inc. (SLF) are Sun Life Assurance Company of Canada (SLF Canada); Sun Life Assurance Company of Canada (U.S.) (Sun Life US), which primarily conducts U.S. fixed and variable annuity business; Sun Life Insurance and Annuity Company of New York (Sun Life NY), which serves as the variable annuity and group life and long-term disability income New York marketing arm.

SLF Canada is a market leader with a customer base representing one in five Canadians. SLF Canada's business units, consisting of Individual Insurance & Investments, Group Benefits and Group Wealth, offer a full range of protection and wealth accumulation products and services to individuals and corporate clients. SLF Canada also has investments in the Canadian asset management sector as Group Wealth includes a 67% economic interest in McLean Budden Limited, which conducts investment management services for individuals, mutual funds, pension plans, and corporations. The Wealth Management business includes group pension and annuity products offered through its group retirement services business unit, mutual funds, asset management services primarily conducted through McLean Budden and individual annuities. In December 2008, SLF divested its 37% ownership stake in CI Financial for CAD2.3 billion to Scotia Bank. SLF Canada's protection business comprises both individual insurance, including universal life, term life and non-participating and participating whole life insurance products, critical illness, long-term care, personal health insurance and group life and accident and sickness insurance, including life insurance, short and long-term disability insurance and dental and extended care plans. While each of its business units remain focused on their respective markets, SLF Canada recognizes the opportunity to serve its clients through the combination of some aspects of these businesses. This has led to the

formation of SLF Canada's Total Benefits offering for group clients and customer solutions, which addresses the needs of individual and group clients as they do business with the Company.

SLF U.S. focuses on the delivery of innovative protection and wealth accumulation products to individuals and businesses through its three business units: Annuities, Individual Life and Group Life & Health. The Annuities business unit offers variable annuities, fixed annuities, private placement variable annuities for high net worth clients, equity index annuities, 401(k) products, and investment management services. The Individual Insurance business unit offers protection products for affluent consumers and business owners. Products include single and joint universal life and variable universal life, corporate-owned and bank-owned life insurance (COLI/BOLI), and private placement variable universal life for high net worth clients (PPVUL). The majority of the company's U.S. individual life insurance products are distributed through general agents and third-party intermediaries, which provide strong access to its target market. The Employee Benefits Group business unit offers group life insurance, short-term and long-term disability insurance, and medical stop-loss insurance for employers. The company's group insurance business has historically been focused on small and medium-sized companies. The group products are marketed and distributed through Sun Life's extensive network of field sales representatives in 24 regional sales offices across the U.S. Sales and business in-force are both experiencing double digit compound annual growth over the last five years. In 2007, SLF bolstered its U.S. group business platform when it acquired Genworth Financial, Inc.'s U.S. Employee Benefits Group. Sun Life's U.S. group business, combined with Genworth's Employee Benefits Group, became Sun Life Financial Employee Benefits Group, offering customers group life, disability, dental and stop-loss insurance. This acquisition was strategic in nature and strengthened Sun Life's position in the U.S. market making them a top ten marketer in the U.S. employee benefits industry.

MFS Investment Management, headquartered in Boston, MA, is a global investment management company which offers products and services that address the varying needs of investors over time. Individual investors have access to MFS's advisory services through a broad selection of financial products including mutual funds, variable annuities, separate accounts, college and retirement savings plans, and offshore investment products. These products are distributed through financial intermediaries that provide sales support, product administration and client services. MFS provides asset management services to institutional clients for corporate retirement plans, separate accounts, public or government funds and insurance company assets. Institutional clients are serviced through a direct sales force and a network of independent consultants. At December 31, 2008, the Company's ownership interest in MFS was 96% with the remainder owned by MFS's employees. As of December 2008, MFS maintained about CAD134 billion in assets under management with more than 5 million global accounts, with roughly 2,200 employees and over 170 equity and fixed income investment professionals.

SLF Asia operates in five markets, through subsidiaries in the Philippines, Hong Kong and Indonesia and through joint ventures (JV) with local partners in India and China. It provides individual life insurance products and services in all operations, and savings, retirement and pension products and services in India, the Philippines and Hong Kong. Group insurance is also offered in India, the Philippines, Hong Kong and China. These protection and wealth management products are distributed to middle and upper income individuals, employer / employee groups and affinity clients. SLF Asia's parent is SunLife Assurance. With regional headquarters located in Hong Kong, the group consists of 3 operating entities in the Philippines, 5 operating entities in Hong Kong, operations in Indonesia, 3 operating entities in India with a 2 JV's at 26% and 50% ownership and lastly a 50% JV in China.

Philippines - Sun Life Financial's Philippine operations distribute a diverse range of protection and savings products largely through their proprietary career agent sales force. The Business Group offers traditional and unit-linked individual life insurance products, savings products (including those for pre-need pension and education) as well as mutual funds to individuals, while group life and health insurance products are marketed to employer groups. The Philippines are Sun Life's most mature Asian operation where it is number two in the market. Its market position is enhanced with broadened product offerings and customer service capabilities. Sun Life undertook organizational realignment initiatives and reinforced its customer-oriented focus while actively pursuing strategic alternatives to sell bancassurance products in the country. Sun Life's Philippine operation accounts for about one-fifth of total sales in Asia.

Hong Kong - Sun Life's Hong Kong operation offers a complete range of products to address protection and savings needs. Individual life insurance, group life and health insurance, mandatory provident funds (the government legislated pension plan) and pension administration are supplied to individuals and businesses through a multi-channel distribution system that includes a career agency force, bancassurance and brokers. Sun Life's success in the Hong Kong market is mainly attributable to its entry into the bancassurance market. The company established a bancassurance relationship with Hong Kong based CITIC Ka Wah Bank. The bank partner focuses on high-end customers with strong customer service, consistent with Sun Life's own marketing strategy. In addition, Sun Life acquired CMG Asia in 2005 moving Sun Life Financial Hong Kong to the number seven position in individual life.

India - Birla Sun Life Insurance Company Limited (BSLIC), SLF's insurance joint venture in India, provides a full array of individual life insurance, group life insurance and group savings products. The company markets these products through a multi-channel distribution network, including a career agent sales force, bancassurance arrangements, brokers and worksite marketing, to reach different segments of the market. Birla Sun Life Asset Management Company Limited, the company's asset management joint venture in India, offers a full array of mutual fund products to individuals and institutional investors. Independent financial advisors and banks deliver Birla Sun Life mutual funds to the retail sector, while direct distribution serves corporate accounts.

China - Sun Life Everbright, SLF's joint venture in China, operates a multi-distribution model that combines a direct career agency and several banc assurance alliances to sell individual life and health insurance and savings products. Group life and health insurance, along with pension products, are provided to employer groups through brokers, agents and the China Everbright Group Limited, the Company's joint venture partner. Sun Life Everbright Life Insurance Company Limited operates with 6 branches and 39 offices in 17 cities across China. Sun Life Indonesia - SLF Asia's Indonesian operations provide both traditional and investment linked individual life insurance to individuals through a career agent sales force and bancassurance partners. Life insurance products are also marketed to affinity groups via telemarketing

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

PREMIUM AND RESERVE ANALYSIS

<u>Direct Premiums</u> (000)	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Individual life	3,537,504	3,663,715	3,970,474	3,568,659	3,936,379
Group life	1,405,739	1,360,320	1,286,122	1,194,063	1,101,681
Individual annuities	558,859	718,270	762,297	467,973	446,981
Group annuities	695,177	550,888	472,485	683,202	735,079
Individual A&S	160,803	138,273	117,905	95,745	73,485
Group A&S	3,568,135	3,240,252	3,038,115	2,783,277	2,616,765
Total	<u>9,926,217</u>	<u>9,671,718</u>	<u>9,647,398</u>	<u>8,792,919</u>	<u>8,910,370</u>
<u>Reins Assumed</u> Prens (000)	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Individual life	586,290	608,675	496,496	413,419	320,045
Group life	266,240	198,590	103,969	124,592	209,049
Individual annuities	4,375,460	211	231	752	-3,202
Individual A&S	17,643	19,631	32,762	34,591	6,714
Group A&S	367,828	239,602	14,568	26,725	7,494
Total	<u>5,613,461</u>	<u>1,066,709</u>	<u>648,026</u>	<u>600,079</u>	<u>540,100</u>
<u>Reins Ceded Prens</u> (000)	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Individual life	1,573,413	1,674,010	956,603	649,302	625,139
Group life	358,403	328,246	298,278	219,317	201,243

Individual annuities	191,368	5,097,436	...	...	...
Group annuities	270,970	3,364,583	...	...	...
Individual A&S	38,768	35,251	32,496	25,435	20,352
Group A&S	152,582	126,241	109,321	204,788	335,530
Total	<u>2,585,504</u>	<u>10,625,767</u>	<u>1,396,698</u>	<u>1,098,842</u>	<u>1,182,264</u>
<u>Net Premiums (000)</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Individual life	2,550,381	2,598,380	3,510,367	3,332,776	3,631,285
Group life	1,313,576	1,230,664	1,091,813	1,099,338	1,109,487
Individual annuities	4,742,951	-4,378,955	762,528	468,725	443,779
Group annuities	424,207	-2,813,695	472,485	683,202	735,079
Individual A&S	139,678	122,653	118,171	104,901	59,847
Group A&S	3,783,381	3,353,613	2,943,362	2,605,214	2,288,729
Other	32	-15	47	...	...
Total	<u>12,954,206</u>	<u>112,645</u>	<u>8,898,773</u>	<u>8,294,156</u>	<u>8,268,206</u>

EARNINGS

SLF's consolidated CGAAP financial results have been reflective of the impact of the global economic crisis and the accompanying downturn in the equity markets that began in 2008 and continues into the third quarter of 2009. While there have been some faint signs of a recovery in the financial markets, A.M. Best believes that this downturn will continue throughout 2009 and to some extent 2010. During this time, SLF's consolidated and segmented CGAAP earnings are expected to remain pressured, with the greatest impact expected to occur in its annuity products.

Historically, SLF's stability of earnings reflect the company's overall well-balanced diversified business model focused on wealth management and protection businesses. The geographic and business diversity buffers the organization's overall profitability from potential volatility in one of its several business segments. The earnings contribution from the company's protection and wealth businesses are nearly evenly divided. Geographically, almost one-half of earnings are generated in Canada, with the U.S. and U.K. making up most of the balance.

SLF Canada had net income of CAD194 million in the first quarter of 2009 compared to a loss of CAD55 million in the fourth quarter of 2008. During the first quarter of 2009, earnings were reflective of reserve strengthening of CAD61 million due to declining equity markets, lower asset reinvestment gains from changes in credit spreads, more conservative future credit default assumptions, and a reduction of CAD43 million due to the sale of the Company's interest in CI Financial in the fourth quarter of 2008. This was partly offset by increased interest rates and the benefit from the enactment of tax rules

related to the 2007 accounting changes with respect to financial instruments. Earnings for its group benefits products improved to CAD65 million for the first quarter of 2009 compared to CAD49 million for the same period one year ago largely due to the impact of favorable morbidity experience. Group Wealth earnings for the first quarter of 2009 were relatively unchanged compared to the first quarter of 2008.

SLF U.S. recorded significantly pressured earnings with respect to the overall group. While first quarter 2009 was reflective of a slight improvement over year end 2008, overall earnings remained depressed. The depreciation of the Canadian dollar against the U.S. dollar increased the reported loss in SLF U.S. by C\$78 million in the first quarter of 2009 compared to the first quarter of 2008. In U.S. dollars, the loss of US\$333 million compared to earnings of US\$113 million in the first quarter of 2008 was primarily from external factors resulting in reserve strengthening of US\$220 million, net of hedging, from equity market declines and US\$160 million relating to credit market conditions, as well as increases in actuarial reserves, reflecting current and prior period experience, related to the very low interest rate environment. In its annuity product lines, losses were incurred as a result of an increase in annuity reserves related to declining equity markets and the negative impact of credit-related allowances and credit-related losses. The increase in variable annuity reserves was driven by a decline in variable annuity account values, which increased the value of guaranteed benefits and lowered the expected stream of future fee income. This reserve impact was only partially offset by the benefit of equity hedges. Employee benefits products recorded improvement in earnings at US\$48 million at the first quarter of 2009 compared to US\$19 million during the same period of 2008. The earnings growth recorded is largely due to increased interest rates during the quarter and the impact of favorable claims experience.

SLF Asia recorded favorable earnings results through the first quarter of 2009. Strong earnings growth in the Philippines, Hong Kong and Indonesia from business growth. SLF Asia continues to invest in India. Asian total sales have improved 8% over the first quarter of 2008. Earnings have declined for investment-linked products as the demand for these products have been reduced in favor of growth in sales of protection products.

MFS's earnings during the first quarter of 2009 decreased US\$ 23 million compared to US\$ 59 million during the first quarter of 2008. The decrease in earnings was primarily due to lower average net assets as a result of the decline in global financial markets. Total assets under management at March 31, 2009 were US\$124 billion, a decrease of US\$10 billion compared to December 31, 2008, driven by market depreciation of US\$10.7 billion, partially offset by net inflows of US\$200 million. Earnings were also affected by the movement of the Canadian dollar against the U.S. dollar.

PROFITABILITY TESTS

<u>Year</u>	<u>Ben Paid to NPW</u>	<u>Comm & Exp to NPW</u>	<u>NOG to Tot Assets</u>	<u>NOG to Tot Rev</u>	<u>Operating Return on Equity</u>	<u>Net Yield</u>	<u>Total Return</u>
2004	80.5	30.5	2.5	13.2	17.0	7.07	7.40

2005	82.3	31.1	1.9	10.0	13.8	7.30	8.13
2006	77.4	30.2	2.0	10.0	15.2	7.26	7.18
2007	999.9	999.9	2.0	31.1	14.2	5.54	4.38
2008	55.5	12.9	2.2	9.9	14.9	3.74	4.02

CAPITALIZATION

Capitalization of SLF and its key life operating subsidiaries are considered strong on a consolidated basis relative to its current insurance and investment risks. Sun Life Assurance Company's (SLA) 2008 MCCSR ratio was 232% (compared to 213% in 2007), well in excess of the 150% supervisory target set by OSFI, the Canadian regulator. The group's regulatory capital consists primarily of common equity along with a moderate mix of preferred equity, SLEECs, which qualify as Tier 1 capital for regulatory capital purposes, and subordinated debt. Sun Life's Tier 1 capital represents 195% of its current MCCSR ratio.

Outside of 2007, SLF has recorded growth in shareholders' equity over the past several years in spite of the global economic pressures and Canadian Dollar valuation pressures. In recent years, cumulative net income has comfortably exceeded shareholder dividends and common share repurchases. The capital base has also benefited from the issuance of more than CAD1.5 billion of preferred shares in recent years, including CAD250 million in May 2009. Shareholder equity at the end of 2008 was marginally improved compared to 2007 primarily due to lower currency translation charges in other comprehensive income.

Through Sun Life Capital Trust, an open-end trust established in Ontario, SLA has issued two tranches of long-dated subordinated unsecured debts that qualify as capital for Canadian regulatory purposes. The SLEECs can be converted into SLA's preferred shares that are exchangeable in certain limited circumstances at a future date into SLF common shares at a price equal to 95% of the trading price at the time of the exchange. The SLEECs represent low cost and tax efficient capital that A. M. Best believes provides the company with increased capital flexibility.

In May 2007, SLF issued CAD\$400 million of Tier 2B subordinated debt. Furthermore in April 2008 and June 2008, SLF issued additional CAD400 million and CAD 350 million of Tier 2B sub debt as well as an additional CAD 500 of Tier 2B in March 2009.

SLF's current debt, hybrid securities, and preferred shares to total capital is less than 25%, garnering some equity credit. This measure, while at the high end, is within A.M. Best's expectations for the current rating level. SLF's interest coverage of roughly 2.3 times is significantly below A.M. Best's expectations although the company has projected this to gradually improve by year end 2009. In addition, SLF maintains an excellent liquidity position which provides for favorable debt servicing capabilities.

LEVERAGE TESTS

<u>Year</u>	<u>C&S</u> <u>to</u> <u>Liabilities</u>	<u>Surplus</u> <u>Relief</u>	<u>Reins</u> <u>Leverage</u>	<u>NPW</u> <u>to Capital</u>	<u>Change</u> <u>in NPW</u>	<u>Change</u> <u>in</u> <u>Capital</u>
2004	17.3	0.1	25.3	0.8	-7.6	3.9
2005	14.9	...	10.0	0.9	0.3	-13.6
2006	15.6	...	10.3	0.9	7.3	9.7
2007	18.0	...	92.5	0.0	-98.7	1.3
2008	16.5	...	80.9	1.2	999.9	5.2

2008 BCAR: 130

CAPITAL TRENDS (\$000)

<u>Year</u>	<u>Year</u> <u>end</u> <u>C&S</u>	<u>Sub-</u> <u>ordinated</u> <u>Debt</u>	<u>Share-</u> <u>holder</u> <u>Divs</u>	<u>Policy-</u> <u>holder</u> <u>Divs</u>	<u>AOCI</u>
2004	10,287,465	1,627,143	924,810	684,687	...
2005	8,890,043	1,249,055	1,230,935	659,365	...
2006	9,756,092	1,249,174	790,924	658,175	...
2007	9,882,939	1,249,301	960,860	690,904	-1,521,075
2008	10,399,170	1,799,436	1,098,860	713,935	-1,365,473

(*) Beginning 2007, Capital/Surplus includes Accumulated Other Comprehensive Income/(Loss) (AOCI).

INVESTMENTS AND LIQUIDITY

SLF and its key life operating subsidiaries maintain a portfolio of high quality assets. The investment portfolio is broadly diversified and managed with respect to the company's underlying policy obligations. The company invests the majority of its general funds in medium to long-term fixed income investments while the assets supporting equity capital are invested in a broader range of assets including bonds, mortgages, equity securities, and real estate investments, reflecting management's focus on the enhancement of risk-adjusted investment returns. The company's asset portfolio is geographically diversified with 38% invested in the U.S., 45% in Canada, and the balance outside of North America, based on the jurisdiction of the incorporation of issuers. Market value for invested assets at year end 2008 was roughly CAD104 billion.

The group's total consolidated general fund assets were about CAD121 billion and its segregated fund assets were roughly CAD65 billion at first quarter 2009. Both measures show are marginally improved from the same period in 2008 and are reflective of the weak value of the Canadian dollar and the troubled global credit and equity markets.

At year end 2008, bonds, cash, and short-term securities represented about three-fourths of invested assets. The quality of the bond portfolio remains strong, with below investment grade issues representing 3% of the total. Impaired assets to total invested assets is small. SLF's bond portfolio is very diverse, represented by a large number of credits and good diversification across multiple segments.

The company's bond portfolio is actively managed through a regular program of purchases and sales directed at optimizing yield quality and liquidity, while ensuring that asset/liability matching requirements are met. The company maintains a larger proportion of private placements than historical levels-currently about one-fourth of total bonds-mainly. Non-public bonds rated A or higher represented approximately one half of the total non-public bonds while non-public bonds rated BBB or higher represented more than ninety percent of the total non-public bonds. The company maintains modest exposures to collateralized mortgage obligations and mortgage-backed securities in its United States branch operations and indirectly through its U.S. domiciled subsidiaries. Although these investments are of high quality, they are volatile in price and duration during changing interest rate environments coupled with a slumping global economy. The company utilizes derivative instruments to provide hedging protection on interest rate and cross currency situations.

SLF's mortgage portfolio represented about 14% of total invested assets. The company's mortgage portfolio is almost entirely in first mortgages. Mortgages are concentrated in office, retail, industrial, and apartment properties. Commercial mortgages account for about three-fourths of the total mortgage portfolio with the remainder invested in residential mortgages. The company also originates and manages mortgage-backed investments for institutional clients. The fee-based business allows SLF to leverage its commercial mortgage underwriting expertise and enhance its asset management strength. SLF's real estate portfolio represents about 5% of invested assets as the group actively manages its real estate portfolio focusing on acquisitions and dispositions, leasing and rehabilitation, and the management of foreclosed properties. SLF also benefits from maintaining a portfolio with benign exposure to the U.S. sub-prime investment issues.

SLF's equity portfolio represented about 5% of invested assets at year end 2008 and remains well diversified by industry classification and issuer. To attain desired spreads and maintain appropriate matching, the company adheres to stringent asset/liability management guidelines for interest sensitive products. A somewhat less conservative strategy is maintained for non-interest sensitive products.

LIQUIDITY TESTS

	Operating Cash Flow (\$000)	Quick Liquidity	Current Liquidity	Non-Inv Grade Bonds to Capital	Delnq & Foreclsd Mtg to Capital	Mtg & Cred Ten Lns & RE to Cap	Affil Invest to Capital
Year							
2004	3,217,000	8.5	76.7	8.6	0.3	134.9	69.5

2005	3,028,000	7.6	72.4	9.6	0.0	163.0	75.0
2006	3,297,000	8.9	70.1	...	...	162.7	79.1
2007	6,484,859	8.3	68.8	2.9	...	150.5	77.2
2008	4,306,361	8.4	69.7	...	...	155.2	79.5

HISTORY

Date Incorporated: 00/00/1871
05/00/1871

Date Commenced:

Domicile: Canada

Originally incorporated as The Sun Insurance Company of Montreal in 1865, the name was changed in 1871 to Sun Mutual Life Insurance Company of Montreal, and in 1882 the Present title Sun Life Assurance Company of Canada was adopted. In 1962, the company was organized as a mutual life insurance company. On March 22, 2000, the company completed its demutualization. Sun Life Financial Inc. (SLF) is the publicly traded holding company for its principal Canadian life insurance subsidiary, Sun Life Assurance Company of Canada (Sun Life) and is traded on the major stock exchanges in Toronto, New York and the Philippines.

SLF has made several business transactions to enhance its overall evolving business model. In 2002, Sun Life acquired an economic interest in CI in exchange for its subsidiary, Spectrum Investment Management Limited (Spectrum) and Clarica Diversico Ltd. (Diversico), the mutual fund subsidiary of Clarica Life. CI has enjoyed the number two position in the Canadian mutual fund market. SLF acquired Clarica Life Insurance Company (Clarica Life) and its wholly owned subsidiary, Clarica Life Insurance Company-U.S. in 2002, as an all stock transaction valued at approximately CAD6.9 billion. Clarica Life Insurance Company-U.S. was subsequently sold in early 2003 and Clarica Life Insurance Company was merged into Sun Life at the end of 2002. At the time of the transaction, based on assets under management, Clarica Life was Canada's fourth largest life insurer with favorable market positions in a number of major Canadian business segments. The consolidation created one of Canada's largest life insurance companies, with very strong market positions in all major protection and wealth accumulation business segments in Canada. In 2007, Sun Life introduced an integrated brand strategy to reduce brand duplication and complexity in the Canadian market. This strategy included retiring the Clarica brand and aligning its career sales force with the Sun Life brand.

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

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

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

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

On December 13, 2007, the Company entered into an agreement to sell Sun Life Retirement Services (U.S.), Inc., a 401(k) plan administration business in the United States, to Hartford Financial Services LLC. The transaction closed during the first quarter of 2008 and did not have a material impact on the Company's financial condition or results of operations. The sale price was \$47 million. Hartford acquired over 400 employees, \$17 billion in AUM across roughly 6,000 plans and 465,000 plan participants.

On December 12, 2008, the company announced that it completed its sale of its 37% interest in CI Financial Income Fund to Scotiabank. \$1.55 billion of the \$2.3 billion (Canadian) purchase price was paid in cash. The balance was paid in a combination of common and preferred shares of Scotiabank.

OFFICERS

Chairman of the Board, Ronald Osborne; Chief Executive Officer, Donald A. Stewart; Presidents, Kevin Dougherty, Dean O'Connor (SLF Canada), Stephan Rajotte (SLF Asia), Robert C. Salipante (LGI); Chief Financial Officer, Colm Freyne; Executive Vice President and Chief Risk Officer, Michael P. Stramaglia; Executive Vice President and General Counsel, Thomas A. Bogart; Senior Vice President and Chief Actuary, Robert W. Wilson; Vice President and Secretary, Joan Wilson; Vice President and Treasurer, Stephen Kicinski.

DIRECTORS

James C. Baillie, George W. Carmany III, John H. Clappison, David A. Ganong, Germaine Gibara, Krystyna T. Hoeg, David W. Kerr, Idalene F. Kesner, Mitchell M.

Merin, Bertin F. Nadeau, Ronald W. Osborne (Non-Executive Chairman), Hugh D. Segal, Donald A. Stewart, James H. Sutcliffe.

REINSURANCE

The maximum net retention on one life is \$7,000,000 in Canada and the United States. Lower retention limits apply in other countries.

REGULATORY

The 2008 annual independent audit of the company was conducted by Deloitte & Touche, LLP. The annual statement of actuarial opinion is provided by Robert W. Wilson, Senior Vice President & Chief Actuary.

Territory: The company is licensed in all provinces and territories. It is also licensed in the United States in the District of Columbia, Puerto Rico, U.S. Virgin Islands, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY. The company is also licensed in Bermuda, Great Britain and Northern Ireland, Hong Kong, Republic of Philippines. Servicing policies only: Cuba, Dominican Republic, Federation of Malaysia, Guyana, Haiti, Jamaica, Malta, Netherlands Antilles, Singapore, Sri Lanka, Trinidad and Tobago and Zimbabwe. Sun Life is also an accredited reinsurer in the state of New York.

Reserve basis: (Current ordinary business): Canadian Asset Liability Methodology (CALM).

FINANCIAL INFORMATION

BALANCE SHEET (\$000) - December 31, 2008

	Assets		Liabilities	
Bonds	29,433,178	Net actuarial liabilities	50,290,619	
Preferred shares	1,737,251	Accounts payable	1,368,928	
Common shares	8,555,347	Other policy liabilities	4,252,036	
Mortgage loans	12,058,064	Other debt	2,084,540	
Real estate	4,078,615	Other liabilities	2,457,436	
Contract loans	2,125,874	Net def gains/losses	184,622	
Cash	-29,373	Deferred income tax	416,838	
Short-term investments	2,968,403	Subordinated debt	1,799,436	
Other invested assets	2,040,970	Total Liabilities	62,854,455	
Accounts receivable	5,254,909	Policyholders equity	105,420	
Accrued invest income	498,542	Shareholders equity	10,293,750	
Other assets	4,531,845			
Assets	_____	Total	_____	

73,253,625

73,253,625

SUMMARY OF OPERATIONS (\$000)

Premiums:		Benefits paid	7,183,128
Individual life	2,550,381	Change in reserves	3,888,001
Individual annuities	4,742,951	Plychldr divs & refunds	919,839
Group life	1,313,576	Trans from/to oth funds	-89,222
Group annuities	424,207	Commissions	300,429
Acc & sickness group	3,783,381	Interest expenses	204,688
Acc & sickness individual	139,678	Gen exp & taxes	1,364,218
Misc premiums	32	Other expenses	40,771
Total premiums	12,954,206		
Net investment income	2,013,232		
Misc income	332,579		
Total	<u>15,300,017</u>	Total	<u>13,811,852</u>
Gain from operations before IT & extraordinary items			1,488,165
Provision for inc taxes			-20,124
Net income (loss)			1,508,289