U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 40-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2003** Commission File Number 001**-15014**

Sun Life Financial Inc.

(Exact name of Registrant as specified in its charter)

Canada
(Province or other jurisdiction of incorporation or organization)

52411
(Primary Standard Industrial Classification Code Number (if applicable))

Not Applicable
(I.R.S. Employer Identification Number (if applicable))

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

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

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

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

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

Not Applicable
(Title of Class)

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

Not Applicable
(Title of Class)

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

[**X**] Annual information form [**X**] Audited annual financial statements

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

599,970,665 common shares were outstanding on December 31, 2003

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes o No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

INCORPORATION BY REFERENCE

Identification of Audit Committee

The disclosure provided under the heading *"DIRECTORS AND EXECUTIVE OFFICERS – Board of Directors"* on pages 8 and 9 of Exhibit 3 hereto (Annual Information Form for the year ended December 31, 2003) is incorporated by reference herein.

Audit Committee Financial Expert

The disclosure provided under the heading *"DIRECTORS AND EXECUTIVE OFFICERS – Audit Committee Financial Expert"* on page 9 of Exhibit 3 hereto (Annual Information Form for the year ended December 31, 2003) is incorporated by reference herein.

Code of Ethics

The disclosure provided under the heading *"CODE OF ETHICS"* on page 10 of Exhibit 3 hereto (Annual Information Form for the year ended December 31, 2003) is incorporated by reference herein.

Principal Accountant Fees and Services

The disclosure provided under the heading *"PRINCIPAL ACCOUNTANT FEES AND SERVICES"* on pages 11 and 12 of Exhibit 3 hereto (Annual Information Form for the year ended December 31, 2003) is incorporated by reference herein.

Off-Balance Sheet Arrangements

The disclosure provided under the heading *"OFF-BALANCE SHEET ARRANGEMENTS"* on pages 51 to 54 of Exhibit 2 hereto (Management's Discussion and Analysis for the year ended December 31, 2003) is incorporated by reference herein.

Tabular Disclosure of Contractual Obligations

The disclosure provided under the heading *"OFF-BALANCE SHEET ARRANGEMENTS - Contractual Obligations"* on page 54 of Exhibit 2 hereto (Management's Discussion and Analysis for the year ended December 31, 2003) is incorporated by reference herein.

UNDERTAKING

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Registrant	**Sun Life Financial Inc.**
By (Signature and Title)	/S/ "Thomas A. Bogart" **Thomas A. Bogart** **Executive Vice-President and Chief Legal Officer**
Date	**February 17, 2004**

EXHIBITS:

1. Consolidated Financial Statements for the Year Ended December 31, 2003
2. Management's Discussion and Analysis for the year ended December 31, 2003
3. Renewal Annual Information Form for the year ended December 31, 2003
4. Report on Disclosure Controls and Changes in Internal Control over Financial Reporting
5. Auditors' Consent
6. Comments by Auditors on Canada - United States of America Reporting Difference
7. Consent of Appointed Actuary
8. Notices Regarding Pension Plan Blackout
9. Certification required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of United States Code, pursuant to Section 906 of the *Sarbanes-Oxley Act* of 2002
    - Chief Executive Officer
    - Chief Financial Officer
10. Certification required by Rule 13a-14(a) or Rule 15d-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
    - Chief Executive Officer
    - Chief Financial Officer

Exhibit 1



Sun Life Financial Inc.

Consolidated Financial Statements

December 31, 2003

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Financial Reporting Responsibilities

Management is responsible for preparing the consolidated financial statements. This responsibility includes selecting appropriate accounting policies and making estimates and other judgements consistent with Canadian generally accepted accounting principles including the requirements of the Office of the Superintendent of Financial Institutions Canada. It also includes ensuring the use of appropriate accounting policies and estimates in the disclosure of the information which was prepared following accounting principles generally accepted in the United States of America. The financial information presented elsewhere in the annual report to shareholders is consistent with these statements.

The Board of Directors (Board) oversees management's responsibilities for financial reporting. An Audit Committee of non-management directors is appointed by the Board to review the financial statements and report to the directors prior to their approval of the financial statements for issuance to shareholders.

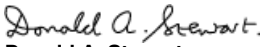
Management is also responsible for maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and that Sun Life Financial Inc. and its subsidiaries, collectively referred to as "the Company", adhere to legislative and regulatory requirements. These systems include the communication of policies and the Company's Code of Business Conduct throughout the organization. Internal controls are reviewed and evaluated by the Company's internal auditors.

The Audit Committee also conducts such review and inquiry of management and the internal and external auditors as it deems necessary towards establishing that the Company is employing appropriate systems of internal control, is adhering to legislative and regulatory requirements and is applying the Company's Code of Business Conduct. Both the internal and external auditors and the Appointed Actuary have full and unrestricted access to the Audit Committee, with and without the presence of management.

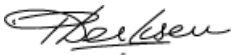
The Office of the Superintendent of Financial Institutions Canada conducts periodic examinations of the Company. These examinations are designed to evaluate compliance with provisions of the Insurance Companies Act of Canada and to ensure that the interests of policyholders, depositors and the public are safeguarded. The Company's foreign operations and foreign subsidiaries are examined by regulators in their local jurisdictions.

The Appointed Actuary, who is a member of management, is appointed by the Board to discharge the various actuarial responsibilities required under the Insurance Companies Act of Canada, and conducts the valuation of the Company's actuarial liabilities. The role of the Appointed Actuary is described in more detail in Note 11 on page 28. The report of the Appointed Actuary appears on page 50.

The Company's external auditors, Deloitte & Touche LLP, Chartered Accountants, conduct an independent examination of the financial statements and meet separately with both management and the Audit Committee to discuss the results of their examination. The auditors' report to the shareholders appears on page 50.



Donald A. Stewart
Chief Executive Officer



Paul W. Derksen
Executive Vice-President and Chief Financial Officer

Toronto, February 12, 2004

Consolidated Statements of Operations

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

	2003	2002	2001
REVENUE			
Premium income:			
Annuities	**$ 4,805**	$ 7,402	$ 4,196
Life insurance	**6,325**	5,403	3,759
Health insurance	**2,413**	2,070	1,482
	13,543	14,875	9,437
Net investment income *(Note 8)*	**5,703**	5,131	4,162
Fee income	**2,810**	3,095	3,216
	22,056	23,101	16,815
POLICY BENEFITS AND EXPENSES			
Payments to policyholders, beneficiaries and depositors:			
Maturities and surrenders	**6,050**	5,476	2,610
Annuity payments	**1,567**	1,486	952
Death and disability benefits	**2,488**	2,067	1,196
Health benefits	**1,696**	1,573	1,162
Policyholder dividends and interest on claims and deposits	**1,011**	1,086	960
	12,812	11,688	6,880
Net transfers to segregated funds	**544**	1,329	2,606
Increase in actuarial liabilities *(Note 11)*	**1,624**	3,822	1,697
Commissions	**1,848**	1,909	1,600
Operating expenses *(Note 19)*	**3,088**	2,779	2,496
Premium taxes	**171**	168	113
Interest expense *(Notes 13 and 14)*	**209**	192	168
	20,296	21,887	15,560
OPERATING INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	**1,760**	1,214	1,255
Income taxes *(Note 20)*	**387**	98	306
Non-controlling interests in net income of subsidiaries *(Note 15)*	**65**	83	68
NET INCOME FROM CONTINUING OPERATIONS	**1,308**	1,033	881
Loss from discontinued operations, net of income taxes *(Note 5)*	**—**	36	—
TOTAL NET INCOME	**1,308**	997	881
Less:			
Participating policyholders' net income (loss)	**(1)**	(1)	(1)
SHAREHOLDERS' NET INCOME	**$ 1,309**	$ 998	$ 882
Average exchange rates:			
U.S. Dollars	***1.4018***	*1.5701*	*1.148*
U.K. Pounds	***2.2874***	*2.3567*	*2.228*
Basic earnings per share from continuing operations *(Note 17)*	**$ 2.15**	$ 1.91	$ 2.08
Basic earnings per share *(Note 17)*	**$ 2.15**	$ 1.84	$ 2.08
Diluted earnings per share from continuing operations *(Note 17)*	**$ 2.15**	$ 1.90	$ 2.07
Diluted earnings per share *(Note 17)*	**$ 2.15**	$ 1.83	$ 2.07

The attached notes form part of these consolidated financial statements.

Consolidated Balance Sheets

AS AT DECEMBER 31 (in millions of Canadian dollars)

	2003	2002*
ASSETS		
Bonds *(Note 8)*	**$ 66,090**	$ 73,367
Mortgages *(Note 8)*	**13,601**	15,799
Stocks *(Note 8)*	**3,473**	4,221
Real estate *(Note 8)*	**3,067**	3,223
Cash, cash equivalents and short-term securities	**4,972**	7,152
Policy loans and other invested assets	**5,973**	6,726
Invested assets	**97,176**	110,488
Goodwill *(Note 10)*	**5,573**	5,969
Other assets *(Note 10)*	**6,460**	6,995
Total general fund assets	**$109,209**	$123,452
Segregated funds net assets	**$ 54,086**	$ 52,755
LIABILITIES AND EQUITY		
Actuarial liabilities and other policy liabilities *(Note 11)*	**$ 77,354**	$ 89,912
Amounts on deposit	**3,120**	3,262
Deferred net realized gains *(Note 8)*	**3,124**	3,456
Other liabilities *(Note 12)*	**7,795**	7,635
Total general fund liabilities	**91,393**	104,265
Subordinated debt *(Note 14)*	**2,504**	2,922
Non-controlling interests in subsidiaries *(Note 15)*	**1,336**	1,356
Total equity	**13,976**	14,909
Total general fund liabilities and equity	**$109,209**	$123,452
Segregated funds contract liabilities	**$ 54,086**	$ 52,755
December 31 exchange rates:		
U.S. Dollars	***1.29***	*1.58*
U.K. Pounds	***2.30***	*2.53*

* As restated *(Note 3)*.

The attached notes form part of these consolidated financial statements.

Approved on behalf of the Board of Directors

Donald A. Stewart.
Donald A. Stewart
Chief Executive Officer

R. W. Osborne
Ronald W. Osborne
Director

Consolidated Statements of Equity

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)

	PARTICIPATING POLICYHOLDERS	SHAREHOLDERS	2003	2002	2001
SHARE CAPITAL					
Balance, beginning of year	**$ —**	**$ 7,420**	**$ 7,420**	$ 1,100	$ 795
Common shares issued, net of issuance costs, as consideration for business acquisitions *(Notes 3 and 16)*	**—**	**63**	**63**	6,281	—
New common shares issued for cash *(Note 16)*	**—**	**—**	**—**	—	330
Stock options exercised *(Note 18)*	**—**	**28**	**28**	39	—
Commissions and offering costs, net of taxes	**—**	**—**	**—**	—	(23)
Common shares purchased for cancellation *(Note 16)*	**—**	**(222)**	**(222)**	—	(2)
Balance, end of year	**—**	**7,289**	**7,289**	7,420	1,100
CONTRIBUTED SURPLUS					
Balance, beginning of year	**—**	**57**	**57**	—	—
Stock option compensation *(Note 18)*	**—**	**26**	**26**	21	—
Stock options exercised *(Note 18)*	**—**	**(7)**	**(7)**	(12)	—
Fair value of stock options granted as consideration for business acquisition *(Note 3)*	**—**	**—**	**—**	48	—
Balance, end of year	**—**	**76**	**76**	57	—
RETAINED EARNINGS					
Balance, beginning of year	**73**	**6,621**	**6,694**	5,994	5,350
Balance of participating policyholders' account of Clarica Life Insurance Company at date of acquisition	**—**	**—**	**—**	(3)	—
Net income (loss)	**(1)**	**1,309**	**1,308**	997	881
Dividends on common shares	**—**	**(413)**	**(413)**	(294)	(204)
Common shares purchased for cancellation *(Note 16)*	**—**	**(305)**	**(305)**	—	(33)
Balance, end of year	**72**	**7,212**	**7,284**	6,694	5,994
CURRENCY TRANSLATION ACCOUNT					
Balance, beginning of year	**3**	**735**	**738**	631	372
Changes for the year	**(8)**	**(1,403)**	**(1,411)**	107	259
Balance, end of year	**(5)**	**(668)**	**(673)**	738	631
Total equity	**$ 67**	**$ 13,909**	**$13,976**	$14,909	$ 7,725

The attached notes form part of these consolidated financial statements.

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)

	2003	2002*	2001*
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net income from continuing operations	**$ 1,308**	$ 1,033	$ 881
Items not affecting cash:			
Increase in actuarial and other policy related liabilities	**1,430**	3,795	1,191
Amortization of:			
Net deferred realized and unrealized gains on investments	**(356)**	(242)	(449)
Goodwill, deferred acquisition costs and intangible assets	**258**	333	328
Gain on sale of subsidiaries	**—**	(177)	(195)
Future income taxes	**91**	(87)	47
Provisions for losses on investments	**113**	366	4
Stock option compensation *(Note 18)*	**26**	21	—
Other changes in other assets and liabilities	**181**	(613)	341
New mutual fund business acquisition costs capitalized	**(152)**	(194)	(296)
Redemption fees of mutual funds	**73**	115	105
Net cash provided by operating activities	**2,972**	4,350	1,957
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Borrowed funds	**(96)**	(103)	(104)
Issuance of subordinated debt *(Note 14)*	**—**	799	—
Redemption of subordinated debt *(Note 14)*	**(189)**	(337)	—
Payments to underwriters	**—**	—	(29)
Issuance of common shares	**—**	—	330
Issuance of common shares on exercise of stock options *(Note 16)*	**21**	27	—
Issuance of Sun Life ExchangEable Capital Securities — Series A and B *(Note 15)*	**—**	200	950
Common shares purchased for cancellation *(Note 16)*	**(527)**	—	(35)
Dividends paid on common shares	**(413)**	(294)	(204)
Net cash provided by (used in) financing activities	**(1,204)**	292	908
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Sales, maturities and repayments of:			
Bonds	**39,138**	30,556	13,427
Mortgages	**3,128**	3,528	1,487
Stocks	**1,416**	4,285	3,241
Real estate	**131**	432	240
Purchases of:			
Bonds	**(43,323)**	(38,300)	(13,833)
Mortgages	**(2,673)**	(2,904)	(2,001)
Stocks	**(1,267)**	(2,818)	(3,278)
Real estate	**(191)**	(227)	(118)
Policy loans	**(68)**	(151)	(88)
Short-term securities	**1,095**	(317)	(249)
Other investments	**316**	(39)	(319)
Acquisitions, net of cash acquired from continuing operations *(Note 3)*	**(266)**	2,749	(1,825)
Disposals, net of cash disposed of *(Note 5)*	**—**	(10)	363
Net cash used in investing activities	**(2,564)**	(3,216)	(2,953)
Net cash provided by discontinued operations	**273**	103	—
Changes due to fluctuations in exchange rates	**(455)**	44	168
Increase (decrease) in cash and cash equivalents	**(978)**	1,573	80
Cash and cash equivalents, beginning of year	**4,156**	2,583	2,503
Cash and cash equivalents, end of year	**3,178**	4,156	2,583
Short-term securities, end of year	**1,794**	2,996	2,226
Cash, cash equivalents and short-term securities, end of year	**$ 4,972**	$ 7,152	$ 4,809

Supplementary Information

Cash and cash equivalents:			
Cash	**$ 489**	$ 328	$ 396
Cash equivalents	**2,689**	3,828	2,187
	$ 3,178	$ 4,156	$ 2,583
Cash disbursements made for:			
Interest on borrowed funds and subordinated debt	**$ 207**	$ 201	$ 167
Income taxes, net of refunds	**$ 149**	$ 229	$ 269

* As restated.

The attached notes form part of these consolidated financial statements.

Consolidated Statements of Changes in Segregated Funds Net Assets

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)

	2003	2002	2001
ADDITIONS TO SEGREGATED FUNDS			
Deposits:			
Annuities	**$ 5,624**	$ 5,105	$ 5,162
Life insurance	**344**	1,537	689
	5,968	6,642	5,851
Net transfers from general funds	**544**	1,329	2,606
Net realized and unrealized gains (losses)	**6,456**	(8,658)	(7,372)
Other investment income	**1,411**	1,343	1,499
	14,379	656	2,584
DEDUCTIONS FROM SEGREGATED FUNDS			
Payments to policyholders and their beneficiaries	**6,776**	7,366	6,480
Management fees	**556**	564	538
Taxes and other expenses	**167**	57	67
Effect of changes in currency exchange rates	**5,549**	(349)	(1,824)
	13,048	7,638	5,261
Net additions (reductions) to segregated funds for the year	**1,331**	(6,982)	(2,677)
Acquisitions *(Note 3)*	**—**	11,193	3,882
Disposals *(Note 5)*	**—**	—	(2,194)
Segregated funds net assets, beginning of year	**52,755**	48,544	49,533
Segregated funds net assets, end of year	**$54,086**	$52,755	$48,544

Consolidated Statements of Segregated Funds Net Assets

AS AT DECEMBER 31 (in millions of Canadian dollars)

	2003	2002
ASSETS		
Segregated and mutual fund units	**$40,721**	$38,377
Stocks	**7,892**	7,452
Bonds	**5,546**	5,896
Cash, cash equivalents and short-term securities	**686**	1,530
Real estate	**148**	170
Mortgages	**78**	146
Other assets	**580**	965
	55,651	54,536
LIABILITIES	**1,565**	1,781
Net assets attributable to segregated funds policyholders	**$54,086**	$52,755

The attached notes form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Amounts in millions of Canadian dollars, except for per share amounts and where otherwise stated)

1. Accounting Policies

DESCRIPTION OF BUSINESS

At the Annual Meeting of the shareholders of Sun Life Financial Inc. (formerly known as Sun Life Financial Services of Canada Inc.) on June 4, 2003, the shareholders approved the change of the Company's name pursuant to Letters Patent of Amendment effective July 2, 2003. Sun Life Financial Inc. is a publicly traded company and is the holding company of Sun Life Assurance Company of Canada (Sun Life Assurance). Both companies are registered under the Insurance Companies Act of Canada, and are regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI).

Sun Life Financial Inc., together with all its subsidiaries, including the wholly-owned consolidated subsidiary Sun Life Assurance, are collectively referred to as "Sun Life Financial" or "the Company". The Company is an internationally diversified financial services organization providing savings, retirement and pension products, and life and health insurance to individuals and groups through its operations in Canada, the United States, the United Kingdom and Asia. The Company also operates mutual fund, investment management and trust businesses, primarily in Canada, the United States and Asia.

BASIS OF PRESENTATION

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) including the accounting requirements of the OSFI.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect:

- the reported amounts of assets and liabilities at the date of the financial statements,
- the disclosure of contingent assets and liabilities at the date of the financial statements, and
- the reported amounts of revenues, policy benefits and expenses during the reporting period.

Actual results could differ from those estimates.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

BASIS OF CONSOLIDATION

The consolidated financial statements reflect the accounts of the Company, including life insurance and non-life insurance subsidiaries. Significant intercompany balances and transactions have been eliminated. The purchase method is used to account for subsidiaries. The difference between the acquisition cost of a subsidiary and the fair value of the net identifiable assets acquired is recorded as goodwill. Operating results of the subsidiaries are included in the consolidated statements of operations from the dates of their acquisition. The equity method is used to account for other entities over which the Company is able to exercise a significant influence. The Company's share of earnings of such entities is reported in net investment income in the consolidated statements of operations.

BONDS AND MORTGAGES

Bonds and mortgages are carried at amortized cost, net of allowances for losses.

A bond or mortgage is classified as impaired where payment is 90 days past due, foreclosure or power of sale procedures have started or other circumstances warrant. Regular reviews are performed on portfolios during which management considers various factors to identify invested assets of potential concern. Consideration is given to general economic and business conditions, industry trends, specific developments with regard to security issuers and current market valuations. When an asset is classified as impaired, allowances for losses are established to adjust the carrying value of the asset to its net recoverable amount. Interest is no longer accrued and previous interest accruals are reversed. Allowances for losses, net of write-offs of specific investments and recoveries, are charged against net investment income. Once the conditions causing the impairment improve and future payments are reasonably assured, allowances are reduced and the invested asset is no longer classified as impaired. Sectoral allowances are also established for classes of assets when there is concern about the ultimate collection of principal or interest. The Company's actuarial liabilities include additional provisions for possible future asset losses.

Realized gains and losses on the sales of bonds and mortgages are deferred and amortized into net investment income on a constant yield basis over the remaining period to maturity.

STOCKS

Stocks are originally recorded at cost and the carrying value is adjusted towards fair value at 5% of the difference between fair value and carrying value per quarter. Realized gains and losses on sales of stocks are deferred and amortized into net investment income at the rate of 5% of the unamortized balance each quarter. The Company records a write-down for any other than temporary decline in the value of the entire stock portfolio.

1. Accounting Policies (Cont'd)

REAL ESTATE

Real estate includes real estate held for investment and real estate held for sale.

Real estate held for investment: Real estate held for investment is originally recorded at cost. The carrying value is adjusted towards fair value at 3% of the difference between fair value and carrying value per quarter. Realized gains and losses on sales are deferred and amortized into net investment income at the rate of 3% of the unamortized balance each quarter.

Market value is determined for each property by qualified appraisers. Appraisals are obtained annually for high value properties and at least once every three years for other properties. The Company monitors the values of these properties to determine that, in aggregate, the carrying values used are not in excess of market values and records a write-down for any other than temporary decline in the value of the portfolio.

Real estate held for sale: Properties held for sale are usually acquired through foreclosure. They are measured at fair value less the cost to sell. When the amount at which the foreclosed assets are initially measured is different from the carrying amount of the loan, a gain or loss is recorded at the time of foreclosure.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company's derivative instruments include swaps, financial futures, options and forward contracts and are used to manage risks or to replicate the exposures associated with interest rate, currency and equity market fluctuations. The Company's monitoring policies are described in Note 9. The accounting policies for the various types of derivative instruments used by the Company are described below.

Most of the Company's derivatives are used as part of a portfolio of assets to match actuarial liabilities as to duration and amounts. The most significant of these are interest rate swaps and options. The accounting for these instruments is at amortized cost, consistent with other fixed term portfolio investments. The net receivable or payable on the interest rate swaps is accrued to other assets or other liabilities with the net spread of the swaps recorded to net investment income. Realized gains or losses associated with these derivatives are deferred and amortized to net investment income. Premiums paid for interest rate options are deferred in other invested assets and amortized to net investment income over the terms of the options.

Many of the foreign currency swaps and forwards are used in combination with other invested assets to generate a specific investment return. These are accounted for at amortized cost. The net payable or receivable on currency swaps is included in other assets or other liabilities with the net spread of the swaps recorded to net investment income. Any realized gains and losses resulting from the termination of these derivative instruments are deferred and amortized into income on a basis consistent with the foreign currency investments that the swaps and forwards are combined with.

Certain of the equity futures, options and swaps are held for investment purposes. The accounting policy for these investments is the same as that of stocks.

Several derivative instruments are used for hedging specific risk exposures and are accounted for using hedge accounting or are reported at their fair values on the balance sheet. Certain interest rate swaps are used to hedge a floating rate loan. The net receivable or payable on the interest rate swaps is accrued to other assets or other liabilities with the net spread of the swaps recorded to net investment income. The Company uses currency swaps to reduce foreign exchange fluctuations associated with foreign currency investment financing activity. The accounting for these contracts is consistent with the underlying investment. Changes in exchange gains or losses on currency swaps hedging the investment financing activity are included in other liabilities and the currency translation account in equity, offsetting the respective exchange gains or losses arising from the conversion of the investment financing activity. Equity index futures, swaps, options and forwards are used to reduce exposure to the effect of stock market fluctuations in the actuarial liabilities associated with certain products. The intrinsic value of the options purchased to hedge the actuarial liabilities associated with guaranteed minimum death benefit products (GMDB) is included in other invested assets and the change in intrinsic value is included as an increase in actuarial liabilities, offsetting the change in actuarial liabilities from equity market fluctuation of these products. The premiums paid for these options are deferred in other invested assets and amortized to net investment income over the life of the options.

POLICY LOANS

Policy loans are carried at their unpaid balance and are fully secured by the policy values on which the loans are made.

CASH, CASH EQUIVALENTS AND SHORT-TERM SECURITIES

Cash equivalents and short-term securities are highly liquid investments and are carried at amortized cost. Cash equivalents have a term to maturity of less than three months while short-term securities have a term to maturity exceeding three months but less than one year.

OTHER INVESTED ASSETS

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

1. Accounting Policies (Cont'd)

DEFERRED ACQUISITION COSTS

Deferred acquisition costs arising on mutual fund sales are amortized over the periods of the related sales charges, which range from three to seven years. Deferred acquisition costs arising on segregated funds are calculated and included in actuarial liabilities. Actuarial liabilities implicitly include acquisition costs on insurance and annuity product sales.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net identifiable tangible and intangible assets. Goodwill arising from acquisitions before July 1, 2001 was amortized on a straight-line basis over varying periods of up to 20 years in 2001. Effective January 1, 2002, goodwill is no longer amortized. Identifiable intangible assets consist of finite-life and indefinite-life intangible assets. Finite-life intangible assets include the value of the banking distribution channel, the sales potential of field force and asset administration contracts. These intangible assets are amortized on a straight-line basis over varying periods of up to 40 years. The indefinite-life intangible assets include fund management contracts, brand name and state licenses. The goodwill and indefinite-life intangible assets are tested for impairment on an annual basis, based on the fair values of the reporting units and the intangible assets.

CAPITAL ASSETS

Furniture, computers, other equipment and leasehold improvements are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of these assets, which generally range from two to ten years.

LOANS SECURITIZATION

The Company periodically securitizes assets, such as mortgages or bonds, by selling them to trusts that issue securities to investors. These transactions are accounted for as sales when control over the assets has been surrendered and consideration other than beneficial interests in these transferred assets has been received in exchange. Gains or losses on these securitization transactions are included in deferred net realized gains, and will be amortized into net investment income as described above under Bonds and Mortgages. In determining the gain or loss on sale of the assets, the carrying value of the assets sold is allocated between the portion sold and the portion retained based on their relative fair values on the date of sale. These fair values are determined using either quoted market prices or discounted cash flows models. Interests in the securitized assets, such as subordinated investments in the issued securities or servicing rights, may be retained. These subordinated investments and servicing rights are classified as bonds and other assets, respectively.

SEGREGATED FUNDS

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

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

AMOUNTS ON DEPOSIT

Amounts on deposit represent premiums paid in advance, reinvested policy dividends and customer deposits in the Company's trust subsidiaries.

ACTUARIAL LIABILITIES

Actuarial liabilities and other policy liabilities, including policy benefits payable and provision for policyholder dividends, are computed using generally accepted actuarial practice in accordance with the standards established by the Canadian Institute of Actuaries including the requirements of OSFI.

1. Accounting Policies (Cont'd)

INCOME TAXES

The Company uses the liability method of tax allocation. Under this method, the income tax expense consists of both an expense for current income taxes and an expense for future income taxes. Current income tax expense (benefit) represents the expected payable (receivable) resulting from the current year's operations. Future income tax expense (benefit) represents the movement during the year in the cumulative temporary differences between the carrying value of the Company's assets and liabilities on the balance sheet and their values for tax purposes. Future income tax assets are recognized to the extent that they are more likely than not to be realized. Future income tax liabilities and assets are calculated based on income tax rates and laws that, at the balance sheet date, are expected to apply when the liability or asset is realized, which are normally those enacted or considered substantively enacted at the consolidated balance sheet dates.

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

PREMIUM INCOME AND RELATED EXPENSES

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

FOREIGN CURRENCY TRANSLATION

The Company's exchange gains and losses arising from the conversion of its self-sustaining foreign operations are included in the currency translation account of the consolidated statements of equity. Revenues and expenses in foreign currencies, including amortized gains and losses on foreign investments, are translated into Canadian dollars at an average of the market exchange rates during the year. Assets and liabilities are translated into Canadian dollars at market exchange rates at the end of the year. The net translation adjustment is reported as a separate item in the consolidated statements of equity.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

Pension costs related to current service are charged to income as services are rendered. Based on management's best estimate assumptions, actuarial valuations of the pension obligations are determined using the projected benefit method prorated on service. The estimated present value of post-retirement health care and life insurance benefits is charged to income over the employees' years of service to the date of eligibility. For the purpose of calculating the expected return on pension plan assets, a market-related asset value is used which recognizes asset gains and losses emerging after January 1, 2000 over a five-year period. Any transition adjustments, as well as future adjustments arising from plan amendments, are amortized to income over the estimated average remaining service life of the members covered by the plan. Only future variations in actuarial estimates in excess of certain minimums will be amortized.

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Stock options granted to employees are accounted for using the fair value method. Under the fair value method, fair value of the stock options is estimated at the grant date and the total fair value of the options is amortized over the vesting periods as compensation expense with an offset to contributed surplus. For options that are forfeited before vesting, the compensation expense that has previously been recognized in operating expenses and contributed surplus is reversed. When options are exercised, contributed surplus is reversed and the shares issued are credited to share capital in the consolidated statements of equity.

2. Changes in Accounting Policies

ADOPTED IN 2003

Disclosure of Guarantees: The Company adopted the new accounting requirements in CICA Handbook Accounting Guideline 14, Disclosure of Guarantees, on January 1, 2003. This Accounting Guideline defines a guarantee to be a contract (including an indemnity) that contingently requires the guarantor to make payments to a guaranteed party based on (a) changes in an underlying economic characteristic that is related to an asset, liability or an equity security of the guaranteed party; (b) failure of a third party to perform under an obligating agreement; or (c) failure of a third party to pay its indebtedness when due. This Accounting Guideline requires that significant guarantees and indemnification agreements provided by a guarantor be disclosed without regard to whether the guarantor will have to make any payments under the guarantees or the indemnification agreements. This change in accounting policy did not have a material impact on these consolidated financial statements.

2. Changes in Accounting Policies (Cont'd)

Impaired Loans: The Company adopted the new accounting requirements in CICA Handbook Section 3025, Impaired Loans, for asset foreclosures occurring on and after May 1, 2003. A long-lived foreclosed asset is classified as held for sale only if certain criteria in the CICA Handbook Section 3475, Disposal of Long-Lived Assets and Discontinued Operations, are met. A long-lived foreclosed asset classified as held for sale is measured at fair value less cost to sell. Foreclosed assets, other than long-lived assets that meet the criteria to be classified as held for sale, are initially measured at fair value. When the amount at which the foreclosed assets are initially measured is different from the carrying amount of the loan, a gain or loss will be recorded at the time of foreclosure. This change in accounting policy did not have a material impact on these consolidated financial statements.

FUTURE IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Hedging Relationships: The Company will adopt Hedging Relationships, CICA Handbook Accounting Guideline 13, on January 1, 2004. This Accounting Guideline requires that all conditions with respect to identification, documentation, designation and effectiveness of hedges be satisfied before companies choose to use hedge accounting. These conditions are applicable to hedges existing on or after January 1, 2004. As preparation for the adoption of this Guideline, the Company reviewed the nature of its existing hedging derivative financial instruments and its current accounting policy for these instruments. Certain derivatives that are considered to be part of a hedging relationship, including the options that hedge the GMDB products, will not qualify for hedge accounting under the new requirements in Accounting Guideline 13. As a result, these derivatives will be carried at their fair values effective January 1, 2004. The resulting transitional gain of $46 will be deferred and recognized into income in the same period as the original hedged items. Subsequent increases or decreases in the fair values of these derivatives will be reported in net investment income in the consolidated statements of operations.

Consolidation of Variable Interest Entities : The Company will adopt Consolidation of Variable Interest Entities, CICA Handbook Accounting Guideline 15 on January 1, 2005. This Guideline provides guidance for application of consolidation principles, to those entities defined as variable interest entities (VIEs), in which equity investors do not have the characteristics of a "controlling financial interest" or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Guideline requires that all entities be designated as either voting interest entities or variable interest entities. VIEs are subject to consolidation by the Primary Beneficiary which is defined as the party who has exposure to the majority of a VIE's expected losses and/or expected residual returns as defined in the Guideline.

The CICA is monitoring the developments of the Financial Accounting Standards Board (FASB) relating to recently issued revised FASB Interpretation No. 46, Consolidation of Variable Interest Entities, the U.S. GAAP equivalent of Accounting Guideline 15, since the intention is to harmonize the Accounting Guideline with U.S. GAAP. The Company will continue to review the status of VIEs as this harmonization occurs. For additional information refer to section C) xii) "Variable Interest Entities" in Note 23.

Financial Instruments — Disclosure and Presentation: The Company will adopt the amendments to the accounting requirements in CICA Handbook Section 3860, Financial Instruments-Disclosure and Presentation on January 1, 2005. Securities issued by the Company that give the Company an unrestricted obligation to settle the principal amount in cash or in the equivalent value of its own shares, must be classified as debt.

In the third quarter of the 2003 interim financial statements, the Company indicated that it would adopt these amendments on January 1, 2004. Subsequent to the issue of those financial statements, the CICA announced the postponement of the effective date of implementation to January 1, 2005. As a result, the Company will not be adopting the new accounting requirements until January 1, 2005, and therefore will no longer be required to reclassify the Sun Life ExchangEable Capital Securities (SLEECS) issued by Sun Life Capital Trust (the Trust) from non-controlling interests in subsidiaries to other liabilities, as it is expected that the Trust will be deconsolidated upon the adoption of the Consolidation of Variable Interest Entities, Accounting Guideline 15, on the same date. The Company expects the accounting for the SLEECS to be consistent with U.S. GAAP as described in Note 23 (C) xii in 2005.

Impairment of Long-Lived Assets: The Company will adopt Impairment of Long-Lived Assets, CICA Handbook Section 3063, on January 1, 2004. Under this standard, the impairment test of long-lived assets is a two-step process with the first step determining when an impairment is recognized and the second step measuring the amount of the impairment. To test for and measure impairment, assets are grouped at the lowest level for which identifiable cash flows are largely independent. An impairment loss is recognized when the carrying amount of an asset to be held and used exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. An impairment loss is measured as the amount by which the asset's carrying amount exceeds its fair value. An asset classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell. The Company does not expect this standard to have a material effect on the consolidated financial statements.

3. Acquisitions

Effective July 25, 2002, the Company acquired approximately 71 million common shares of CI Fund Management Inc. (CI) in exchange for all the shares of Spectrum Investment Management Limited (Spectrum) and Clarica Diversico Ltd. (Diversico). The 71 million common shares of CI were valued at the weighted average price of $9.15 per share on July 24, 2002. These common shares, together with those that were already beneficially owned by the Company as general fund assets, represented a 31.7% economic interest in CI on July 25, 2002. The Company recorded a gain of $177 before taxes in net investment income for the sales of the two subsidiaries. Previously unrecognized net capital losses were used to fully offset the tax on the gain. The acquired intangible asset consists of fund management contracts of $510 that are not subject to amortization. The investment is accounted for using the equity method of accounting and is included in other invested assets on the consolidated balance sheets.

Effective March 20, 2003, the Company increased its ownership percentage in CI to 34% by issuing approximately 2 million common shares of Sun Life Financial Inc. in exchange for approximately 5 million common shares of CI. The 2 million common shares of Sun Life Financial Inc. were recorded at a total fair value of $63. The acquired non-amortizable intangible asset consists of fund management contracts of $43.

In August 2003, CI announced that it had entered into agreements to acquire the Canadian operations of Assante Corporation (Assante) and Synergy Asset Management Inc. (Synergy). CI completed these acquisitions by issuing shares and a payment of cash to Assante and Synergy shareholders. The Company agreed to support these acquisitions by purchasing additional common shares of CI. The Company purchased approximately 21 million common shares of CI during the fourth quarter for $266 in order to maintain its ownership percentage of 34%. The intangible assets acquired through these two transactions consist of non-amortizable fund management contracts of $180 and amortizable asset administration contracts of $11.

Effective May 29, 2002, the Company acquired all the outstanding common shares of Clarica Life Insurance Company (Clarica) that were not already beneficially owned by the Company as general fund assets for an ascribed price of $51.28 per Clarica common share, and Clarica became a wholly-owned subsidiary of Sun Life Financial Inc. The business acquired includes both general and segregated funds businesses. Effective December 31, 2002, Clarica amalgamated with Sun Life Assurance Company of Canada and the amalgamated company continues to operate under the name of “Sun Life Assurance Company of Canada”.

The acquisition was completed by way of a capital reorganization of Clarica pursuant to which holders of Clarica common shares received 1.5135 common shares of Sun Life Financial Inc. for each Clarica common share held. Approximately 185 million common shares of Sun Life Financial Inc. were issued at an ascribed price of $33.88 per share based on a volume-weighted average closing price of the common shares for the period from December 13 to 19, 2001. The common shares of Clarica that were beneficially owned by the Company as general fund assets had a carrying value of $540 at the date of acquisition. In addition, all the unvested Clarica stock options vested immediately prior to the closing date and on May 29, 2002, these Clarica stock options were exercisable to acquire approximately 5 million common shares of Sun Life Financial Inc. as described in Note 18. The Company recorded $48 as part of the purchase consideration and share capital, representing the fair value of the outstanding Clarica stock options based on the average share price of Clarica from December 13 to 19, 2001.

The following supplemental unaudited pro forma information has been prepared to give effect to the acquisition of Clarica, as if the transaction had been completed at the beginning of each year. This information is calculated by combining the results of operations of the Company for 2002 and 2001 with that of Clarica prior to the acquisition date and adjusting for the amortization of Clarica’s identifiable intangible assets, net of taxes ($7 in 2002 and $15 in 2001) and the elimination of amortization of net unrealized gains and deferred net realized gains as a result of fair value adjustments to the assets and liabilities of Clarica, net of taxes ($13 in 2002 and $31 in 2001). The pro forma information is not intended to reflect what would have actually resulted had the transaction been completed at the beginning of each respective year or what may be obtained in the future.

Supplemental unaudited pro forma condensed information:

	2002	2001
Revenue	$25,217	$21,819
Shareholders’ net income	$ 1,186	$ 1,250
Weighted average number of shares outstanding (in millions)	618	609
Basic earnings per share	$ 1.92	$ 2.05
Shareholders’ net income on a diluted basis	$ 1,186	$ 1,250
Weighted average number of shares outstanding on a diluted basis (in millions)	618	610
Diluted earnings per share	$ 1.92	$ 2.05

Effective October 31, 2001, the Company acquired all the outstanding common shares of Keyport Life Insurance Company (Keyport) and Independent Financial Marketing Group, Inc. (IFMG) for a cash payment of U.S.$1,702. In 2002, adjustments were made to the purchase price allocations of Keyport and IFMG. This resulted in an increase in other assets, goodwill, actuarial liabilities and other liabilities of $108, $30, $102 and $11, respectively, and a decrease in invested assets of $25. The goodwill of Keyport and IFMG was allocated to the SLF United States segment, of which $330 is expected to be deductible for tax purposes.

3. Acquisitions (Cont'd)

The transactions are summarized below:

	2003	2002	2002	2001
	CI[2]	CI	Clarica*	Keyport/ IFMG
Percentage of shares acquired	**2.3%**	31.7%	100%	100%
Invested assets acquired	**$ 72**	$ 23	$31,637	$22,479
Other assets acquired	**235**	722	2,672	1,436
	307	745	34,309	23,915
Actuarial liabilities and other policy liabilities acquired	**—**	—	24,835	22,656
Amounts on deposit acquired	**—**	—	1,277	—
Other liabilities acquired	**168**	231	5,059[1]	493
	168	231	31,171	23,149
Net balance sheet assets acquired	**$ 139**	$ 514	$ 3,138	$ 766
Considerations:				
Common shares issued or exchanged	**$ 63**	$ 571	$ 6,284	$ —
Carrying value of investments in acquiree's shares	**—**	36	540	—
Fair value of outstanding Clarica stock options	**—**	—	48	—
Transaction and other related costs	**—**	—	57	—
Cash cost of acquisition	**266**	—	—	2,744
Total consideration	**$ 329**	$ 607	$ 6,929	$ 2,744
Goodwill on acquisition	**$ 190**	$ 93	$ 3,791	$ 1,978
Cash and cash equivalents acquired			$ 2,816	$ 919

(1) Other liabilities acquired included subordinated debt of $746 and preferred shares of $160.
(2) Net impact of all 2003 transactions related to CI. Other assets acquired include $234 of intangible assets.
* As restated, as described below.

In the second quarter of 2003, the Company reviewed the fair value calculations for certain non-marketable securities and the reserves for the run-off reinsurance related to the acquisition of Clarica. For the non-marketable securities, it was identified that the fair value was overstated. For the run-off reinsurance reserves, a provision for adverse deviations had been omitted. As at December 31, 2002, the combined impact of these error corrections was to restate actuarial and other policy liabilities and goodwill upwards by $50 and $70, respectively. Bonds and other liabilities were restated downwards by $56 and $36, respectively.

4. Reorganization, Restructuring and Other Related Charges

In conjunction with the acquisition of Clarica in 2002, the Company developed a plan to restructure the combined operations of its consolidated subsidiaries, Sun Life Assurance and Clarica. The Company recorded an increase in actuarial liabilities and a charge for restructuring costs in 2002. These accruals cover increased renewal commission expenses, severance, the elimination of duplicate systems, facilities and operations, as well as other exiting costs. As at December 31, 2003, the remaining balance on these expected costs, other than commissions, was as follows:

	Balance at beginning of year	**Utilized during the year**	**Balance at end of year**
Eliminating duplicate systems and operations[1]	**$ 274**	**$ 212**	**$ 62**
Costs of consolidating facilities	**24**	**5**	**19**
Other	**3**	**—**	**3**
Total	**$ 301**	**$ 217**	**$ 84**

(1) Includes compensation costs.

In February 2001, the Board of Directors (Board) approved a reorganization of the Company's United Kingdom operations. As a result, the Company has exited from the direct sales force distribution channel and significantly reduced the scale of its operations. During 2001, severance, asset write-offs and other related costs of $195 were expensed as part of the operating expenses in the consolidated statements of operations.

On January 14, 2002, the Company announced an agreement with the Marlborough Stirling group to outsource the administration of the Company's individual life and pension business in the United Kingdom which had already been closed for new business. During 2003, expenses related to the outsourcing contract, closing branches, contract cancellations, system migrations and other related costs of $33 ($88 in 2002) were included in the operating expenses in the consolidated statements of operations. As at December 31, 2003, the accruals for the reorganizational costs were $30 ($49 in 2002).

5. Disposals and Discontinued Operations

Effective February 28, 2003, the Company sold its United Kingdom group insurance business to Unum Limited (UnumProvident), a United Kingdom subsidiary of UnumProvident Corporation. Under the agreements, UnumProvident acquired the Company's United Kingdom group income protection business together with the renewal rights to the group life business. The transaction resulted in a gain that is not considered material to these consolidated financial statements.

Effective January 7, 2003, the Company sold all the common shares of Clarica U.S., Inc. (Clarica U.S.) to Midland National Life Insurance Company for $414 in cash. A loss of $48 on the sale of Clarica U.S. was accrued in 2002.

Effective December 7, 2001 and November 30, 2001, respectively, the Company sold all the common shares of SLC Asset Management Limited (SLCAM), an asset management company, together with two affiliated companies, and all the common shares of Sun Bank plc (SB), a bank specializing in mortgage and savings products. The sale of SLCAM and its affiliated companies resulted in a reduction in segregated fund net assets in respect of funds invested for third party pooled pension customers. The gains on sales of the United Kingdom subsidiaries were $195 before related taxes of $70 and these gains were included in net investment income. Proceeds from the sales of the subsidiaries were used for general corporate purposes. The proceeds presented in this note are net of disposition costs of $34 and $7 for SLCAM and SB, respectively. These costs were primarily professional fees, commissions and the impact on actuarial liabilities.

The transactions are summarized below:

	2003	2002	2002	2001	2001
	Clarica U.S.	Spectrum[1]	Diversico[1]	SLCAM	SB
Percentage of shares disposed of	**100%**	100%	100%	100%	100%
Invested assets disposed of	**$ 5,047**	$ 9	$ 2	$ 67	$ 2,604
Other assets disposed of	**225**	96	315	41	37
	5,272	105	317	108	2,641
Actuarial liabilities and other policy liabilities disposed of	**4,265**	—	—	—	—
Amounts on deposit disposed of	**—**	—	—	—	2,417
Other liabilities disposed of	**553**	36	4	41	100
	4,818	36	4	41	2,517
Net balance sheet assets disposed of	**$ 454**	$ 69	$ 313	$ 67	$ 124
Considerations:					
Common shares exchanged	**$ —**	$ 249	$ 322	$ —	$ —
Transaction and other related costs	**(8)**	(7)	(5)	—	—
Net proceeds of disposal	**414**	—	—	242	144
Total consideration	**$ 406**	$ 242	$ 317	$ 242	$ 144
Pre-tax gain (loss) on sale	**$ (48)[2]**	$ 173	$ 4	$ 175	$ 20
Cash and cash equivalents disposed of	**$ 133**	$ 8	$ 2	$ 23	$ —

(1) For summary information see Note 3.
(2) Loss accrued in 2002 and reported as part of the income (loss) from discontinued operations.

As a result of the plan of disposal for Clarica U.S., it was accounted for as a discontinued operation in 2002. The components of the $36 loss from discontinued operations for 2002 shown in the consolidated statements of operations are as follows:

	2002
REVENUE	$ 945
EXPENSES	923
Net operating income before income taxes	22
Income taxes expense	10
Net operating income	12

Gain (loss) on sale of Clarica U.S.	(48)
Income (loss) from discontinued operations, net of income taxes	$ (36)

5. Disposals and Discontinued Operations (Cont'd)

The following amounts relating to discontinued operations are included in the consolidated balance sheets for 2002:

	2002
ASSETS	
Invested assets	$ 5,103
Other assets	227
Total assets	$ 5,330
LIABILITIES AND EQUITY	
Actuarial liabilities and other policy liabilities	$ 4,373
Other liabilities	497
Equity	460
Total liabilities and equity	$ 5,330

6. Segmented Information

The Company has six reportable segments: SLF Canada, SLF United States, MFS Investment Management (MFS), SLF Asia, SLF United Kingdom, and Corporate Capital. These reportable segments reflect the Company's management structure and internal financial reporting. Each of these segments operate in the financial services industry and have their own management. They derive their revenues principally from wealth management operations (mutual funds, investment management and annuities), protection services (life and health insurance, life retrocession and financial reinsurance) and other (primarily investments of a corporate nature and earnings on capital not attributed to the strategic business units).

Corporate Capital includes the run-off reinsurance operations and those other operations for which management responsibility resides in head office. Net income (loss) from continuing operations in this category is shown net of certain expenses borne centrally.

As Clarica U.S. has been discontinued and the sale was completed on January 7, 2003, revenue, expenses and net income (loss) from continuing operations do not include these results. However, the assets of the discontinued operation are included in SLF United States' assets at December 31, 2002.

Inter-segment transactions consist primarily of internal financing agreements. They are measured at market values prevailing when the arrangements were negotiated. Inter-segment revenue consists of interest of $352 in 2003 ($306 in 2002 and $140 in 2001) and fee income of $45 in 2003 ($68 in 2002 and $48 in 2001).

The results of the segments' operations are discussed in the Management's Discussion and Analysis. The results for MFS include the $211 provision for regulatory issues and other actions.

Results by segment for the years ended December 31

		United States						
	Canada	Sun Life	MFS	Asia	United Kingdom	Corporate Capital	Consolidation Adjustments	Total
2003								
Revenue	**$8,636**	**$ 9,663**	**$1,684**	**$ 587**	**$1,443**	**$ 440**	**$ (397)**	**$22,056**
Change in actuarial liabilities	**$ 519**	**$ 1,056**	**$ —**	**$ 221**	**$ (17)**	**$ (155)**	**$ —**	**$ 1,624**
Interest on claims and deposits	**$ 84**	**$ 18**	**$ —**	**$ 29**	**$ 3**	**$ 1**	**$ —**	**$ 135**
Interest expenses	**$ 117**	**$ 152**	**$ 23**	**$ —**	**$ 25**	**$ 246**	**$ (354)**	**$ 209**
Income taxes (benefit)	**$ 342**	**$ 97**	**$ 5**	**$ 12**	**$ 8**	**$ (77)**	**$ —**	**$ 387**
Net income (loss) from continuing operations	**$ 826**	**$ 305**	**$ (43)**	**$ 37**	**$ 203**	**$ (20)**	**$ —**	**$ 1,308**
2002								
Revenue	$6,563	$11,877	$1,979	$ 661	$1,828	$ 567	$ (374)	$23,101
Change in actuarial liabilities	$ 535	$ 2,500	$ —	$ 293	$ 168	$ 326	$ —	$ 3,822
Interest on claims and deposits	$ 74	$ 29	$ —	$ 30	$ 2	$ —	$ —	$ 135
Interest expenses	$ 77	$ 154	$ 29	$ —	$ 28	$ 211	$ (307)	$ 192
Income taxes (benefit)	$ 191	$ 38	$ 109	$ 11	$ (18)	$ (233)	$ —	$ 98
Net income (loss) from continuing operations	$ 514	$ 360	$ 174	$ 24	$ 190	$ (229)	$ —	$ 1,033
2001								
Revenue	$3,855	$ 7,811	$2,273	$ 464	$2,067	$ 533	$ (188)	$16,815
Change in actuarial liabilities	$ 552	$ 675	$ —	$ 136	$ 298	$ 36	$ —	$ 1,697
Interest on claims and deposits	$ 47	$ 21	$ —	$ 28	$ 121	$ 1	$ —	$ 218

Interest expenses	$ 36	$ 69	$ 31	$ —	$ 31	$ 141	$ (140)	$ 168
Income taxes (benefit)	$ 106	$ 25	$ 144	$ 5	$ (7)	$ 33	$ —	$ 306
Net income (loss) from continuing operations	$ 207	$ 226	$ 231	$ 20	$ 180	$ 17	$ —	$ 881

6. Segmented Information (Cont'd)

Assets by segment as at December 31*

	Canada	United States		Asia	United Kingdom	Corporate Capital	Consolidation Adjustments	Total
		Sun Life	MFS					
2003								
General fund assets	**$51,522**	**$40,763**	**$ 1,084**	**$2,021**	**$10,532**	**$ 4,057**	**$ (770)**	**$109,209**
Segregated funds net assets	**$22,535**	**$24,519**	**$ —**	**$ 11**	**$ 7,021**	**$ —**	**$ —**	**$ 54,086**
Other assets under management	**$26,119**	**$ 2,731**	**$180,898**	**$ 100**	**$ —**	**$ —**	**$ (14,119)**	**$195,729**
2002								
General fund assets	$50,256	$54,154	$ 1,424	$2,147	$12,610	$ 3,948	$ (1,087)	$123,452
Segregated funds net assets	$19,029	$26,519	$ —	$ 3	$ 7,204	$ —	$ —	$ 52,755
Other assets under management	$19,878	$ 2,628	$177,960	$ 79	$ —	$ —	$ (16,138)	$184,407

* As restated (Note 3).

The following table shows revenue, net income (loss) from continuing operations and assets by territory for Corporate Capital:

	2003	2002	2001
Revenue			
United States	**$ 134**	$ 181	$ 231
Other Countries	**306**	386	302
Total revenue	**$ 440**	$ 567	$ 533
Net income (loss) from continuing operations:			
United States	**$ (63)**	$ (241)	$ 28
Other Countries	**43**	12	(11)
Total net income (loss) from continuing operations	**$ (20)**	$ (229)	$ 17
Assets:			
General funds:			
United States	**$ 1,838**	$ 1,160	
Other countries	**2,219**	2,788	
Total assets	**$ 4,057**	$ 3,948	

7. Fair Value of Financial Instruments

Financial instruments are contractual rights or obligations to either receive or deliver an asset. In an exchange of financial instruments, "fair value" refers to the amount that would be agreed upon between willing knowledgeable parties. Estimated fair values do not necessarily represent the values for which these financial instruments could have been sold at the dates of the consolidated balance sheets.

A significant portion of any difference between fair values and carrying values relates to invested assets that are matched to liabilities as to duration, within specified limits. If these assets are sold before maturity, the Company will reinvest the proceeds to ensure there are sufficient assets to match liabilities. Consequently, changes in the fair values of assets backing liabilities will tend to be offset by changes in the fair values of those liabilities.

The fair values and the methods and assumptions used to estimate fair values for invested assets are discussed in Note 8. Derivative financial instruments are discussed in Note 9. Fair values of actuarial liabilities, future income taxes related to life insurance companies and deferred net realized gains are disclosed in Note 11. The fair values and discussion of the method for estimating these values for subordinated debt are included in Note 14. The carrying value and fair value of amounts on deposit are $3,120 and $3,139, respectively, as at December 31, 2003 ($3,262 and $ 3,287, respectively, as at December 31, 2002). Fair values of fixed rate deposits are determined by discounting the expected future cash flows using current market interest rates for similar deposits. For amounts on deposit with no stated maturity, fair value is equal to carrying value.

8. Invested Assets and Income

The Company invests primarily in bonds, mortgages, stocks and real estate. The accounting policy for each type of invested asset is described in Note 1.

A) FAIR VALUE OF INVESTED ASSETS

The carrying values and fair values of the Company's invested assets are shown in the following table.

	2003			2002*		
	Carrying Value	**Fair Value**	**Yield %**	Carrying Value	Fair Value	Yield %
ASSETS						
Bonds	**$66,090**	**$ 70,092**	**5.98**	$ 73,367	$ 77,541	5.87
Mortgages	**13,601**	**14,381**	**7.00**	15,799	17,072	7.17
Stocks	**3,473**	**3,102**	**7.48**	4,221	3,104	5.74
Real estate	**3,067**	**3,287**	**8.89**	3,223	3,437	9.78
Policy loans	**3,003**	**3,003**	**6.99**	3,390	3,390	6.41
Cash, cash equivalents and short-term securities	**4,972**	**4,973**	**n/a**	7,152	7,152	n/a
Other invested assets	**2,970**	**3,414**	**n/a**	3,336	3,297	n/a
Total invested assets	**$97,176**	**$102,252**	**5.79**	$110,488	$114,993	5.71

* As restated (Note 3).

The fair value of publicly traded bonds is determined using quoted market prices. For non-publicly traded bonds, fair value is determined using a discounted cash flow approach that includes provisions for credit risk and assumes that the securities will be held to maturity. Fair value of mortgages is determined by discounting the expected future cash flows using current market interest rates for mortgages with similar credit risks and terms to maturity. Fair value of stocks is based on quoted market prices, usually the last trade values. Fair value of real estate is determined by reference to sales of comparable properties in the market place and the net present value of the expected future cash flows, discounted using current interest rates. Due to their nature, the fair values of policy loans and cash and cash equivalents are assumed to be equal to their carrying values. The fair values of short-term securities are based on market yields. The fair values of other invested assets are determined by reference to market prices for similar investments. Other invested assets in the table above includes the Company's investment in CI with a fair value of $1,407 and a carrying value of $987 ($740 and $619, respectively, in 2002). Yield is calculated based on total net investment income divided by the total of the average carrying value of invested assets including accrued investment income less deferred net realized gains.

B) INVESTMENT POLICIES

It is the Company's policy to diversify all investment portfolios. The Company's mortgage loans, stocks and real estate investments are diversified by type and location and, for mortgage loans, by borrower. Interest rate risk, which is the potential for loss due to interest rate fluctuations, is discussed in Note 11.

Credit risk is the risk of financial loss resulting from the failure of debtors to make payments of interest or principal when due. The Company controls this risk through detailed credit and underwriting policies, as well as through setting counterparty exposure limits. Company policy limits credit exposure to 4% of consolidated equity invested in any single issuer and to 8% of consolidated equity invested in any associated group of issuers. The exceptions are for investments in securities which are issued or guaranteed by either the Government of Canada, United States or United Kingdom and issuers for which the Board has granted specific approval. Mortgage loans are collateralized by the related property and generally do not exceed 75% of the value of the property at the time the original loan is made.

C) INVESTED ASSETS BY TYPE

i) BONDS

The carrying value and fair value of bonds by rating are shown in the table below.

	2003		2002*	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Bonds by credit rating:				
AAA	**$18,714**	**$19,499**	$23,483	$24,573
AA	**7,915**	**8,438**	8,951	9,817
A	**18,952**	**20,393**	20,252	21,670
BBB	**17,980**	**19,080**	17,910	18,848
BB & lower	**2,529**	**2,682**	2,771	2,633

Total bonds	**$66,090**	**$70,092**	$73,367	$77,541

* As restated (Note 3).

Investment grade bonds are those rated BBB and above. The Company's bond portfolio has 96.2% (96.2% in 2002) invested in investment grade bonds based on carrying value.

Gross unrealized gains (losses) on bonds are shown in the tables below. Gross unrealized gains and losses are not brought into income or included in the carrying value on the consolidated balance sheets.

8. Invested Assets and Income (Cont'd)

	2003			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Estimated Fair Value**
Issued or guaranteed by:				
Canadian federal government	**$ 6,209**	**$ 161**	**$ (1)**	**$ 6,369**
Canadian provincial and municipal governments	**5,106**	**588**	**(3)**	**5,691**
U.S. Treasury and other U.S. agencies	**1,143**	**44**	**(13)**	**1,174**
Other foreign governments	**3,437**	**196**	**(32)**	**3,601**
Corporate	**40,604**	**3,118**	**(151)**	**43,571**
Asset-backed securities	**9,591**	**208**	**(113)**	**9,686**
Total bonds	**$66,090**	**$ 4,315**	**$ (313)**	**$70,092**

	2002*			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Issued or guaranteed by:				
Canadian federal government	$ 6,110	$ 281	$ (2)	$ 6,389
Canadian provincial and municipal governments	5,280	587	(8)	5,859
U.S. Treasury and other U.S. agencies	3,024	176	(2)	3,198
Other foreign governments	3,901	293	(4)	4,190
Corporate	43,246	3,078	(456)	45,868
Asset-backed securities	11,806	371	(140)	12,037
Total bonds	$73,367	$ 4,786	$ (612)	$77,541

The carrying value of bonds by issuer country is as follows:

	2003	2002*
Canada	**$25,708**	$24,920
United States	**29,036**	36,764
United Kingdom	**7,465**	8,083
Other	**3,881**	3,600
Total bonds	**$66,090**	$73,367

The contractual maturities of bonds as at December 31 are shown in the table below. Bonds that are not due at a single maturity date are included in the table in the year of final maturity. Asset-backed securities that are not due at a single maturity date are shown separately. Actual maturities could differ from contractual maturities because of the borrower's right to call or right to prepay obligations, with or without prepayment penalties.

	2003		2002*	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Due in one year or less	**$ 3,449**	**$ 3,487**	$ 2,973	$ 3,016
Due in years two through five	**15,366**	**16,011**	18,642	19,439
Due in years six through ten	**14,318**	**15,269**	16,260	17,256
Due after ten years	**23,366**	**25,639**	23,686	25,793
Asset-backed securities	**9,591**	**9,686**	11,806	12,037
Total bonds	**$66,090**	**$70,092**	$73,367	$77,541

* As restated (Note 3).

ii) MORTGAGES

The carrying value of non-residential and residential mortgages by geographic location is shown in the table below. Residential mortgages include mortgages for single and multiple family dwellings.

	2003			2002		
	Non-residential	**Residential**	**Total**	Non-residential	Residential	Total
Canada	**$ 5,799**	**$ 3,952**	**$ 9,751**	$ 5,993	$ 4,106	$10,099
United States	**3,465**	**92**	**3,557**	5,180	188	5,368
United Kingdom	**292**	**1**	**293**	331	1	332
Total mortgages	**$ 9,556**	**$ 4,045**	**$13,601**	$ 11,504	$ 4,295	$15,799

8. Invested Assets and Income (Cont'd)

At December 31, 2003, scheduled mortgages loan maturities, before allowances for losses, are as follows:

Year	Amount
2004	**$ 1,401**
2005	**889**
2006	**1,417**
2007	**1,371**
2008	**1,424**
Thereafter	**7,141**
Total mortgages	**$13,643**

Actual payments could differ from the scheduled mortgage loan maturities because borrowers may have the right to prepay obligations, with or without prepayment penalties.

iii) STOCKS

The carrying value of stocks by issuer country is as follows:

	2003	2002
Canada	**$ 802**	$ 734
United States	**1,014**	1,036
United Kingdom	**1,505**	2,236
Other	**152**	215
Total stocks	**$ 3,473**	$ 4,221

Gross unrealized gains (losses) on stocks are shown in the following table.

	Carrying Value	Original Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Total 2003	**$ 3,473**	**$ 2,660**	**$ 549**	**$ (107)**	**$ 3,102**
Total 2002	$ 4,221	$ 3,159	$ 400	$ (455)	$ 3,104

iv) REAL ESTATE

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

	2003	2002
Canada	**$ 1,874**	$ 1,885
United States	**837**	946
United Kingdom	**354**	390
Other	**2**	2
Total real estate	**$ 3,067**	$ 3,223

Real estate includes real estate held for investment and real estate held for sale, as described in Note 1. The carrying value and fair value of real estate in each of these categories is shown in the table below.

2003		2002	
Carrying Value	**Fair Value**	Carrying Value	Fair Value

Real estate held for investment	**$ 3,057**	**$ 3,273**	$ 3,205	$ 3,415
Real estate held for sale	**10**	**14**	18	22
Total real estate	**$ 3,067**	**$ 3,287**	$ 3,223	$ 3,437

8. Invested Assets and Income (Cont'd)

D) IMPAIRED INVESTED ASSETS

The Company has impaired invested assets with specific allowances and other sectoral allowances, at December 31, as follows:

	2003		2002	
	Impaired Carrying Value[1]	**Allowance for Losses[2]**	Impaired Carrying Value[1]	Allowance for Losses[2]
Bonds	**$ 574**	**$ 302**	$ 815	$ 417
Mortgages	**79**	**42**	87	63
Foreclosed properties	**14**	**3**	18	1
Other	**32**	**19**	32	14
Total	**$ 699**	**$ 366**	$ 952	$ 495

(1) Impaired carrying value shown above is shown gross, before allowance for losses. Includes $25 in 2003 ($30 in 2002) of impaired mortgages that have no allowance for losses. Impaired mortgage loans with no allowance for losses are loans for which, at a minimum, either the fair value of the collateral or the expected future cash flows exceed the carrying value.

(2) Includes sectoral allowances of $92 and $32 for bonds and mortgages, respectively, in 2003 ($112 and $51, respectively, in 2002). The remaining allowances are specific allowances.

Additional information related to impaired invested assets is shown in the following table.

	2003	2002
Mortgages with scheduled payments 90 days or more in arrears:		
Carrying value	**$ 20**	$ 65
Percentage of total mortgages before allowances	**0.2%**	0.4%
Weighted average recorded investment in impaired mortgage loans, before allowances	**$ 85**	$ 67
Interest received on impaired mortgage loans (recorded as received)	**$ 5**	$ 5
Carrying value of bonds, mortgages and real estate (including specific allowances) that were non-income producing for the preceding twelve months	**$ 129**	$ 46

The changes in the allowances for losses are as follows:

	Bonds	Mortgages	Foreclosed Properties and Other	Total
Balance, January 1, 2002	$ 66	$ 60	$ 5	$ 131
Provision for losses[1]	366	(6)	5	365
Write-offs, net of recoveries	(13)	9	5	1
Effect of changes in currency exchange rates	(2)	—	—	(2)
Balance, December 31, 2002	$ 417	$ 63	$ 15	$ 495
Provision for losses	108	(6)	11	113
Write-offs, net of recoveries	(159)	(7)	(2)	(168)
Effect of changes in currency exchange rates	(64)	(8)	(2)	(74)
Balance, December 31, 2003	$ 302	$ 42	$ 22	$ 366

(1) Includes $(1) related to discontinued operations.

E) DEFERRED NET REALIZED GAINS

Deferred net realized gains are realized gains and losses which have not yet been recognized in income. The changes in deferred net realized gains are shown in the table below.

	Bonds	Mortgages	Stocks	Real Estate	Derivatives	Total
Balance, January 1, 2002	$ 1,678	$ 62	$ 1,851	$ 165	$ (12)	$ 3,744
Net realized gains (losses) for the period	220	43	(240)	39	(99)	(37)

Amortization of deferred net realized gains	(165)	(22)	(247)	(20)	21	(433)
Effect of changes in currency exchange rates	99	—	86	7	(10)	182
Balance, December 31, 2002	$ 1,832	$ 83	$ 1,450	$ 191	$ (100)	$ 3,456
Net realized gains (losses) for the period	509	87	(4)	7	(59)	540
Amortization of deferred net realized gains	(221)	(28)	(240)	(21)	14	(496)
Effect of changes in currency exchange rates	(208)	(7)	(150)	(13)	2	(376)
Balance, December 31, 2003	$ 1,912	$ 135	$ 1,056	$ 164	$ (143)	$ 3,124

8. Invested Assets and Income (Cont'd)

F) NET INVESTMENT INCOME

Net investment income has the following components:

	2003	2002	2001
Interest from:			
Bonds	**$ 3,831**	$ 3,810	$ 2,242
Mortgages	**951**	899	852
Policy loans	**224**	195	119
Cash, cash equivalents and short-term securities	**134**	122	116
Interest income	**5,140**	5,026	3,329
Dividends from stocks	**103**	135	95
Real estate income (net)	**222**	223	192
Amortization of deferred net realized gains	**496**	433	517
Amortization of unrealized gains and losses	**(140)**	(186)	(68)
Derivative realized and unrealized gains and losses [1]	**(85)**	(89)	17
Other items (net)[2]	**184**	203	145
	5,920	5,745	4,227
Provisions for losses on investments	**(113)**	(365)	(4)
Investment expenses and taxes	**(104)**	(99)	(61)
Impact of discontinued operations	**—**	(150)	—
Total net investment income	**$ 5,703**	$ 5,131	$ 4,162

(1) Consists of realized and unrealized gains on derivatives that are reported at fair value. Additional derivative income of $(47) ($(122) in 2002, $(82) in 2001) is included in net investment income.
(2) Includes gains and losses on sales of subsidiaries (Note 5).

G) SECURITIES LENDING

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. Collateral, which exceeds the market value of the loaned securities, is deposited by the borrower with a lending agent, usually a securities custodian, and retained by the lending agent until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. It is Company practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency. At December 31, 2003, the Company had loaned securities (which are included in invested assets) with a carrying value and market value of approximately $568 and $609, respectively.

H) LOAN SECURITIZATIONS

During the year, the Company sold commercial mortgages to a trust which subsequently issued securities backed by the commercial mortgages. The Company was retained to service and administer the mortgages and also retained a subordinated investment interest in the issued securities. Similar transactions occurred in 2002 and 2001. Details of these transactions are shown in the following table.

	2003	2002	2001
Carrying value of mortgages sold	**$ 623**	$ 497	$ 265
Gain on sale	**$ 70**	$ 28	$ 4

As at December 31, 2003, the key assumptions of the discounted cash flows models and the sensitivity of the fair values of the retained interests to an immediate 10% and 20% (10% and 20% in 2002) adverse change in key assumptions are as follows:

	2003		2002	
	Mortgages	**Bonds**	Mortgages	Bonds
Carrying value of retained interests	**$ 161**	**$ 4**	$ 128	$ 8
Fair value of retained interests	**$ 174**	**$ 5**	$ 130	$ 8
Weighted-average remaining life (in years)	**5.5-21.24**	**8.7**	3.8-9.6	9.7
Discount rate	**2.5-7.0%**	**11.1%**	6.0-7.9%	11.1%
Impact on fair value of 10% adverse change	**$ 6**	**$ 1**	$ 4	$ 1

Impact on fair value of 20% adverse change	**$ 10**	**$ 1**	$ 7	$ 1
Anticipated credit losses	**—**	**0.6%**	—	0.6%
Impact on fair value of 10% adverse change		**$ 1**		$ 1
Impact on fair value of 20% adverse change		**$ 2**		$ 2

The sensitivity analysis in the table above is hypothetical and should be used with caution. As the figures indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

The credit losses, net of recoveries, of the securitized bond portfolio for 2003 were $4 ($23 in 2002). As at December 31, 2003, the securitized bond portfolio included bonds of $17 that were 90 days or more past due ($24 in 2002).

8. Invested Assets and Income (Cont'd)

The following table summarizes certain cash flows received from securitization trusts in 2003, 2002 and 2001:

	2003		2002		2001	
	Mortgages	**Bonds**	Mortgages	Bonds	Mortgages	Bonds
Proceeds from new securitizations	**$ 693**	**$ —**	$ 525	$ —	$ 269	$ —
Cash flows received on retained interests and servicing fees	**$ 26**	**$ —**	$ 17	$ 2	$ 9	$ 4

9. Derivative Financial Instruments

The Company uses derivative instruments for hedging and risk management purposes or in replication strategies to reproduce permissible investments. The accounting policies for the derivative financial instruments are described in Note 1. The Company monitors the gap in market sensitivities between liabilities and supporting assets for its hedging strategies. That gap is managed within defined tolerance limits by, where appropriate, the use of derivative instruments. Models and techniques are used by the Company to ensure the continuing effectiveness of its hedging strategies.

Derivative instruments are either exchange-traded or over-the-counter contracts negotiated between two counterparties. The notional amount is the basis for calculating payments and is generally not the actual amount exchanged. Since counterparty failure in an over-the-counter derivative transaction could render it ineffective for hedging purposes, the Company transacts its derivative contracts with counterparties rated AA or better. In limited circumstances, the Company will enter into transactions with lower rated counterparties if credit enhancement features are included. As at December 31, 2003, the Company had assets of $94 ($188 in 2002) pledged as collateral for derivative contracts.

The Company has the following amounts outstanding at December 31:

	2003							
			Notional Amounts					
			Term to Maturity					
	Fair Value					**Total**	**Credit**	**Risk-**
	Positive[1]	**Net**	**Under 1 year**	**One to 5 years**	**Over 5 years**	**Notional Amount**	**Equivalent Amount[2]**	**Weighted Amount[3]**
Interest rate contracts	**$ 249**	**$ (173)**	**$ 2,271**	**$ 5,781**	**$ 6,325**	**$ 14,377**	**$ 361**	**$ 7**
Foreign exchange contracts	**599**	**570**	**892**	**1,119**	**1,657**	**3,668**	**777**	**21**
Equity and other contracts	**385**	**318**	**3,836**	**1,770**	**2,512**	**8,118**	**1,111**	**25**
Total	**$ 1,233**	**$ 715**	**$ 6,999**	**$ 8,670**	**$ 10,494**	**$ 26,163**	**$ 2,249**	**$ 53**
Over-the-counter contracts						**$ 25,924**		
Exchange-traded contracts						**$ 239**		

	2002							
			Notional Amounts					
			Term to Maturity					
	Fair Value					Total	Credit	Risk-
	Positive[1]	Net	Under 1 year	One to 5 years	Over 5 years	Notional Amount	Equivalent Amount[2]	Weighted Amount[3]
Interest rate contracts	$ 495	$ (294)	$ 544	$ 7,788	$ 6,401	$ 14,733	$ 630	$ 14
Foreign exchange contracts	198	27	740	981	1,894	3,615	397	13
Equity and other contracts	524	397	2,132	1,943	2,435	6,510	1,223	21
Total	$ 1,217	$ 130	$ 3,416	$ 10,712	$ 10,730	$ 24,858	$ 2,250	$ 48
Over-the-counter contracts						$ 24,192		
Exchange-traded contracts						$ 666		

(1) Used to determine the credit risk exposure if the counterparties were to default. The credit risk exposure is the cost of replacing, at current market rates, all contracts with a positive fair value.

(2) The credit risk exposure plus an amount for potential future credit exposure. Determined in accordance with guidelines provided by the OSFI.

(3) This measure is used to determine the amount of capital necessary to support derivative transactions for certain Canadian regulatory purposes. It is determined in accordance with guidelines provided by the OSFI, and reflects the credit equivalent amount weighted according to the nature of the derivative and the creditworthiness of the counterparty.

Fair values of interest rate swap contracts and foreign exchange swap contracts are determined by discounting expected future cash flows using current market interest and exchange rates for similar instruments. Fair values of options, financial futures, and common stock index swaps are based on the quoted market prices or the value of underlying securities or indices.

10. Other Assets and Goodwill

Other assets consist of the following:

	2003	2002
Accounts receivable	**$ 1,415**	$ 1,433
Investment income due and accrued	**1,153**	1,326
Future income taxes (Note 20)	**977**	1,032
Deferred acquisition costs	**548**	849
Intangible assets	**763**	786
Prepaid expenses	**623**	536
Outstanding premiums	**389**	384
Capital assets	**196**	230
Other	**396**	419
Total other assets	**$ 6,460**	$ 6,995

Amortization of deferred acquisition costs charged to income amounted to $234 in 2003 ($316 and $305 in 2002 and 2001, respectively).

Capital assets are carried at a cost of $601 ($630 in 2002), less accumulated depreciation and amortization of $405 ($400 in 2002). Depreciation and amortization charged to income totalled $67 ($75 and $66 in 2002 and 2001, respectively).

INTANGIBLE ASSETS

In addition to the intangible assets of $763 ($786 in 2002) shown in the table above, intangible assets of $744 ($510 in 2002) for investments accounted for by the equity method are included in other invested assets. Amortization of intangible assets recorded in operating expenses during the year was $24 ($17 in 2002 and $4 in 2001). As at December 31, 2003, the components of the intangible assets included in other invested assets and other assets are as follows:

	2003			2002		
	Gross carrying amount	**Accumulated amortization**	**Net amount**	Gross carrying amount	Accumulated amortization	Net amount
Amortizable intangible assets:						
Sales potential of field force	**$ 400**	**$ 16**	**$ 384**	$ 400	$ 6	$ 394
Asset administration contracts	**201**	**14**	**187**	195	9	186
Banking distribution channel	**36**	**8**	**28**	43	5	38
Other	**3**	**1**	**2**	8	1	7
	640	**39**	**601**	646	21	625
Non-amortizable intangible assets:						
Fund management contracts	**839**	**—**	**839**	601	—	601
Brand name	**54**	**—**	**54**	54	—	54
State licenses	**13**	**—**	**13**	16	—	16
	906	**—**	**906**	671	—	671
Total intangible assets	**$ 1,546**	**$ 39**	**$ 1,507**	$ 1,317	$ 21	$ 1,296

GOODWILL

In addition to the goodwill of $5,573 ($5,969 in 2002) shown on the consolidated balance sheets, goodwill of $396 ($209 in 2002) for investments accounted for by the equity method is included in other invested assets. Goodwill amortization ceased in 2002. The amount charged to net investment income or operating expenses was $9 and $10, respectively, in 2001.

Changes in goodwill of subsidiaries and investments accounted for by the equity method are as follows:

	Canada	**United States**	**Asia**	**Corporate Capital**	**Total**
Balance, January 1, 2002	$ 66	$ 2,016	$ 30	$ 91	$2,203
Acquisitions*	3,815	199	—	—	4,014
Dispositions	(20)	(32)	—	—	(52)

Adjustments (Note 3)	—	30	—	—	30
Effect of changes in currency exchange rates	—	(9)	—	(8)	(17)
Balance, December 31, 2002	3,861	2,204	30	83	6,178
Acquisitions	190	48	—	—	238
Dispositions	(3)	(41)	(1)	—	(45)
Effect of changes in currency exchange rates	—	(402)	—	—	(402)
Balance, December 31, 2003	$ 4,048	$ 1,809	$ 29	$ 83	$5,969

* As restated (Note 3).

11. Actuarial Liabilities and Other Policy Liabilities

A) ACTUARIAL POLICIES

Actuarial liabilities and other policy liabilities represent the estimated amounts which, together with estimated future premiums and net investment income, will provide for outstanding claims, estimated future benefits, policyholders' dividends, taxes (other than income taxes) and expenses on in-force policies.

In calculating actuarial liabilities and other policy liabilities, assumptions must be made about the timing and amount of many events, including death, accident or sickness, investment, inflation, policy termination, expenses, taxes, premiums, commissions and policyholder dividends. The assumptions used by the Company in determining the actuarial liabilities are described in detail later in this note.

The Company uses best estimate assumptions for expected future experience. Uncertainty is inherent in the process, as no one can accurately predict the future. Some assumptions relate to events that are anticipated to occur many years in the future and are likely to require subsequent revision. Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to change or if the actuary is less certain about the underlying best estimate assumption, a correspondingly larger provision is included in the actuarial liabilities.

In determining these provisions, the Company ensures:

- When taken one at a time, each provision is reasonable with respect to the underlying best estimate assumption, and the extent of uncertainty present in making that assumption.
- In total, the cumulative effect of all provisions is reasonable with respect to the total actuarial liabilities.

With the passage of time and resulting reduction in estimation risk, the provisions are released into income. Due to the long-term nature of policy liabilities, the margin for possible deviations generally increases for contingencies further in the future. The best estimate assumptions and margins for adverse deviations are reviewed annually and revisions are made where deemed necessary and prudent.

B) COMPOSITION OF ACTUARIAL LIABILITIES AND OTHER POLICY LIABILITIES

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

	2003					
	Canada	**United States**	**Asia**	**United Kingdom**	**Other Operations[1]**	**Total**
Individual participating life	**$10,735**	**$ 5,235**	**$ 1,015**	**$ 3,689**	**$ 84**	**$20,758**
Individual non-participating life[2]	**1,605**	**3,359**	**—**	**(27)**	**313**	**5,250**
Group life	**1,333**	**116**	**—**	**25**	**—**	**1,474**
Individual annuities	**10,680**	**19,315**	**—**	**3,433**	**—**	**33,428**
Group annuities	**6,181**	**4,397**	**—**	**—**	**—**	**10,578**
Health insurance	**3,131**	**451**	**—**	**—**	**54**	**3,636**
Total actuarial liabilities	**33,665**	**32,873**	**1,015**	**7,120**	**451**	**75,124**
Add: other policy liabilities[3]	**784**	**523**	**72**	**178**	**673**	**2,230**
Actuarial liabilities and other policy liabilities	**$34,449**	**$33,396**	**$ 1,087**	**$ 7,298**	**$ 1,124**	**$77,354**

	2002					
	Canada	United States	Asia	United Kingdom	Other Operations[1]	Total
Individual participating life	$10,241	$ 5,959	$ 1,011	$ 4,131	$ 87	$21,429
Individual non-participating life	1,525	8,507	—	(21)	296	10,307
Group life	1,417	132	—	43	—	1,592
Individual annuities	10,769	21,375	—	3,718	—	35,862
Group annuities	6,441	7,084	—	—	—	13,525
Health insurance	3,375	600	—	395	80	4,450
Total actuarial liabilities	33,768	43,657	1,011	8,266	463	87,165
Add: other policy liabilities[3], [4]	870	551	77	381	868	2,747
Actuarial liabilities and other policy liabilities	$34,638	$44,208	$ 1,088	$ 8,647	$ 1,331	$89,912

(1) Primarily business from the run-off reinsurance operations.
(2) Decrease from 2002 due to the sale of Clarica U.S. in January 2003 (Note 5).
(3) Consists of policy benefits payable, provisions for unreported claims, provisions for policyholder dividends and provisions for experience rating refunds.
(4) As restated (Note 3).

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

C) TOTAL ASSETS SUPPORTING ACTUARIAL LIABILITIES, EQUITY AND OTHER

Bonds and mortgages are used extensively to support actuarial liabilities, particularly in the annuity and group businesses. Stocks and real estate are primarily used to support individual participating life insurance business where the Company has some ability to adjust policyholder dividends. Equity and other includes assets in both insurance and non-insurance operations of the Company. The following tables show the total assets supporting actuarial liabilities, equity and other:

	2003					
	Bonds	**Mortgages**	**Stocks**	**Real Estate**	**Other**	**Total**
Individual participating life	**$12,713**	**$ 3,641**	**$ 2,711**	**$ 2,094**	**$ 4,681**	**$ 25,840**
Individual non-participating life	**4,124**	**870**	**239**	**5**	**1,149**	**6,387**
Group life	**1,672**	**573**	**17**	**21**	**346**	**2,629**
Individual annuities	**28,163**	**4,535**	**58**	**26**	**4,808**	**37,590**
Group annuities	**8,524**	**2,436**	**26**	**118**	**781**	**11,885**
Health insurance	**4,431**	**1,298**	**15**	**16**	**874**	**6,634**
Equity and other	**6,463**	**248**	**407**	**787**	**10,339**	**18,244**
Total assets	**$66,090**	**$13,601**	**$ 3,473**	**$ 3,067**	**$22,978**	**$109,209**

	2002*					
	Bonds	Mortgages	Stocks	Real Estate	Other	Total
Individual participating life	$12,627	$ 4,226	$ 3,378	$ 2,213	$ 4,646	$ 27,090
Individual non-participating life	7,776	1,451	162	12	2,102	11,503
Group life	1,809	643	17	17	274	2,760
Individual annuities	30,002	4,988	130	42	4,828	39,990
Group annuities	10,595	2,845	61	161	1,207	14,869
Health insurance	4,340	1,330	30	24	917	6,641
Equity and other	6,218	316	443	754	12,868	20,599
Total assets	$73,367	$15,799	$ 4,221	$ 3,223	$26,842	$123,452

* As restated (Note 3).

D) CHANGES IN ACTUARIAL LIABILITIES

Changes in actuarial liabilities during the year are as follows:

	2003	2002
Actuarial liabilities, January 1	**$87,165**	$57,858
Change in liabilities on in-force business	**(1,777)**	(3,288)
Liabilities arising from new policies	**3,225**	7,110
Significant changes in assumptions or methodology: (1)		
Gross increases	**313**	—
Gross decreases	**(137)**	—
Increase in actuarial liabilities	**1,624**	3,822
Acquisition	**—**	23,929
Discontinued operations	**—**	643
Changes in intrinsic value of options that hedge the GMDB (2)	**(199)**	224
Increases related to the restructuring of Sun Life Assurance and Clarica (Note 4)	**—**	104
Dispositions and other	**(4,603)**	(18)
Change due to ceding reinsurance agreements	**(465)**	—
Effect of changes in currency exchange rates	**(8,398)**	603
Actuarial liabilities, December 31	**75,124**	87,165
Add: other policy liabilities (3)	**2,230**	2,747

Actuarial liabilities and other policy liabilities, December 31	**$77,354**	$89,912

(1) During the second quarter of 2003, the Company implemented a number of changes to its U.S. actuarial liability calculations. These changes reflect improved modeling capabilities now permitted under the updated Canadian Institute of Actuaries Consolidated Standards of Practice and the impact of lower interest rates on the cost of certain guarantees. The net impact of these changes resulted in an increase to actuarial liabilities of $6 (gross increases of $143 net of gross decreases of $137). The actuarial liability for segregated fund guarantees was increased by approximately $170 in the fourth quarter of 2003 to protect against increased downside risk following the rise in the equity markets.

(2) The changes in intrinsic value of the options that hedge GMDB products are included in the increase in actuarial liabilities in the consolidated statements of operations and other invested assets in the consolidated balance sheets.

(3) As restated (Note 3).

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

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

The fair value of total actuarial liabilities shown in the tables above is $81,513 in 2003 and $93,360 in 2002, as restated. Fair value of actuarial liabilities is determined by reference to the fair value of the assets supporting those liabilities. The fair value of the net deferred income tax asset related to life insurance companies is $(25) in 2003 (carrying value of $426) and $213 in 2002, as restated (carrying value of $840). Fair value of income taxes represents the amount that would be recognized on the balance sheet if the financial instruments were measured at fair value. Deferred net realized gains, which are taken into account in establishing the actuarial liabilities, no longer exist when financial assets and liabilities are measured at fair value.

F) ASSUMPTIONS AND MEASUREMENT UNCERTAINTY

Mortality

Mortality refers to the rate at which death occurs for a defined group of people. Insurance mortality is generally based on the Company's average five-year experience. For annuities, Company experience is combined with industry experience, since the Company's own experience is insufficient to be statistically reliable. Assumed future mortality rates on annuities are adjusted to reflect expected improvements in mortality. Assumed mortality rates for life insurance contracts do not reflect any future improvement which might occur.

For products where higher mortality would be financially adverse to the Company, a 1% increase in the best estimate assumption would decrease the net income by $84. For products where lower mortality would be financially adverse to the Company, a 1% reduction in the mortality assumption would decrease the net income by $30.

Morbidity

Morbidity refers to the rate of accident or sickness, and recovery therefrom, for a defined group of people. Most of the Company's disability insurance is marketed on a group basis. In Canada, the Company offers critical illness policies and long-term care on an individual basis. Medical stop loss insurance is offered on a group basis in the United States. In Canada, group morbidity assumptions are based on the Company's five-year average experience, modified to reflect the trend in recovery rates. For long-term care and critical illness insurance, assumptions are developed in collaboration with our reinsurers and are largely based on their experience. In the United States, Company experience is used for both medical stop loss and disability assumptions, with some consideration for industry experience. Larger provisions for adverse deviation are used for those benefits where Company or industry experience is limited. For products where the morbidity is a significant assumption, a 1% change in that assumption would reduce the net income by $17.

Investment Return

The Company generally maintains distinct asset portfolios for each line of business. To ensure the adequacy of assets backing the liabilities, the Company does cash flow testing using a set of plausible future interest rates and economic environments as well as a set of prescribed scenarios. In each test, asset and liability cash flows are projected. Net cash flows are invested in new assets, if positive, or assets are sold to meet cash needs, in accordance with the assumptions in the test and the standards of the Canadian Institute of Actuaries. Whenever needed, specific assumptions are made for cyclical credit risks that exceed the long-term expectation. Deferred net realized gains are taken into account in establishing the actuarial liabilities.

Asset Default

In addition to the allowances for losses on invested assets outlined in Note 8, the actuarial liabilities include an amount of $2,005 determined on a pre-tax basis ($1,869 in 2002) to provide for possible future asset defaults and loss of asset value. This provision results from a reduction in the expected future investment yield or a reduction in the value of equity assets recognized in the computation of actuarial liabilities. The reduction varies depending on the creditworthiness of the class of asset.

Segregated Fund Guarantees

The Company has a large volume of accumulation annuities primarily in the United States subject to equity market movements. The Company also reinsures the guarantees offered on accumulation annuities issued by other insurance companies in the United States, although the Company no longer accepts new business on these reinsurance treaties. The Company monitors its experience for these guarantees on a monthly basis, and has hedged a large percentage of its exposure with long dated put options against the S&P 500.

The Company has a block of unit linked products in the United Kingdom which offer guaranteed annuity purchase price options. While not segregated fund guarantees, the exposure to the annuity options is dependent on the equity market movements.

The Company used stochastic modelling techniques which test a large number of different scenarios of future market returns to estimate the actuarial liability for the various guarantees offered under these products. The sensitivity of the actuarial liability to changes in expected equity market returns is significant for those blocks of business. For example, a 1% reduction in the expected long-term equity market return assumption would decrease the net income for segregated fund guarantees by $77.

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

Interest Rate

Interest rate risk is the potential for financial loss arising from changes in interest rates. For example, the Company is exposed to this risk when the cash flows from assets and the policy obligations they support are significantly mismatched, as this may result in the need to either sell assets to meet policy payments and expenses, or re-invest excess asset cash flows under unfavourable interest environments.

To manage this risk, a matching policy is established for each portfolio of assets and related liabilities. Asset/liability management programs are in place to implement this policy. The primary approach used is duration gap analysis, which measures the sensitivity of assets and liabilities to interest rate changes across the entire yield curve. Key rate duration analysis is used to examine the duration gap of assets and liabilities at discrete intervals on the yield curve. These gaps are managed within specified tolerance limits.

Interest rate sensitivity is provided for in the actuarial liabilities for all policies, with adequate provisions to absorb moderate changes in interest rates.

For certain product types, including participating insurance and certain forms of universal life policies and annuities, the effect of changes in the interest rate environment will be largely passed through to policyholders as changes to the amount of dividends declared or to the rate of interest credited. These changes occur routinely as interest rates change, and reflect the normal operation of these policies according to their contractual terms.

For the Company's actuarial liabilities, an immediate 1% parallel increase in interest rates at December 31, 2003 across the entire yield curve, assuming the Company was unable to take any investment action to mitigate the impact of this change, would result in an estimated increase in net income of $145. Conversely, an immediate 1% parallel decrease in interest rates, again, assuming no other investment action, would result in an estimated decrease in net income of $252. These sensitivities do not reflect any hedging that has taken place since year-end.

Among the different lines of insurance business, annuities are one of the most sensitive to changes in interest rates. Asset and liability cash flows by year for this business are set out in the table below.

	2003				
	Under 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	Total
CANADA					
Assets	**$ 3,593**	**$ 8,514**	**$ 4,184**	**$ 8,877**	**$ 25,168**
Liabilities	**3,486**	**8,946**	**3,972**	**9,121**	**25,525**
Cash flow gap	**$ 107**	**$ (432)**	**$ 212**	**$ (244)**	**$ (357)**
UNITED STATES					
Assets	**$ 3,758**	**$ 11,712**	**$ 8,601**	**$ 5,113**	**$ 29,184**
Liabilities	**2,849**	**13,751**	**7,294**	**6,537**	**30,431**
Cash flow gap	**$ 909**	**$ (2,039)**	**$ 1,307**	**$ (1,424)**	**$ (1,247)**
UNITED KINGDOM					
Assets	**$ 364**	**$ 970**	**$ 1,309**	**$ 5,031**	**$ 7,674**
Liabilities	**265**	**1,053**	**1,297**	**5,121**	**7,736**
Cash flow gap	**$ 99**	**$ (83)**	**$ 12**	**$ (90)**	**$ (62)**

Policy Termination Rates

Policyholders may allow their policies to terminate prior to the end of the Contractual Coverage period by choosing not to continue to pay premiums or by exercising one of the non-forfeiture options in the contract. Assumptions for termination experience on life insurance are generally based on the Company's average five-year experience. Termination rates vary by plan, age at issue, method of premium payment and policy duration. For universal life contracts, it is also necessary to set assumptions about premium cessation occurring prior to termination of the policy. Studies prepared by industry or actuarial bodies are used for certain products where the Company's experience is too limited to be statistically valid.

For individual life insurance products where fewer terminations would be financially adverse to the Company, net income would be decreased by $56 if the termination rate assumption was reduced by 10% starting in policy year six (5% for participating policies and policies with adjustable premiums). For products where more terminations would be financially adverse to the Company, net income would be decreased by $61 if an extra 1% of the in-force policies were assumed to terminate each year beginning in policy year six (0.5% for participating policies and policies with adjustable premiums).

Operating Expenses and Inflation

Actuarial liabilities provide for future policy-related expenses. These include the costs of premium collection, claims adjudication and processing, actuarial calculations, preparation and mailing of policy statements and related indirect expenses and overhead. Expense assumptions are mainly based upon recent Company experience using an internal expense allocation methodology. The increases assumed in future expenses are consistent with the inflation rate used in the scenario testing under the standards established by the Canadian Institute of Actuaries. The sensitivity of actuarial liabilities to a 10% increase in unit expenses Company-wide would result in a decrease in net income of $238.

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

Provision for Policyholder Dividends

An amount equal to the policyholder dividends expected to be allotted to policyholders over the next twelve months is shown as a provision for policyholder dividends. Actuarial liabilities provide for the payment of future policyholder dividends beyond the next twelve months. Both liabilities are determined taking into account the scale of dividends approved by the Board and the expectation that future dividends will be adjusted to reflect future experience. Policyholder dividends of $753 are included in policyholder dividends and interest on claims and deposits in the consolidated statements of operations ($856 and $737 in 2002 and 2001, respectively).

G) REINSURANCE AGREEMENTS

Reinsurance is used primarily to limit exposure to large losses. The Board approves the Company's individual life insurance retention policy and limits which require that such arrangements be placed with well-established, highly rated reinsurers. Coverage is well diversified and controls are in place to manage exposure to reinsurance counterparties. While reinsurance arrangements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to the policyholders. The effect of reinsurance on premiums and payments to policyholders, beneficiaries and depositors is summarized as follows:

	2003	2002	2001
Premiums:			
Direct premiums	**$13,688**	$15,061	$ 9,722
Reinsurance assumed	**723**	577	169
Reinsurance ceded	**(868)**	(763)	(454)
	$13,543	$14,875	$ 9,437
Payments to policyholders, beneficiaries and depositors:			
Direct payments	**$12,922**	$11,585	$ 6,937
Reinsurance assumed	**809**	511	235
Reinsurance ceded	**(919)**	(408)	(292)
	$12,812	$11,688	$ 6,880

Actuarial liabilities are shown net of ceded reinsurance of $2,528 in 2003 ($1,805 in 2002).

H) ROLE OF THE APPOINTED ACTUARY

The Appointed Actuary is appointed by the Board and is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives.

The Appointed Actuary is required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet dates to meet all obligations to policyholders of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

The Appointed Actuary is required each year to analyze the financial condition of the Company and prepare a report for the Board. The 2003 analysis tested the capital adequacy of the Company until December 31, 2007 under various adverse economic and business conditions. The Appointed Actuary reviews the calculation of the Company's Canadian Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio, which is calculated on its worldwide insurance operations. The MCCSR ratio at December 31, 2003 was well in excess of the minimum requirement. In addition, foreign operations and foreign subsidiaries of the Company must comply with local capital requirements in each of the jurisdictions in which they operate. Furthermore, the Company is required to appropriate retained earnings of $2,406 ($2,246 in 2002). All of these regulatory requirements constrain the Company's ability to distribute its retained earnings.

12. Other Liabilities

Other liabilities consist of the following:

	2003	2002*
Accounts payable	**$ 3,368**	$ 3,248
Bond repurchase agreements	**1,458**	1,570
Accrued expenses and taxes	**1,425**	1,041
Borrowed funds (Note 13)	**123**	306
Future income taxes (Note 20)	**515**	346
Provisions for future policyholder costs	**173**	227
Other	**733**	897

Total other liabilities	**$ 7,795**	$ 7,635

* As restated (Note 3).

The Company enters into bond repurchase agreements for operational funding and liquidity purposes. Bond repurchase agreements have maturities ranging from 2 to 135 days, averaging 35 days, and bearing interest rates averaging 2.67% as at December 31, 2003 (2.82% in 2002). As at December 31, 2003, the Company had assets with a total market value of $1,457 ($1,566 in 2002) pledged as collateral for the bond repurchase agreements.

13. Borrowed Funds

The following obligations are included in borrowed funds:

	Currency of Borrowing	Maturity	2003	2002
Bank credit facilities[1]	U.S. dollars	2005	**$ 39**	$ 237
Encumbrances on real estate	Canadian dollars	2004-2012	**34**	28
	U.S. dollars	2004-2014	**50**	41
Total borrowed funds			**$ 123**	$ 306

(1) At a floating rate, linked to London InterBank Offered Rate.

At December 31, 2003, aggregate maturities of encumbrances on real estate are as follows:

Year	Amount
2004	**$ 13**
2005	**3**
2006	**6**
2007	**15**
2008	**17**
Thereafter	**30**
Total	**$ 84**

At December 31, 2003, bank credit facilities are $39 ($237 in 2002) and the weighted average interest rates related to those borrowings is 1.47% (2.05% in 2002). The U.S. dollar bank credit facility is secured by the future distribution fee stream of the mutual funds under the management of MFS.

At December 31, 2003, the Company had $323 in a line of credit from a financial institution of which $284 was unused. This line of credit has a term of two years.

Interest expense for the borrowed funds was $15, $26 and $30 for 2003, 2002 and 2001 respectively.

14. Subordinated Debt

The following obligations are included in subordinated debt:

	Currency	Interest Rate	Maturity	2003	2002
Subordinated debentures[1]	Canadian dollars	5.80%	2013	**$ 253**	$ 253
Subordinated debentures[2]	Canadian dollars	6.65%	2015	**300**	300
Subordinated debentures[3]	Canadian dollars	6.15%	2022	**799**	799
Subordinated debentures[4]	Canadian dollars	6.30%	2028	**150**	150
Subordinated notes	U.S. dollars	6.63%	2007	**35**	236
Subordinated notes	U.S. dollars	7.25%	2015	**193**	236
Cumulative capital securities[5]	U.S. dollars	8.53%		**774**	948
Total				**$ 2,504**	$ 2,922
Fair value				**$ 2,771**	$ 3,119

(1) After May 15, 2008, interest is payable at 1% over the 90-day Bankers' Acceptance Rate. Redeemable in whole or in part at any time.
(2) After October 12, 2010, interest is payable at 1% over the 90-day Bankers' Acceptance Rate. Redeemable in whole or in part at any time prior to October 12, 2010. On or after October 12, 2010, redeemable in whole on interest payment date.
(3) Issued June 25, 2002. After June 30 2012, interest is payable at 1.54% over the 90-day Bankers' Acceptance Rate. Redeemable in whole or in part at any time.
(4) Redeemable in whole or in part at any time.

(5) On May 6, 1997, Sun Life of Canada (U.S.) Capital Trust I, a Delaware statutory business trust of the Company, issued U.S.$600 of 8.53% cumulative capital securities (Securities). These Securities have no scheduled maturity date. Distributions are payable semi-annually in arrears and are indirectly guaranteed by Sun Life Assurance Company of Canada on a subordinated basis. As at December 31, 2003, the Securities have been reclassified from cumulative capital securities of a subsidiary to subordinated debt on the consolidated balance sheets.

Fair value is based on market prices for the same or similar instruments as appropriate. Interest expense on subordinated debt was $194, $166 and $138 for 2003, 2002 and 2001, respectively.

On September 16, 2003, the Company's wholly-owned subsidiary, Sun Canada Financial Co. notified the holders of its 6.63% U.S. dollar subordinated notes of its offer to redeem the notes prior to the maturity date of December 15, 2007. When the offer expired on September 23, 2003, $165 (81.6% of the originally issued notes) had been redeemed. Redemption premiums of $24 ($14 net of taxes) were recorded in net investment income in 2003.

On January 28, 2002, the Company redeemed $300 principal amount of debentures prior to the maturity date. Redemption premiums of $30, net of taxes of $7, were recorded in 2001.

All of the subordinated debt and cumulative capital securities qualify as capital for Canadian regulatory purposes.

15. Non-controlling Interests in Subsidiaries

Non-controlling interests in the consolidated balance sheets consist of the following:

	2003	2002
SLEECS issued by the Trust	**$ 1,150**	$ 1,150
Preferred shares of Sun Life Assurance Company of Canada [1]	**155**	158
Non-controlling interests in MFS and McLean Budden Limited	**31**	48
Total non-controlling interests in subsidiaries	**$ 1,336**	$ 1,356

(1) These preferred shares were issued by Clarica before amalgamating with Sun Life Assurance.

Non-controlling interests in net income of subsidiaries include the preferred shares dividend payments of $7 ($5 in 2002 and nil in 2001), non-controlling interests in the Trust of $51 ($45 in 2002 and $7 in 2001) and non-controlling interests in MFS and McLean Budden Limited of $7 ($33 in 2002 and $61 in 2001).

On June 25, 2002, the Trust, a controlled trust of Sun Life Assurance Company of Canada, issued $200 of non-voting Sun Life ExchangEable Capital Securities — Series B (SLEECS Series B). Holders of the SLEECS Series B are entitled to receive a semi-annual non-cumulative fixed cash distribution of $35.465 per SLEECS Series B, representing an annual yield of 7.093% of the one thousand dollar initial issue price, payable out of the Trust's net distributable funds. The SLEECS Series B are subject to terms that are similar to those of the prior Sun Life ExchangEable Capital Securities Series A (SLEECS Series A) offering as described below. The proceeds of this offering were used for general corporate purposes, including investments in subsidiaries.

On October 19, 2001, the Trust issued $950 of non-voting SLEECS Series A. Holders of the SLEECS Series A are entitled to receive a semi-annual non-cumulative fixed cash distribution of $34.325 per SLEECS Series A, representing an annual yield of 6.865% of the one thousand dollars initial issue price, payable out of the Trust's net distributable funds. If Sun Life Assurance Company of Canada has not declared dividends on its Class B Non-cumulative Preferred Shares Series A or on any of its preferred shares listed on a stock exchange, cash distributions will not be made on the SLEECS Series A. Subject to regulatory approval, the Trust may redeem the SLEECS Series A at any time after the fifth anniversary of the date of issuance and, in certain limited circumstances, may also redeem the SLEECS Series A during the first five years. The holders of the SLEECS Series A have the right at any time to surrender each one thousand dollars face amount of SLEECS Series A and to receive from the Trust in exchange 40 Class A Non-cumulative Preferred Shares Series Z of Sun Life Assurance Company of Canada, subject to compliance with the Declaration of Trust. Proceeds of issuing the SLEECS Series A were used to finance in part the acquisition of Keyport and IFMG. Both SLEECS Series A and SLEECS Series B qualify as capital for Canadian regulatory purposes.

Pursuant to the Share Exchange Agreement, Sun Life Financial Inc. and Sun Life Assurance Company of Canada agreed that if the Trust fails to pay on any regular distribution date the required cash distributions on the SLEECS in full, Sun Life Assurance Company of Canada will not pay dividends on its public preferred shares.

16. Share Capital and Normal Course Issuer Bid

The authorized share capital of Sun Life Financial Inc. consists of the following:

- An unlimited number of common shares without nominal or par value. Each common share is entitled to one vote at meetings of the shareholders of Sun Life Financial Inc. There are no pre-emptive, redemption, purchase or conversion rights attached to the common shares.
- An unlimited number of Class A and Class B non-voting preferred shares, issuable in series. The Board is authorized to fix before issuing the shares, the number, the consideration per share, the designation of and the rights and restrictions of the Class A and Class B shares of each series, subject to the special rights and restrictions attached to all the Class A and Class B shares.

The changes and the number of shares issued and outstanding are as follows:

	2003		2002		2001	
	Number of shares	**Amount**	Number of shares	Amount	Number of shares	Amount
Common shares (in millions of shares)						
Balance, January 1	**618**	**$ 7,420**	432	$ 1,100	422	$ 795
Common shares issued, net of issuance costs and fair value of stock options granted as consideration for business acquisition (Note 3)	**2**	**63**	185	6,281	—	—
Shares issued for cash	**—**	**—**	—	—	11	330
Stock options exercised (Note 18)	**1**	**28**	1	39	—	—
Commissions and offering costs, net of taxes	**—**	**—**	—	—	—	(23)

Common shares purchased for cancellation	**(18)**	**(222)**	—	—	(1)	(2)
Common shares cancelled for lost policyholders	**(3)**	**—**	—	—	—	—
Balance, December 31	**600**	**$ 7,289**	618	$ 7,420	432	$ 1,100

16. Share Capital and Normal Course Issuer Bid (Cont'd)

On February 12, 2003, the Company announced that the Board of Directors had authorized the purchase of up to 31 million common shares, representing approximately 5% of the common shares issued and outstanding at that time. The purchases are made under a normal course issuer bid in accordance with the rules of The Toronto Stock Exchange (Exchange). The normal course issuer bid covers the period from February 14, 2003 to January 5, 2004, unless the maximum number of common shares is purchased before January 5, 2004. Transactions are executed on the Exchange at the prevailing market price in amounts and times determined by the Company. The Company will make no purchases of common shares other than open-market purchases. The shares purchased as part of the normal course issuer bid are cancelled following purchases. As at December 31, 2003, the Company had purchased approximately 18 million of its common shares at an average price of $28.88 per share for a total amount of $527. Of this amount, purchases of approximately $6 were not cancelled until January, 2004. An additional $5 were subscribed for but not settled at December 31, 2003.

On January 8, 2004, the Company announced that the Board of Directors had authorized the purchase of up to 30 million common shares, representing approximately 5% of the common shares issued and outstanding at that time. The purchases will be made under a renewed normal course issuer bid pursuant to the rules of the Toronto Stock Exchange.

In accordance with the provisions of the Demutualization Plan of Sun Life Assurance Company of Canada and the share capital by-law of Sun Life Financial Inc., unclaimed demutualization benefits issued to eligible policyholders whose addresses were not known to the Company (lost policyholders) were cancelled on February 22, 2003. The unclaimed demutualization benefits that were cancelled on February 22, 2003 include approximately three million common shares of Sun Life Financial Inc. with a nominal share capital, accumulated dividends of approximately $3 and demutualization benefits payable in cash of approximately $10. Under the Demutualization Plan, lost policyholders may claim their cancelled demutualization benefits (including all unpaid dividends on shares) at any time without interest.

On October 4, 2001, Sun Life Financial Inc. issued 11 million common shares at $30.00 per share for $330. Underwriting commissions and offering costs of issuing the common shares amounted to $23 and were deducted from the share capital of Sun Life Financial Inc. Proceeds of issuing the common shares were used to finance in part the acquisition of Keyport and IFMG.

Commencing in May 2001, pursuant to a one-year normal course issuer bid, the Company purchased and cancelled approximately one million of its common shares at an average price of $32.00 per share for a total amount of $35.

17. Earnings Per Share

	2003	2002	2001
BASIC EARNINGS PER SHARE			
Shareholders' net income from continuing operations	**$ 1,309**	$ 1,034	$ 882
Income (loss) from discontinued operations, net of income taxes	**—**	(36)	—
Shareholders' net income	**$ 1,309**	$ 998	$ 882
Shareholders' net income excluding goodwill amortization	**$ 1,309**	$ 998	$ 901 (2)
Weighted average number of shares outstanding (in millions)	**608**	543	424
Basic earnings per share from continuing operations	**$ 2.15**	$ 1.91	$ 2.08
Basic earnings (loss) per share from discontinued operations	**—**	(0.07)	—
Basic earnings per share	**$ 2.15**	$ 1.84	$ 2.08
Basic earnings per share excluding goodwill amortization	**$ 2.15**	$ 1.84	$ 2.13
DILUTED EARNINGS PER SHARE			
Shareholders' net income from continuing operations	**$ 1,309**	$ 1,034	$ 882
Less: Effect of stock options of subsidiaries (1)	**—**	3	5
Shareholders' net income from continuing operations on a diluted basis	**$ 1,309**	$ 1,031	$ 877
Income (loss) from discontinued operations, net of income taxes	**—**	(36)	—
Shareholders' net income on a diluted basis	**$ 1,309**	$ 995	$ 877
Shareholders' net income excluding goodwill amortization on a diluted basis	**$ 1,309**	$ 995	$ 896 (2)
Weighted average number of shares outstanding on a diluted basis (in millions) (1),(4)	**608 (3)**	543 (3)	424
Diluted earnings per share from continuing operations	**$ 2.15**	$ 1.90	$ 2.07

Diluted earnings (loss) per share from discontinued operations	—	(0.07)	—
Diluted earnings per share	**$ 2.15**	$ 1.83	$ 2.07
Diluted earnings per share excluding goodwill amortization	**$ 2.15**	$ 1.83	$ 2.11

(1) The effect of stock options is calculated based on the treasury stock method requirements which assume that unrecognized compensation as well as any proceeds from the exercise of the options would be used to purchase common shares at the average market prices during the period.

(2) Goodwill amortization of $19 for the year ended December 31, 2001 was added back to shareholders' net income for the calculation of basic and diluted earnings per share excluding goodwill amortization.

(3) Clarica stock options have been included in the calculations of the diluted earnings per share for the years ended December 31, 2003 and 2002, as they are exercisable to acquire common shares of Sun Life Financial Inc.

(4) Options to purchase approximately 4 million shares of Sun Life Financial Inc. at the average exercise price of $33.22 per share were outstanding as at December 31, 2003. However, they were not included in the diluted earnings per share calculations, because their exercise prices were greater than the average market price of the common shares.

18. Stock-based Compensation

STOCK OPTION PLANS

Sun Life Financial Inc. granted stock options to certain employees and directors under the Executive Stock Option Plan and the Director Stock Option Plan and to all eligible employees under the Special 2001 Stock Option Award Plan. These options may be exercised at the closing price of the common shares on the Exchange on the trading day preceding the grant date. The options granted under the stock option plans will vest at various times: over a five-year period under the Executive Stock Option Plan, two years after the grant date under the Special 2001 Stock Option Award Plan and over a two-year period or immediately upon death or attainment of the mandatory age for retirement under the Director Stock Option Plan. All options have a maximum exercise period of 10 years. The maximum number of common shares that may be issued under the Executive Stock Option Plan, the Special 2001 Stock Option Award Plan and the Director Stock Option Plan are 29,525,000 shares, 1,150,000 shares and 150,000 shares, respectively. Effective April 2, 2003, further grants under the Sun Life Financial Inc. Director Stock Option Plan were discontinued.

As described in Note 3, all of the Clarica stock options vested immediately prior to the closing date of the acquisition and each unexercised Clarica stock option outstanding on May 29, 2002 became exercisable to acquire common shares of Sun Life Financial Inc. These Clarica stock options are included with those of Sun Life Financial Inc. in the following tables.

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

	2003		2002		2001	
	Number of stock options (thousands)	**Weighted average exercise price**	Number of stock options (thousands)	Weighted average exercise price	Number of stock options (thousands)	Weighted average exercise price
Balance, January 1	**12,421**	**$ 29.84**	5,545	$ 29.87	—	$ —
Granted	**4,778**	**27.70**	4,467	33.16	5,711	29.86
Granted as consideration for business acquisition (Note 3)	**—**	**—**	4,503	24.78	—	—
Exercised	**863**	**23.88**	1,196	22.58	—	—
Forfeited	**1,097**	**31.07**	898	30.82	166	29.60
Balance, December 31	**15,239**	**$ 29.41**	12,421	$ 29.84	5,545	$ 29.87
Exercisable, December 31	**5,291**	**$ 28.69**	4,065	$ 26.37	2	$ 31.00

The stock options outstanding and exercisable as at December 31, 2003, by exercise price, are as follows:

	Options Outstanding			**Options Exercisable**	
Range of exercise prices	**Number of stock options (thousands)**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number of stock options (thousands)**	**Weighted average exercise price**
$19.05 to $25.28	**1,224**	**6.8**	**$ 21.93**	**1,224**	**$ 21.93**
$26.87 to $30.91	**8,872**	**8.2**	**28.47**	**1,976**	**29.15**
$31.00 to $33.53	**5,062**	**8.1**	**32.75**	**2,051**	**32.15**
$36.50 to $38.50	**81**	**7.9**	**36.69**	**40**	**36.70**
	15,239	**8.1**	**$ 29.41**	**5,291**	**$ 28.69**

The weighted average fair values of the stock options, calculated using the Black-Scholes option-pricing model, granted during the year ended December 31, 2003 was $7.61 ($10.62 and $9.66 for 2002 and 2001, respectively). The assumptions for Black-Scholes option pricing model to determine the fair value as at December 31 are as follows:

Weighted-average assumptions	**2003**	2002	2001
Risk-free interest rate	**5.0%**	5.4%	4.2% to 5.4%
Expected volatility	**25.0%**	25.0%	26.0%
Dividend yield	**2.5%**	1.7%	1.5%
Expected life of the option (in years)	**7**	7	7

For the options issued prior to January 1, 2001, no compensation expense was recognized as the option's exercise price was not less than the market price of the underlying stock on the day of grant. When the options are exercised, the proceeds received are credited to common shares.

EMPLOYEE SHARE OWNERSHIP PLAN

The Company matches employees' contributions to the Sun Life Financial Employee Stock Plan (Plan) for eligible employees in Canada who may contribute from 1% to 20% of their base earnings to the Plan. The Company matches 50% of the lower of the employee contributions and 5% of the employee's base earnings to an annual maximum of one thousand five hundred dollars. The Company's contributions vest immediately and are expensed.

18. Stock-based Compensation (Cont'd)

OTHER STOCK-BASED COMPENSATION PLANS

All other stock-based compensation plans use notional units that are valued based on Sun Life Financial Inc.'s common share price on the Toronto Stock Exchange. Any fluctuation in the Sun Life Financial Inc.'s common share price changes the value of the units, which affects the Company's stock-based compensation expense. Upon exercise of these units, payments are made to the employees with a corresponding reduction in the accrued liability. In 2003, an aggregate expense of $9 ($2 and $1 for 2002 and 2001, respectively), was recognized in operating expenses in the consolidated statements of operations for changes in the amount of the Company's liability for these units. Details of these plans are as follows:

Senior Executives' Deferred Share Unit (DSU) Plan: Under the DSU plan, designated executives may elect to receive all or a portion of their annual incentive award (which is expensed for the year awarded in operating expenses in the consolidated statements of operations) in the form of DSUs. Each DSU is equivalent to one common share and earns dividend equivalents in the form of additional DSUs at the same rate as the dividends on common shares. The designated executives must elect to participate in the plan prior to the beginning of the plan year and this election is irrevocable. Awards generally vest immediately, however, participants are not permitted to redeem the DSUs until termination, death or retirement. The value at the time of redemption will be based on the fair market value of the common shares immediately before their conversion. As at December 31, 2003, there were 582,031 units outstanding (344,989 and 194,746 for 2002 and 2001, respectively).

Restricted Share Unit (RSU) Plan: Under the RSU plan, participants are granted units that are equivalent to one common share and have a fair market value of a common share on the date of grant. Plan participants must hold RSUs for 36 months from the date of grant. RSUs earn dividend equivalents in the form of additional RSUs at the same rate as the dividends on common shares. The redemption value is the fair market value of an equal number of common shares. As at December 31, 2003, there were 663,753 RSUs awarded and outstanding (176,379 and nil for 2002 and 2001, respectively).

Performance Share Unit (PSU) Plan: Under the PSU plan, participants are granted units that are the equivalent to one common share and have a fair market value of a common share on the date of grant. Plan participants must hold PSUs for 36 months from the date of grant. PSUs earn dividend equivalents in the form of additional PSUs at the same rate as the dividends on common shares. No PSUs will vest or become payable unless the Company meets its threshold targets with respect to specified performance targets. The plan provides for an enhanced payout if the Company achieves superior levels of performance to motivate participants to achieve a higher return for shareholders.

Payments to participants are based on the number of PSUs earned multiplied by the market value of the common shares at the end of the three-year performance period. As at December 31, 2003 no PSUs were awarded and outstanding.

19. Operating Expenses

Operating expenses consist of the following:

	2003	2002	2001
Compensation costs	**$ 1,510**	$ 1,684	$ 1,528
Premises and equipment costs	**287**	299	264
Restructuring and other related charges (Note 4)	**128**	158	—
Capital asset depreciation and amortization (Note 10)	**67**	76	66
Goodwill amortization (Note 10)	**—**	—	10
Other[1]	**1,096**	605	628
Impact of discontinued operations	**—**	(43)	—
Total operating expenses	**$ 3,088**	$ 2,779	$ 2,496

(1) Other for 2003 includes a $338 pre-tax provision for MFS regulatory issues and other actions.

20. Income Taxes

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

	2003	2002	2001
CONTINUING OPERATIONS			
Canadian income tax expense (benefit):			
Current	**$ 61**	$ 116	$ 23
Future	**222**	(72)	113
Total	**283**	44	136
Foreign income tax expense (benefit):			
Current	**235**	69	236
Future	**(131)**	(15)	(66)
Total	**104**	54	170
Income tax expense related to continuing operations	**387**	98	306
DISCONTINUED OPERATIONS			
Foreign income tax expense (benefit):			
Current	**—**	(1)	—
Future	**—**	11	—
Total	**—**	10	—
Income tax expense related to discontinued operations	**—**	10	—
Total income taxes	**$ 387**	$ 108	$ 306

The after tax undistributed earnings of most non-Canadian subsidiaries would be taxed only upon their repatriation to Canada. The Company recognizes a future tax liability, if any, on these undistributed earnings to the extent that management expects they will be repatriated in the foreseeable future. As repatriation of such earnings is not currently planned, the Company has not recognized the future tax liability. If the undistributed earnings of all non-Canadian subsidiaries were repatriated, additional taxes that would be payable are estimated to be $67 as at December 31, 2003 ($56 and $33 in 2002 and 2001, respectively).

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

	2003		2002		2001	
		%		%		%
Net income from continuing operations	**$ 1,308**		$ 1,033		$ 881	
Add: Income taxes	**387**		98		306	
Non-controlling interests in net income of subsidiaries	**65**		83		68	
Net income from continuing operations before income taxes and non-controlling interests in net income of subsidiaries	**$ 1,760**		$ 1,214		$ 1,255	
Taxes at the combined Canadian federal and provincial statutory income tax rate	**$ 607**	**34.5**	$ 456	37.6	$ 520	41.4
Increase (decrease) in rate resulting from:						
Higher (lower) effective rates on income subject to taxation in foreign jurisdictions	**(134)**	**(7.6)**	(183)	(15.1)	(193)	(15.4)
Tax (benefit) cost of unrecognized losses	**(37)**	**(2.1)**	(103)	(8.5)	(23)	(1.8)
Tax exempt investment income	**(91)**	**(5.1)**	(107)	(8.8)	(39)	(3.1)
Capital taxes	**11**	**0.6**	8	0.7	6	0.5
Changes to statutory income tax rates	**29**	**1.6**	(2)	(0.2)	6	0.5
Other	**2**	**0.1**	29	2.4	29	2.3
Company's effective worldwide income taxes	**$ 387**	**22.0**	$ 98	8.1	$ 306	24.4

20. Income Taxes (Cont'd)

The Company has accumulated tax losses, primarily in the United Kingdom, totaling $2,530 ($3,282 in 2002). The benefit of these tax losses has been recognized to the extent that they are more likely than not to be realized in the amount of $320 ($581 in 2002, as restated) in future income taxes. The Company will realize this benefit in future years through a reduction in current income taxes as and when the losses are utilized. These tax losses are subject to examination by various tax authorities and could be reduced as a result of the adjustments to tax returns. Furthermore, legislative, business or other changes may limit the Company's ability to utilize these losses.

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

	2003		2002	
	Assets	**Liabilities**	Assets	Liabilities*
Investments	**$ 182**	**$ 613**	$ 229	$ 629
Actuarial liabilities	**54**	**(78)**	(68)	(196)
Deferred acquisition costs	**324**	**(9)**	300	24
Losses available for carry forward	**506**	**(117)**	702	(165)
Other	**214**	**106**	153	54
	1,280	**515**	1,316	346
Valuation allowance	**(303)**	**—**	(284)	—
Total	**$ 977**	**$ 515**	$ 1,032	$ 346

* As restated (Note 3).

Future income taxes are the result of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The sources of these temporary differences and the recognized tax effects for continuing operations in the consolidated statements of operations are as follows:

	2003	2002	2001
Investments	**$ (65)**	$ (128)	$ 273
Actuarial liabilities	**113**	454	(188)
Deferred acquisition costs	**(144)**	(128)	(166)
Losses (incurred) utilized	**148**	(268)	158
Other	**39**	(17)	(30)
Future income tax expense (benefit) related to continuing operations	**$ 91**	$ (87)	$ 47

21. Commitments, Guarantees and Contingencies

LEASE COMMITMENTS

The Company leases offices and certain equipment. These are operating leases with rents charged to operations in the year to which they relate. Total future rental payments for the remainder of these leases are as follows:

	2004	**2005**	**2006**	**2007**	**2008**	**thereafter**
Future rental payments	**$ 120**	**$ 107**	**$ 93**	**$ 80**	**$ 46**	**$ 164**

CONTRACTUAL COMMITMENTS

In the normal course of business, various contractual commitments are outstanding which are not reflected in the consolidated financial statements. At December 31, 2003, there were outstanding contractual commitments as follows:

	Expires in 30 days	**Expires in 31 to 366 days**	**Expires in 2005 or later**	**Total**
Contractual commitments	**$ 151**	**$ 1,006**	**$ 543**	**$ 1,700**

The majority of these commitments are to extend credit under commercial and residential mortgage loans and private placements.

LETTERS OF CREDIT

The Company issues commercial letters of credit in the normal course of business. At December 31, 2003, letters of credit in the amount of $514 have been issued.

REINSURANCE MATTERS

Certain of the arrangements in the Company's run-off reinsurance operations are subject to litigation or arbitration. In particular, the Company has been engaged in arbitration proceedings in the United States and England with certain of the companies that have contracts to provide reinsurance to the Company. Those companies are disputing their obligation to provide retrocession cover to the Company under their respective contracts of reinsurance. In late 2003, the Company initiated arbitration proceedings against two such companies including its largest retrocessionaire. The Unicover dispute that was discussed in Note 26 of the 2002 annual report has been largely resolved, other than in respect of recovery from some of the Company's retrocessionaires who are disputing coverage.

The liabilities of the Company under these arrangements are subject to measurement uncertainty, but they are not expected to have a material adverse effect on the consolidated financial position of the Company.

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

INDEMNITIES

In the normal course of its business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, trademark licensing agreements, underwriting and agency agreements, information technology agreements, distribution agreements and service agreements. These indemnification agreements may require the Company to compensate the counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations (including tax matters) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The Company has also agreed to indemnify its directors and certain of its officers and employees in accordance with the Company's by-laws. The indemnification provisions in these agreements may require the Company to compensate the counterparties to the agreements for damages, losses and costs they incur in connection with the agreements. These indemnification provisions will vary based upon the nature and terms of the agreements. In many cases, these indemnification provisions do not contain limits on the Company's liability and the occurrence of contingent events that will trigger payment under these indemnities is difficult to predict. As a result, the Company cannot estimate its maximum potential liability under these indemnities. The Company believes that the likelihood of conditions arising that would trigger these indemnities is remote and, historically, the Company has not made any significant payment under such indemnification provisions.

In certain cases, the Company has recourse against third parties with respect to the aforesaid indemnities and the Company also maintains insurance policies that may provide coverage against certain of these claims.

LEGAL AND REGULATORY PROCEEDINGS

On February 5, 2004, MFS reached settlements with U.S. federal and state regulators related to administrative proceedings against MFS alleging false and misleading information in certain MFS fund prospectuses regarding market timing and related issues. Under the terms of the settlements, MFS neither admitted nor denied wrongdoing. As part of the settlement with the United States Securities and Exchange Commission (SEC), MFS agreed to pay US$225 to compensate certain fund shareholders, of which US$50 is a penalty and agreed with the New Hampshire Bureau of Securities Regulation to pay an administrative fine in the amount of US$1. The Company recorded a $211 after-tax charge to income in the fourth quarter of 2003 in connection with the matters discussed above. MFS further agreed with the Attorney General of the State of New York to reduce fees on the funds it advises by approximately US$25 annually over the next five years.

The Company and MFS, along with certain MFS funds and trustees who serve on the Board of Trustees of these MFS funds, have been named as defendants in purported class action lawsuits filed in the United States since December 2003 seeking damages of unspecified amounts. The lawsuits were purportedly filed on behalf of people who purchased, owned and/or redeemed shares of MFS funds during specified periods. The suits allege that certain defendants permitted market timing and late trading in the MFS funds which allegedly caused financial injury to the funds' shareholders. All of these lawsuits seek an unspecified amount of damages. The defendants are reviewing the allegations and will respond appropriately. Additional lawsuits based upon similar allegations may be filed in the future. Although it is expected that the payments required under the terms of the settlement with the regulators will largely mitigate any damages payable under the class action lawsuits initiated in respect of these matters, the Company cannot predict the outcome of these actions with certainty and is accordingly unable to determine the total potential impact that they may have on the Company's results of operations, financial position and cash flows.

In November 2003, the SEC and Morgan Stanley DW, Inc. (Morgan Stanley) settled an enforcement action against Morgan Stanley relating to the undisclosed receipt of fees from certain mutual fund companies in return for preferred marketing of their funds. MFS was one of the 14 fund companies reported to be on Morgan Stanley's preferred list. As a result, MFS has been under investigation by the SEC relating to its directed brokerage and revenue-sharing arrangements with various distributors of its products, including Morgan Stanley. MFS is cooperating with the SEC's investigation, which is ongoing. In addition, certain of the Company's subsidiaries have received requests for information from the SEC and other regulators in connection with enquiries into directed brokerage and revenue-sharing arrangements and are responding to these requests. The outcome of these investigations is not yet determinable and may result in sanctions, compensation payments or other financial penalties.

Further details regarding MFS and related issues are provided in the Business Development, Financial Overview and MFS Investment Management sections of the 2003 Management's Discussion and Analysis.

PROVISIONS IN THE UNITED KINGDOM

Sun Life Financial's United Kingdom operations continue to be subject to regulatory overview in the United Kingdom, including reviews of past business sold, and the Company has regularly engaged in discussions with United Kingdom regulators with respect to these and other matters.

Sun Life Financial's past business sold includes a variety of endowment products in the United Kingdom. Endowment policies are sometimes sold to provide customers with a method of repaying mortgage debt at the end of a mortgage term. There can be no assurance that United Kingdom regulators will not, in the future, require providers of endowment products to bear some or all of the additional costs required to ensure that such policies meet their target mortgage debts.

At December 31, 2003, the Company had provisions of $130 ($242 in 2002) for future compensation payments and related expenses relating to all reviews of past business sold.

22. Pension Plans and Other Post-Retirement Benefits

The Company sponsors non-contributory defined benefit pension plans for eligible employees, primarily in Canada, the United States, the United Kingdom and the Philippines. The defined benefit pension plans offer benefits based on length of service and final average earnings and certain plans offer some indexation of benefits. The specific features of these plans vary in accordance with the employee group and countries in which

employees are located. In addition, the Company maintains supplementary non-contributory pension arrangements for eligible employees, primarily for benefits which do not qualify for funding under the various registered pension plans.

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

The Company has also established defined contribution pension plans for eligible qualifying employees. Generally, the Company contributions are a set percentage of employees' annual income and matched against employee contributions. The total contribution made by the Company to such plans was $35 in 2003, $42 in 2002 and $38 in 2001.

In addition to the Company's pension plans, in some countries the Company provides certain post-retirement medical, dental and life insurance benefits to eligible qualifying employees, and to their dependents upon meeting certain requirements. Eligible retirees may be required to pay a portion of the premiums for these benefits and, in general, deductible amounts and co-insurance percentages apply to benefit payments. A significant portion of the Company's employees may become eligible for these benefits upon retirement. These post-retirement benefits are not pre-funded.

The following tables set forth the status of these plans.

	Pension		Post-Retirement	
	2003	2002	**2003**	2002
Change in benefit obligation:				
Benefit obligation, January 1	**$ 1,981**	$ 1,436	**$ 269**	$ 186
Change in January 1 balance due to:				
acquisitions and disposals	**(21)**	436	**(8)**	102
change in measurement date[1]	**(3)**	—	**—**	—
Service cost	**52**	80	**8**	8
Interest cost	**112**	106	**17**	15
Actuarial losses (gains)	**150**	(63)	**26**	(21)
Benefits paid	**(95)**	(81)	**(10)**	(8)
Curtailments, settlements and plan amendments	**2**	10	**—**	(12)
Effect of changes in currency exchange rates	**(125)**	57	**(11)**	(1)
Benefit obligation, December 31	**$ 2,053**	$ 1,981	**$ 291**	$ 269
Change in plan assets:				
Fair value of plan assets, January 1	**$ 2,044**	$ 1,710	**$ —**	$ —
Change in January 1 balance due to:				
acquisitions and disposals	**(20)**	446	**—**	—
change in measurement date[1]	**(18)**	—	**—**	—
Net actual return on plan assets	**253**	(85)	**—**	—
Employer contributions	**27**	11	**10**	8
Benefits paid	**(95)**	(81)	**(10)**	(8)
Effect of changes in currency exchange rates	**(114)**	43	**—**	—
Fair value of plan assets, December 31	**$ 2,077**	$ 2,044	**$ —**	$ —
Net funded status, December 31	**$ 24**	$ 63	**$ (291)**	$ (269)
Unamortized net actuarial loss (gain)	**371**	357	**39**	20
Unamortized past service cost	**13**	14	**(4)**	(5)
Unamortized transition obligation (asset)	**(152)**	(184)	**(12)**	(13)
Contributions (transfers), October 1 to December 31	**(1)**	—	**1**	—
Prepaid (accrued) benefit asset (liability), December 31	**$ 255**	$ 250	**$ (267)**	$ (267)
Pension Plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	**$ 1,408**	$ 1,410		
Plan assets	**$ 1,173**	$ 1,196		
Weighted-average assumptions as at December 31:				
Discount rate	**6.0%**	6.4%	**6.2%**	6.7%
Expected long-term rate of return on plan assets	**7.2%**	7.5%	**—**	—
Rate of compensation increase	**3.9%**	3.9%	**—**	—

	Pension[2]			Post-Retirement[2],[3]		
	2003	2002	2001	**2003**	2002	2001
Components of net periodic benefit cost:						
Service cost, curtailments and settlements	**$ 54**	$ 91	$ 42	**$ 8**	$ 1	$ 4

Interest cost	**112**	106	85	**17**	15	11
Expected return on plan assets	**(154)**	(152)	(134)	**—**	—	—
Amortization of actuarial losses (gains)	**15**	3	(2)	**1**	1	1
Amortization of transition obligation (asset)	**(20)**	(21)	(21)	**(2)**	(2)	(1)
Amortization of past service cost and other	**3**	—	(9)	**—**	—	—
Net periodic benefit cost (income)	**$ 10**	$ 27	$ (39)	**$ 24**	$ 15	$ 15

(1) The measurement date for most of the defined benefit plans in the United States changed to September 30 in 2003.

(2) The assumed discount rates, the expected long-term rates of return on plan assets and the rates of increase in future compensation used in determining the actuarial present value of the projected benefit obligations vary according to the economic conditions of the countries in which the pension plans are situated.

(3) The assumed medical cost trend rate used in measuring the accumulated post-retirement benefits obligation in Canada in 2003 was 7.5%, decreasing by 0.5% each year until 2006, after which it remains at 6%. In the United States in 2003, the assumed rate was 10%, decreasing evenly to 5.5% by 2009, and remaining at that level thereafter. The assumed dental cost trend rate is 5.5% in Canada and 5.2% in 2003, decreasing to 5.1% in 2004 and to 5% in 2005 and thereafter in the United States.

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

Health care cost calculations are based on trend rate assumptions which may differ from actual results. Changes in trend rate assumptions by 1% in either direction will change the health care cost as follows:

	1%	
	Increase	**Decrease**
Effect on post-retirement benefit obligations	$ 43	$ (37)
Effect on aggregated service and interest costs	$ 4	$ (4)

23. Summary of Material Differences Between Accounting Principles Generally Accepted in Canada and in the United States

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada (Cdn. GAAP), including the accounting requirements of the OSFI. These accounting principles differ in certain material respects from accounting principles generally accepted in the United States (U.S. GAAP). The differing basis of accounting changes the incidence of profit recognition over the life of an insurance contract. Regardless of the accounting basis chosen, the total profit of an insurance contract will not change. The financial statement impact and a description of the material differences follow.

A) Reconciliation of selected Cdn. GAAP financial statement information to U.S. GAAP:

i) Consolidated statements of operations:

	2003		2002		2001	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP*	Cdn. GAAP	U.S. GAAP
REVENUE						
Premiums	**$13,543**	**$ 7,229**	$14,875	$ 6,531	$ 9,437	$ 4,860
Net investment income	**5,703**	**5,758**	5,131	4,448	4,162	3,274
Net realized gains (losses)	**—**	**373**	—	(44)	—	379
Fee income	**2,810**	**3,053**	3,095	3,258	3,216	3,206
	22,056	**16,413**	23,101	14,193	16,815	11,719
POLICY BENEFITS AND EXPENSES						
Payments to policyholders, beneficiaries and depositors	**13,356**	**9,159**	13,017	7,966	9,486	5,581
Increase in actuarial liabilities	**1,624**	**1,109**	3,822	1,377	1,697	1,000
Acquisition expense amortization	**234**	**613**	316	950	305	698
Other expenses	**5,082**	**4,015**	4,732	3,654	4,072	3,285
	20,296	**14,896**	21,887	13,947	15,560	10,564
OPERATING INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	**1,760**	**1,517**	1,214	246	1,255	1,155
Income taxes expense (benefit)	**387**	**307**	98	(250)	306	291
Non-controlling interests in net income of subsidiaries	**65**	**65**	83	83	68	68
NET OPERATING INCOME FROM CONTINUING OPERATIONS	**1,308**	**1,145**	1,033	413	881	796
Discontinued operations:						
Gain (loss) on sale of Clarica U.S.	**—**	**—**	(48)	(58)	—	—
Net operating income of Clarica U.S.	**—**	**—**	12	22	—	—
	—	**—**	(36)	(36)	—	—
TOTAL NET INCOME	**1,308**	**1,145**	997	377	881	796
Less:						
Participating policyholders' net income (loss)	**(1)**	**—**	(1)	—	(1)	—
SHAREHOLDERS' NET INCOME	**$ 1,309**	**$ 1,145**	$ 998	$ 377	$ 882	$ 796
Basic earnings per share from continuing operations	**$ 2.15**	**$ 1.88**	$ 1.91	$ 0.76	$ 2.08	$ 1.88
Basic earnings per share	**$ 2.15**	**$ 1.88**	$ 1.84	$ 0.69	$ 2.08	$ 1.88
Diluted earnings per share from continuing operations	**$ 2.15**	**$ 1.88**	$ 1.90	$ 0.76	$ 2.07	$ 1.87

Diluted earnings per share	**$ 2.15**	**$ 1.88**	$ 1.83	$ 0.69	$ 2.07	$ 1.87

* As restated.

ii) Comprehensive income:

U.S. GAAP includes the concept of comprehensive income. Comprehensive income is a measure of changes in the equity of the Company during the year. It includes both net income and other comprehensive income. Other comprehensive income includes the movement in the foreign currency translation account, unrealized gains and losses on available for sale securities as well as the income tax impact arising there from, changes to deferred acquisition costs and other liabilities.

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

ii) Comprehensive income (Cont'd.):

	2003	2002	2001
Other comprehensive income:			
Foreign currency translation account movement for the year*	**$ (1,688)**	$ 127	$ 331
Unrealized gains and losses movement for the year			
Unrealized gains and (losses) on available for sale bonds	**921**	2,644	(66)
Unrealized gains and (losses) on available for sale stocks and segregated fund units	**386**	(364)	(202)
Less: reclassification adjustment for gains (losses) included in net income	**(711)**	(54)	115
	596	2,226	(153)
Changes to deferred acquisition costs and other liabilities	**(328)**	(709)	(22)
Other	**(226)**	57	(9)
Additional minimum pension liability	**(22)**	(50)	—
Income taxes	**(83)**	(493)	22
	(63)	1,031	(162)
Total other comprehensive income (loss)	**(1,751)**	1,158	169
Total net income based on U.S. GAAP	**1,145**	377	796
Shareholders' comprehensive income (loss)	**$ (606)**	$ 1,535	$ 965

* Shown as part of consolidated statements of equity under Cdn. GAAP.

iii) Consolidated balance sheets:

	2003		2002	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP*	U.S. GAAP*
ASSETS				
Bonds	**$ 66,090**		$ 73,367	
Bonds — available for sale (amortized cost: 2003 - $58,987; 2002 - $67,203)		**$ 62,465**		$ 70,952
Bonds — trading		**4,341**		4,518
Mortgages and corporate loans	**13,601**	**16,656**	15,799	17,809
Stocks	**3,473**		4,221	
Stocks — available for sale (amortized cost: 2003 - $1,681; 2002 - $1,862)		**1,884**		1,693
Stocks — trading		**1,218**		1,411
Real estate, net of accumulated depreciation (amortized cost: 2003 - $329; 2002 - $362)	**3,067**	**2,188**	3,223	2,362
Policy loans	**3,003**	**3,003**	3,390	3,390
Cash and cash equivalents	**3,178**	**3,178**	4,156	4,156
Short-term securities[1]	**1,794**	**1,794**	2,996	2,996
Other invested assets	**2,970**	**2,956**	3,336	3,260
Total invested assets	**97,176**	**99,683**	110,488	112,547
Deferred acquisition costs	**548**	**5,580**	849	6,234
Future income taxes[2]	**977**	**261**	1,032	400
Goodwill	**5,573**	**4,626**	5,969	4,916
Other assets	**4,935**	**9,600**	5,114	9,592
Segregated funds assets[3]		**54,488**		53,152
Total consolidated assets	**$109,209**	**$174,238**	$123,452	$186,841
Segregated funds net assets[3]	**$ 54,086**		$ 52,755	
LIABILITIES AND EQUITY				
Actuarial liabilities	**$ 75,124**	**$ 47,148**	$ 87,165	$ 49,634
Contract holder deposits		**37,784**		46,666

Other policy liabilities	**2,230**	**2,652**	2,747	2,718
Amounts on deposit	**3,120**	**3,110**	3,262	3,242
Future income taxes[2]	**515**	**1,100**	346	1,261
Deferred net realized gains	**3,124**		3,456	
Other liabilities	**7,280**	**8,547**	7,289	8,903
Total consolidated liabilities	**91,393**	**100,341**	104,265	112,424
Subordinated debt	**2,504**	**2,535**	2,922	2,962
Non-controlling interests in subsidiaries	**1,336**	**1,336**	1,356	1,356
Segregated funds liabilities[3]		**54,077**		52,753
Equity	**13,976**	**15,949**	14,909	17,346
Total consolidated liabilities and equity	**$109,209**	**$174,238**	$123,452	$186,841
Segregated funds contract liabilities[3]	**$ 54,086**		$ 52,755	

(1) U.S. GAAP terminology is short-term investments.
(2) U.S. GAAP terminology is deferred income tax.
(3) U.S. GAAP terminology is separate accounts.
* As restated.

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

iv) Consolidated statements of equity:

	2003		2002	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP
PARTICIPATING POLICYHOLDERS' CAPITAL ACCOUNT:				
Balance, January 1	**$ 73**	**$ —**	$ 77	$ —
Balance of participating policyholders' account of Clarica at date of acquisition	**—**	**—**	(3)	—
Net income (loss) as a stock company for participating policyholders	**(1)**	**—**	(1)	—
Balance, December 31	**72**	**—**	73	—
SHAREHOLDERS' EQUITY:				
PAID IN CAPITAL				
Balance, January 1	**7,477**	**13,740**	1,100	7,352
Common shares issued, net of issuance costs, as consideration for business acquisition[1]	**63**	**63**	6,281	6,281
Fair value of stock options granted as consideration for business acquisition [2]	**—**	**—**	48	48
New common shares issued for cash [1]	**—**	**—**	—	—
Stock options exercised[3]	**21**	**21**	27	27
Commissions and offering costs, net of taxes [1]	**—**	**—**	—	—
Common shares purchased for cancellation [1]	**(222)**	**(403)**	—	—
Stock option compensation[2]	**26**	**27**	21	23
Subsidiary equity transaction	**—**	**38**	—	9
Balance, December 31	**7,365**	**13,486**	7,477	13,740
RETAINED EARNINGS				
Balance, January 1	**6,621**	**1,488**	5,917	1,408
Net income for the period attributed to shareholders	**1,309**	**1,145**	998	377
Balance of participating policyholders' account of Clarica at date of acquisition	**—**	**—**	—	(3)
Dividends on common shares	**(413)**	**(413)**	(294)	(294)
Common shares purchased for cancellation	**(305)**	**(124)**	—	—
Balance, December 31	**7,212**	**2,096**	6,621	1,488
CURRENCY TRANSLATION ACCOUNT				
Balance, January 1	**738**	**855**	631	728
Changes for the period	**(1,411)**	**(1,688)**	107	127
Balance, December 31	**(673)**	**(833)**	738	855
UNREALIZED GAINS AND LOSSES				
Balance, January 1	**—**	**1,263**	—	232
Changes for the period	**—**	**(63)**	—	1,031
Balance, December 31	**—**	**1,200**	—	1,263
Total equity	**$13,976**	**$15,949**	$14,909	$17,346

(1) Shown as share capital under Cdn. GAAP.
(2) Shown as contributed surplus under Cdn. GAAP.
(3) Shown as share capital and contributed surplus under Cdn. GAAP.

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

v) Effect of material differences between Cdn. GAAP and U.S. GAAP net income:

For the material differences between Cdn. GAAP and U.S. GAAP net income listed below, please refer to the following section for a description of the differences in accounting policies.

	2003	2002	2001
Total net income in accordance with Cdn. GAAP	**$ 1,308**	$ 997	$ 881
Adjustments related to:			
Investments			
Bonds	**274**	224	33
Stocks and segregated fund units	**(14)**	(691)	(553)
Derivative instruments	**453**	(22)	18
Real estate	**(83)**	(24)	(9)
Total investments	**630**	(513)	(511)
Deferred acquisition costs			
Deferred acquisition costs — deferred	**860**	881	585
Deferred acquisition costs — amortization and interest	**(440)**	(634)	(393)
Total deferred acquisition costs	**420**	247	192
Actuarial liabilities & other policyholder revenues and expenses			
Premium and fees revenue	**(5,786)**	(7,863)	(4,228)
Payments to policyholders, beneficiaries and depositors	**4,197**	5,051	3,905
Actuarial liabilities	**515**	2,445	697
Total actuarial liabilities & other policyholder revenues and expenses	**(1,074)**	(367)	374
Other	**(219)**	(305)	(155)
Income tax effect of above adjustments	**80**	348	15
Redemption premiums	**—**	(30)	—
Total net income in accordance with U.S. GAAP	**$ 1,145**	$ 377	$ 796

B) The following describes the material accounting policy differences between Cdn. GAAP and U.S. GAAP applicable to the Company:

For a complete description of Cdn. GAAP accounting and actuarial policies, please refer to Notes 1 and 11, respectively.

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

Real estate	Real estate held for investment is originally recorded at cost. The carrying value is adjusted towards the fair value at 3% of the difference between fair value and carrying value per quarter. Realized gains and losses on sales are deferred and amortized into net investment income at the rate of 3% of the unamortized balance each quarter. The Company records a write-down for any other than temporary decline in the value of the entire real estate portfolio.	Real estate held for investment is carried at depreciated cost. Realized gains and losses on sales are reflected in income immediately. Other than temporary declines in value of specific properties results in a write-down charged to income.

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

	Cdn. GAAP	U.S. GAAP
Derivatives	Most of the Company's derivatives are accounted for as either fixed term portfolio investments or equity portfolio investments. Fixed-term portfolio investment accounting reports investments at amortized cost. Equity portfolio investments are carried at a value calculated using a moving average market method. Realized gains and losses on the derivatives are deferred and amortized into net investment income.	Derivative instruments are carried at their fair values. Changes in fair values of derivatives that are not hedges are recorded in income as they arise. For fair value hedges, the gain and loss on the derivative as well as the related gain and loss on the hedged item is recognized in income. For the cash flow hedges, the effective portion of the changes in the fair value of the derivatives is recorded in other comprehensive income and the ineffective portion is recognized in income.
	Certain derivative instruments are classified as hedges and either accounted for using hedge accounting or fair value accounting. Under hedge accounting, the accounting for the derivative follows the underlying asset or liability that is being hedged. Under fair value accounting, the derivative instrument is recorded at fair value on the balance sheet with increases or decreases recorded to net investment income.	If an option within an insurance contract has economic characteristics that are different from that of the insurance contract and the option meets the definition of a derivative instrument, the option is known as an embedded derivative. The embedded derivatives are separately accounted for as stand-alone derivatives and carried at fair values with the changes in fair value recorded in income.
Deferred acquisition costs	Deferred acquisition costs arising on mutual fund sales are amortized over the periods of the related sales charges, which range from three to seven years. Costs of acquiring new insurance and annuity business, primarily commissions, underwriting, issue expenses and agency expenses, are implicitly recognized in actuarial liabilities for most of the policies.	Acquisition costs are deferred and recorded as an asset. Amortization of such costs is dependent on the product to which the costs relate. For participating life insurance contracts, except for participating policies in the United Kingdom, amortization is based on a constant percentage of gross margin. For universal life and investment-type contracts, amortization is based on a constant percentage of gross profit. For other non-participating products, including term, group and disability insurance, as well as participating policies in the United Kingdom, amortization is based on a constant percentage of premium. In cases where amortization is based on gross profit or margin, and available for sale bonds or stocks are used to support the underlying contract liability or actuarial reserve, a portion of the unrealized gains and losses balance is removed from equity and netted against the deferred acquisition cost balance.

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

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

	Cdn. GAAP	U.S. GAAP
Premium revenue, fee income, maturities and surrenders, and interest on claims and deposits	Premiums for universal life and other investment-type contracts are recorded as revenue, and a liability for future policy benefits is established as a charge to income. Interest accrued on contracts is shown as an increase in actuarial liabilities. Payments to contract holders upon maturity are reflected as an expense with an offsetting reduction to the increase in actuarial liabilities.	Amounts received for universal life and investment-type contracts are not included in the income statement but are reported as deposits to contract holder account balances. Revenues from these contracts are limited to amounts assessed against policyholders' account balances for mortality, policy administration and surrender charges, and are included in fee income when earned. Interest accrued on contracts is included in interest on claims and deposits. Payments upon maturity or surrender are reflected as reductions to the contract holder deposits on the balance sheet. Other payments in excess of the account value, such as death claims, are reflected as an expense.
Minimum pension liability	There is no requirement to record the additional minimum pension liability.	For a defined benefit pension plan, an additional minimum pension liability is required to be recognized if an unfunded Accumulated Benefit Obligation (ABO) exists and a prepaid asset or an accrued benefit liability is recorded for an amount less than the unfunded ABO. That is, the additional minimum liability is calculated by reference to the excess of the ABO, which is a smaller obligation than the Projected Benefit Obligation (PBO) since it does not recognize projected future compensation increases, over the fair value of plan assets. If an additional minimum liability is required to be recognized for a defined benefit pension plan, an intangible asset is recorded up to the amount of any unamortized past service cost, or unamortized transitional obligation and any remaining excess is recorded as part of other comprehensive income. The additional minimum liability is recorded as an accrued pension liability.
Redemption of subordinated debts	Redemption premiums are recorded once an obligation to redeem the principal amount of capital debentures is incurred.	Redemption premiums are recorded when the principal amount of the capital debentures are redeemed.
Future income tax asset and liability (1)	Future income tax liabilities and assets are recognized based on the differences between the accounting values of assets and liabilities and their related tax bases using income tax rates of enacted or substantially enacted tax law.	Future income tax liabilities and assets are recorded based on income tax rates of currently enacted tax law. Differences in the provisions for income taxes arise from differing accounting policies for assets and liabilities and differences in the recognition of tax rate changes are disclosed in part C (vi) of this Note.

Segregated funds[2]	Assets and liabilities of segregated funds are shown separately from general assets and liabilities of the Company. The Company's investment in segregated funds is included in other invested assets.	Assets and liabilities are called separate accounts and are required to be included within the financial statements of the Company. Any excess of the separate account assets over separate account liabilities primarily represents the Company's investment in segregated funds.

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

C) Additional information required to be reported under U.S. GAAP:

i) Realized gains (losses) from sales and redemptions included in the net realized gains for available for sale securities:

	2003	2002	2001
Bonds:			
Gross realized gains	**$ 618**	$ 475	$ 225
Gross realized losses	**$ (266)**	$ (530)	$ (17)
Stocks:			
Gross realized gains	**$ 27**	$ 268	$ 226
Gross realized losses	**$ (91)**	$ (416)	$ (181)

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

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

	2003	2002	2001
Bonds	**$ 54**	$ 82	$ (7)
Stocks	**$ 113**	$ (525)	$ (359)

iii) Real estate: The depreciation expense included in the U.S. GAAP other expenses is as follows:

	2003	2002	2001
Depreciation expense	**$ 37**	$ 61	$ 39

iv) Derivatives: The Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) on January 1, 2001. The cumulative effect of adopting SFAS 133 did not have a material impact on the Company's consolidated results of operations, financial position or cash flows. At the initial adoption of SFAS 133, the Company recorded total cumulative gains of $8 in income to recognize the fair value of all derivatives that were fair value hedges prior to the adoption of the standard. The Company also recorded cumulative losses of $9 in income to recognize the difference between the carrying and fair values of the related hedged assets and liabilities. Additionally, the Company recorded a cumulative loss of $2, net of taxes, in accumulated other comprehensive income (OCI) to recognize the fair value of the derivatives that were cash flow hedges prior to the adoption of SFAS 133.

When the Company enters into a derivative contract, management decides if the derivative is designated as a hedge of the identified exposure under SFAS 133. With the exception noted below, hedge accounting is not pursued under SFAS 133 for most derivative instruments and the derivative is recorded at fair value with changes in its fair value reported in income. As at December 31, 2003, the Company designated certain interest rate swaps as cash flow hedges of the interest rate risk related to a floating-rate loan. For the period ended December 31, 2003, the change in the fair value of the cash flow hedges was $3 after taxes ($4 in 2002) and there was no ineffectiveness from the hedges. The Company does not expect to reclassify any amounts from OCI to income during the next twelve months ($4 in 2002).

A few embedded derivatives were identified in the investments and insurance products.

v) Stock-based compensation: The intrinsic value method of accounting was used to account for stock options that were granted in 2001 under Cdn. and U.S. GAAP. In 2002, the Company changed its accounting policy for stock options granted to employees from the intrinsic value method to the fair value method effective January 1, 2002 on a prospective basis. Had the fair value method been used for the options granted in 2001, the net income for the year ended December 31, 2003 would have been reduced by $6 ($15 in 2002, $17 in 2001), and both basic and diluted earnings per share reduced by $0.01 ($0.03 in 2002, $0.04 in 2001) per share.

vi) Future income tax asset and liability[(1)]: Differences between Cdn. GAAP and U.S. GAAP that arise from differing accounting policies for assets and liabilities and differences in the recognition of tax rate changes are as follows:

	2003			
	Future income tax asset[(1)]		**Future income tax liability[(1)]**	
	Cdn. GAAP	**U.S. GAAP**	**Cdn. GAAP**	**U.S. GAAP**
Investments	**$ 182**	**$ (205)**	**$ 613**	**$ 1,860**
Actuarial liabilities	**54**	**773**	**(78)**	**(1,954)**
Deferred acquisition costs	**324**	**(524)**	**(9)**	**675**
Losses available for carry forward	**506**	**40**	**(117)**	**(601)**
Other	**214**	**177**	**106**	**753**
Future tax asset/liability before valuation allowance	**1,280**	**261**	**515**	**733**
Valuation allowance	**(303)**	**—**	**—**	**367**
Total	**$ 977**	**$ 261**	**$ 515**	**$ 1,100**

	2002			
	Future income tax asset[(1)]		Future income tax liability[(1)]	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP*	U.S. GAAP*

Investments	$ 229	$ (280)	$ 629	$ 1,514
Actuarial liabilities	(68)	939	(196)	(1,738)
Deferred acquisition costs	300	(332)	24	908
Losses available for carry forward	702	13	(165)	(833)
Other	153	74	54	1,095
Future tax asset/liability before valuation allowance	1,316	414	346	946
Valuation allowance	(284)	(14)	—	315
Total	$ 1,032	$ 400	$ 346	$ 1,261

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

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

vii) Acquisitions of Clarica, Keyport and IFMG: The Company acquired all of the outstanding common shares of Clarica that were not beneficially owned by the Company effective May 29, 2002 and acquired 100% of the outstanding common shares of Keyport and IFMG effective October 31, 2001 as described in Note 3. The following amounts of the assets, liabilities and goodwill at the dates of acquisition under Cdn. and U.S. GAAP are different due to the different accounting policies used for the two standards.

	Clarica		Keyport/IFMG	
	Cdn. GAAP*	U.S. GAAP*	Cdn. GAAP	U.S. GAAP
Invested assets acquired	$ 31,637	$31,641	$22,479	$24,168
Other assets acquired(1)	2,672	5,374	1,436	1,104
Segregated funds assets acquired	—	11,204	—	3,944
	34,309	48,219	23,915	29,216
Actuarial liabilities and other policy liabilities acquired	24,835	16,849	22,656	—
Amounts on deposit acquired	1,277	1,235	—	—
Contract holder deposits acquired	—	10,235	—	21,518
Other liabilities acquired	5,059	5,353	493	2,223
Segregated funds liabilities acquired	—	11,193	—	3,902
	31,171	44,865	23,149	27,643
Net balance sheet assets acquired	$ 3,138	$ 3,354	$ 766	$ 1,573
Considerations given:				
Common shares issued or exchanged	$ 6,284	$ 6,284	$ —	$ —
Carrying value of investments in acquiree's shares	540	540	—	—
Fair value of outstanding Clarica stock options	48	48	—	—
Transaction and other related costs	57	57	—	—
Cash cost of acquisition	—	—	2,744	2,744
	$ 6,929	$ 6,929	$ 2,744	$ 2,744
Goodwill on acquisition	$ 3,791	$ 3,575	$ 1,978	$ 1,171

(1) Other assets acquired included value of business acquired of $2,368 under U.S. GAAP.
* As restated.

In 2002, adjustments were made to the purchase price allocations of Keyport and IFMG. This resulted in an increase in other assets, contract holder deposits and other liabilities of $75, $21 and $14, respectively, and a decrease in other invested assets and goodwill of $20 and $20, respectively, under U.S. GAAP.

In the second quarter of 2003, the Company reviewed the fair value calculations for certain non-marketable securities and the reserves for the run-off reinsurance related to the acquisition of Clarica. For the non-marketable securities, it was identified that the fair value was overstated. For the run-off reinsurance reserves, a provision for adverse deviations had been omitted. As at December 31, 2002, the combined impact of these error corrections was to restate actuarial and other policy liabilities and goodwill upwards by $50 and $70, respectively. Bonds and other liabilities were restated downwards by $56 and $36, respectively.

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

viii) Earnings per share:

	2003		2002		2001	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP*	Cdn. GAAP	U.S. GAAP
Basic earnings per share						
Shareholders' net income from continuing operations	**$ 1,309**	**$ 1,145**	$ 1,034	$ 413	$ 882	$ 796
Income (loss) from discontinued operations, net of income taxes	**—**	**—**	(36)	(36)	—	—
Shareholders' net income	**$ 1,309**	**$ 1,145**	$ 998	$ 377	$ 882	$ 796
Shareholders' net income excluding goodwill amortization	**$ 1,309**	**$ 1,145**	$ 998	$ 377	$ 901(1)	$ 815(1)
Weighted average number of shares outstanding (in millions)	**608**	**608**	543	543	424	424
Basic earnings per share from continuing operations	**$ 2.15**	**$ 1.88**	$ 1.91	$ 0.76	$ 2.08	$ 1.88
Basic earnings (loss) per share from discontinued operations	**—**	**—**	(0.07)	(0.07)	—	—
Basic earnings per share	**$ 2.15**	**$ 1.88**	$ 1.84	$ 0.69	$ 2.08	$ 1.88
Basic earnings per share excluding goodwill amortization	**$ 2.15**	**$ 1.88**	$ 1.84	$ 0.69	$ 2.13	$ 1.92
Diluted earnings per share						
Shareholders' net income from continuing operations	**$ 1,309**	**$ 1,145**	$ 1,034	$ 413	$ 882	$ 796
Less: Effect of stock options of subsidiaries	**—**	**—**	3	3	5	5
Shareholders' net income from continuing operations on a diluted basis	**$ 1,309**	**$ 1,145**	$ 1,031	$ 410	$ 877	$ 791
Income (loss) from discontinued operations, net of income taxes	**—**	**—**	(36)	(36)	—	—
Shareholders' net income on a diluted basis	**$ 1,309**	**$ 1,145**	$ 995	$ 374	$ 877	$ 791
Shareholders' net income excluding goodwill amortization on a diluted basis	**$ 1,309**	**$ 1,145**	$ 995	$ 374	$ 896(1)	$ 810(1)
Weighted average number of shares outstanding on a diluted basis (in millions)	**608**	**608**	543	543	424	424
Diluted earnings per share from continuing operations	**$ 2.15**	**$ 1.88**	$ 1.90	$ 0.76	$ 2.07	$ 1.87
Diluted earnings (loss) per share from discontinued operations	**—**	**—**	(0.07)	(0.07)	—	—
Diluted earnings per share	**$ 2.15**	**$ 1.88**	$ 1.83	$ 0.69	$ 2.07	$ 1.87
Diluted earnings per share excluding goodwill amortization	**$ 2.15**	**$ 1.88**	$ 1.83	$ 0.69	$ 2.11	$ 1.91

(1) Goodwill amortization of $19 for 2001, respectively was added back to shareholders' net income for the calculation of basic and diluted earnings per share excluding goodwill amortization.

* As restated.

ix) Statements of cash flows: Under Cdn. GAAP, deposits, maturities and withdrawals related to investment-type contracts and universal life contracts are included in operating activities. Under U.S. GAAP, deposits, maturities and withdrawals are reflected as financing activities; these cash flow items are as follows:

	2003	2002	2001
Deposits and withdrawals reclassified to financing activities:			
Deposits to policyholders' accounts	**$ 6,102**	$13,327	$ 4,276

Withdrawals from policyholders' accounts	**$ 6,363**	$ 6,680	$ 4,724

x) Pension plans and other post-retirement benefits: In December 2003, the FASB issued a revision to Statement of Financial Accounting Standards No. 132, Employers' Disclosures about Pensions and Other Post retirement Benefits (SFAS 132(R)). The revised statement requires disclosure of certain information about defined benefit pension and other post-retirement benefit plans that are not currently required under Canadian GAAP. Under the transitional provisions of SFAS 132(R), these additional U.S. GAAP disclosure requirements only apply to domestic plans for 2003.

The additional U.S. GAAP disclosures for the Company's Canadian domestic plans are summarized below.

1) Composition of fair value of plan assets and Accumulated Benefit Obligation, December 31:

	2003	2002
Equities	**56.3%**	52.4%
Debt / fixed income	**40.0%**	42.6%
Real Estate	**1.9%**	2.5%
Other	**1.8%**	2.5%
Total composition of fair value of plan assets	**100%**	100%
Accumulated Benefit Obligation	**$ 1,000**	$ 875

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

2) Target allocation of plan assets, December 31:

	2003	2002
Equities	**54.3%**	54.2%
Debt / fixed income	**45.6%**	45.6%
Other	**0.1%**	0.2%
Total	**100%**	100%

The investments of the Canadian pension plans are primarily held in segregated funds of the Company and are managed within the provisions of the plans' Statements of Investment Policies and Procedures. Diversification of the investments is used to minimize credit, market, and foreign currency risks. Due to the long-term nature of the pension obligations and related cash flows, asset mix decisions include the considerations of differences in the interest rate sensitivity of the plans' assets. The long-term investment objectives of the plans are to exceed the real rate of investment return assumed in the actuarial valuation of plan liabilities. Over shorter periods, the objective of the plans is to exceed the average market returns of a well-diversified portfolio. Portfolio liquidity is managed with consideration to the cash flow requirements of the liabilities.

The allowable investment types of the plans include guaranteed funds, annuities, as well as pooled and non-pooled variable accumulation funds of the Company in addition to any other investment vehicle approved by the Plan Sponsor which is eligible under pension regulations. The policy statement for each fund or manager mandate either prohibits, or permits, within specified constraints, the use of derivative instruments such as options and futures. The use of derivative instruments is limited to unleveraged substitution strategies. The assets of the plans shall not be invested in securities of a related party or lent to any related party unless such securities are publicly traded and selected by the Company or its agents acting independently on behalf of all that manager's discretionary accounts or pooled funds having mandates similar to that of the domestic pension plans.

3) Expected contributions for the next 12 months:

Pension	$ 15
Post-Retirement	7
Total	$ 22

4) Weighted average assumptions for the Company's domestic and foreign plans:

	Pensions		Post-Retirement	
	To measure benefit obligation as of the plans measurement date[1]	To measure the net benefit costs or income for the period	To measure benefit obligation as of the plans measurement date[1]	To measure the net benefit costs or income for the period
Discount rate	6.0%	6.4%	6.2%	6.7%
Expected long-term rate of return on plan assets [2]	7.2%	7.5%	—	—
Rate of Compensation increase	3.9%	3.9%	—	—

(1) The measurement date for most of the plans is December 31.

(2) Based on Management's best estimate of the weighted-average returns for the target allocation at plan assets. The assumption for the expected long-term rate of return on plan assets is based on a review of the historical asset return performance of the plan assets, the historical returns of the market indices on which the plan assets' performance is based, and management's best estimate of the weighted-average long-term expected rate of returns for the target allocation of plan assets.

xi) Emerging Issues Task Force (EITF) 03-01 — The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments: In November 2003, the FASB's EITF reached a consensus requiring disclosures, for debt and marketable equity securities classified as available-for-sale or held-to-maturity under FASB statements 115 and 124 that are impaired at the balance sheet date, but for which an other-than-temporary impairment has not been recognized.

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2003.

	Less than 12 months	**12 months or more**	**Total**

Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities	$ 6,050	$ (140)	$ 1,139	$ (114)	$ 7,189	$ (254)
Common stock	138	(8)	38	(6)	176	(14)
Total temporarily impaired securities	$ 6,188	$ (148)	$ 1,177	$ (120)	$ 7,365	$ (268)

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

Available for sale debt securities have generally been identified as temporarily impaired if their amortized cost as at December 31, 2003 was greater than their fair value, resulting in an unrealized loss. Unrealized gains and losses in respect of investments designated as trading have been included in net income and have been excluded from the above table.

Unrealized losses are largely due to interest rate fluctuations and/or depressed fair values in sectors which have experienced unusually strong negative market reactions. In connection with the Company's asset liability management practices, and based on a review of these investment holdings, it is believed that the contractual terms of these debt securities will be met.

A total of 685 debt security positions (63 common stock positions) were in a unrealized loss position at December 31, 2003 of which 528 (46 common stock positions) were in a continuous loss position for less than 12 months and 157 positions for more than 12 months (17 common stock positions).

xii) U.S. generally accepted accounting standard not yet adopted by the Company:

Variable Interest Entities: On January 17, 2003, the FASB issued Financial Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, for those entities defined as VIEs and more commonly referred to as special purpose entities, in which equity investors do not have the characteristics of a "controlling financial interest" or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 requires that all entities be designated as either voting interest entities or variable interest entities. VIEs are subject to consolidation by the Primary Beneficiary which is defined as the party who has exposure to the majority of a VIE's expected losses and/or expected residual returns as defined in FIN 46. On December 24, 2003, the FASB issued a revision to Interpretation No. 46 (FIN 46R) to clarify some of the provisions of FIN 46, and to exempt certain entities from its requirements. FIN 46R will be effective for the Company's annual statements commencing January 1, 2004.

The following is a summary of the estimated impact of FIN 46R for the major categories of VIEs that the Company is involved with. The Company continues to assess the impact of FIN 46R on its VIEs as further guidance is provided by the FASB.

Sun Life ExchangEable Capital Securities:
As described in Note 15, the Trust has issued SLEECS of $1,150 to third party investors. The Company has issued a debenture of $1,200 to the Trust and holds an investment of $2 in Special Trust Securities in the Trust. The Company currently consolidates the Trust, however, under FIN 46R, the Company would not consolidate the Trust as it would be a VIE and the Company would not likely be its Primary Beneficiary. As a result, the Company would deconsolidate $1,150 of non-controlling interest in subsidiaries and record the $1,200 debenture payable in other liabilities and increase equity by $7 and other assets by $57 on the consolidated balance sheets.

Other Variable Interest Entities:
The Company is involved with certain trust structures that invest in corporate bonds and total return swaps. On evaluation of these trusts structures, the Company was identified as the Primary Beneficiary and would therefore be required to consolidate these trusts once FIN 46R becomes effective. As a result, the Company would consolidate additional general fund assets of $71, general fund liabilities of $81, and record an after-tax loss of $10. The Company is also involved with other entities and/or structures such as investment vehicles, securitized financial assets and private equity investments that could be regarded as VIEs, and therefore subject to an assessment for consolidation under the provisions of FIN 46R. The Company continues to assess these structures in light of the new guidance but does not expect there to be material impact on the consolidated financial statements.

Statement of Position 03-1 — Accounting and Reporting by Insurance Enterprises for certain Nontraditional Long-duration Contracts and for Separate Accounts: In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued SOP 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" (SOP 03-1). The SOP provides guidance on accounting and reporting by insurance enterprises for certain non-traditional long-duration contracts and for separate accounts. Specific guidance is provided on separate account presentation, interest in separate accounts, gains and losses on the transfer between general and separate accounts, liability valuation, returns based on contractually referenced pools of assets or index, accounting for contracts that contain death or other insurance benefit features, accounting for reinsurance and other similar contracts, accounting for annuitization benefits, and sales inducements to contract holders.

The SOP will be effective for the Company's annual statements commencing January 1, 2004. The impact of adopting SOP 03-1 on the consolidated financial statements is not yet estimable.

FASB Derivative Implementation Group SFAS No. 133 Implementation Issue No. 36 — "Embedded Derivatives: Bifurcation of a Debt Instrument that Incorporates Both Interest Rate Risk and Credit Rate Risk Exposures that are Unrelated or Only Partially Related to the Creditworthiness of the Issuer of that Instrument" (DIG B36): In April 2003, the FASB's Derivative Implementation Group (DIG) released DIG B36, which addresses whether SFAS 133 requires bifurcation of a debt instrument into a debt host contract and an embedded derivative if the debt instrument incorporates both interest rate risk and credit risk exposures that are unrelated or only partially related to the creditworthiness of the issuer of that instrument. Under DIG B36, embedded derivatives contained in certain reinsurance agreements, such as modified coinsurance and coinsurance with funds withheld reinsurance agreements, as well as other types of receivables and payables where interest is determined with reference to a pool of fixed maturity assets, or a total return debt index, are required to be bifurcated from the host contract. DIG B36 will be effective for the Company's annual financial statements commencing January 1, 2004.

The Company has identified that certain of its reinsurance agreements contain embedded derivatives that will require bifurcation. The impact of bifurcating the embedded derivatives on the consolidated financial statements is not yet estimable.

24. Comparative Figures

Certain comparative figures have been restated to conform with the presentation adopted in 2003.

Appointed Actuary's Report

THE SHAREHOLDERS AND DIRECTORS
OF SUN LIFE FINANCIAL INC.

I have valued the policy liabilities of Sun Life Financial Inc. for its consolidated balance sheets at December 31, 2003 and 2002 and their change in the consolidated statements of operations for the years then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.



Robert W. Wilson
Fellow, Canadian Institute of Actuaries

Toronto, Canada
February 12, 2004

Auditors' Report

THE SHAREHOLDERS
OF SUN LIFE FINANCIAL INC.

We have audited the consolidated balance sheets of Sun Life Financial Inc. and the separate consolidated statements of segregated funds net assets as at December 31, 2003 and 2002, and the consolidated statements of operations, equity, cash flows and changes in segregated funds net assets for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds as at December 31, 2003 and 2002 and the results of the Company's operations, its cash flows and the changes in its segregated funds net assets for each of the years in the three-year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.



Deloitte & Touche LLP
Chartered Accountants

Toronto, Canada
February 12, 2004

EXHIBIT 2



Sun Life Financial Inc.

Management's Discussion and Analysis

For the Year Ended December 31, 2003

February 17, 2004

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Unless otherwise indicated, all information in this Management's Discussion and Analysis (MD&A) is presented as at and for the year ended December 31, 2003 and amounts are expressed in Canadian dollars. Where information at and for the year ended December 31, 2003 is not available, information available for the latest period before December 31, 2003 is used. Competitive statistics included in this document do not include the impact of mergers and acquisitions closing after December 31, 2003. Financial information, except where otherwise noted, is presented in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements of the Office of the Superintendent of Financial Institutions. Further information is available from Sun Life Financial Inc.'s Annual Information Form (AIF) for the year ended December 31, 2003, which has been filed with applicable securities regulators in Canada and may be accessed at www.sedar.com and has also been filed with the Securities and Exchange Commission in the United States.

Forward-looking Statements

Some of the statements contained or incorporated by reference in this MD&A, including those relating to Sun Life Financial's strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" or similar expressions, are forward-looking statements within the meaning of securities laws. Forward looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sun Life Financial as set forth under "Enterprise, Mission, Vision, Strategies and Imperatives", "Overview of Business", "Financial Performance Overview", "Sun Life Financial Canada", "Sun Life Financial United States", "MFS Investment Management", "Sun Life Financial Asia", "Sun Life Financial United Kingdom", "Corporate Capital", "Investments" and "Financial Position and Liquidity". These statements are not historical facts but instead represent only Sun Life Financial's expectations, estimates and projections regarding future events.

The forward-looking statements contained or incorporated by reference in this MD&A are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. The future results and stockholder value of Sun Life Financial may differ materially from those expressed in the forward looking statements contained or incorporated by reference in this MD&A due to, among other factors, the matters set forth under "Risk Factors" contained in Sun Life Financial's AIF filed with Canadian and U.S. securities regulators and the factors detailed in Sun Life Financial's other filings with Canadian and/or U.S. securities regulators, including the factors detailed in Sun Life Financial's annual and interim financial statements and the notes thereto. Sun Life Financial does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events, except as required by law.

Financial Highlights

(in millions of Canadian dollars, except earnings and dividends per share)	2003	2002[1]	2001
Shareholders' Net Income			
- Operating[2]	**1,520**	1,260	872
- Reported	**1,309**	998	882
Basic Earnings per Share (EPS)			
- Operating[2]	**2.50**	2.32	2.06
- Reported	**2.15**	1.84	2.08
Return on Shareholders' Equity (ROE)			
- Operating[2]	**10.6%**	10.7%	12.7%
- Reported	**9.2%**	8.5%	12.8%
Dividends Per Common Share	**0.68**	0.56	0.48
Fee Income	**2,810**	3,095	3,216
Total Revenue	**22,056**	23,101	16,815
Premiums, Deposits and Fund Sales			
Premium Revenue	**13,543**	14,875	9,437
Segregated Fund Deposits	**5,968**	6,642	5,851
Mutual Fund Sales	**26,970**	31,668	39,466
Managed Fund Sales	**25,202**	29,683	31,953
Total Premiums, Deposits and Fund Sales	**71,683**	82,868	86,707
Assets Under Management *(at December 31)*			
General Fund Assets[3]	**109,209**	123,452	80,328
Segregated Fund Net Assets	**54,086**	52,755	48,544
Other Assets Under Management	**195,729**	184,407	222,875
Total Assets Under Management[3]	**359,024**	360,614	351,747
Capital *(at December 31)*			
Subordinated Debt	**2,504**	2,922	1,730
Sun Life ExchangEable Capital Securities (SLEECS)	**1,150**	1,150	950
Preferred Shares	**155**	158	—
Total Equity	**13,976**	14,909	7,725
Total Capital	**17,785**	19,139	10,405
MCCSR Ratio[4] *(at December 31)*	**238%**	222%	184%

Quarterly Information

	2003[1]				2002[1]			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Shareholders' Net Income								
- Operating[2]	**417**	**394**	**366**	**343**	361	350	293	256
- Reported	**206**	**394**	**366**	**343**	310	361	71	256
Basic earnings per Share								
- Operating[2]	**0.69**	**0.65**	**0.60**	**0.56**	0.58	0.57	0.59	0.59
- Reported	**0.34**	**0.65**	**0.60**	**0.56**	0.50	0.58	0.14	0.59
Total Revenue	**5,437**	**5,282**	**5,579**	**5,758**	6,028	5,803	5,832	5,438
Total Assets Under Management[3]	**359,024**	**348,481**	**342,176**	**336,803**	360,614	347,002	368,664	356,896

(1) Includes the results of Clarica Life Insurance Company (Clarica) from the date of acquisition May 29, 2002.

(2) Excludes special items as described on page 13. Operating earnings, operating earnings per share and operating ROE are non-GAAP measures and have no standardized definition under GAAP. These measures are presented to facilitate comparison to prior year earnings and may not be comparable to similar measures presented by other issuers. Financial results not specifically referred to as "operating" have been determined in accordance with GAAP.

(3) Amounts for 2002 and for the quarters Q2 2002, Q3 2002 and Q4 2002 have been restated.

(4) Represents the MCCSR ratio of the Company's principal operating subsidiary, Sun Life Assurance Company of Canada.

Ratings[5] (as at December 31, 2003)

A.M. Best	A++[6]
Moody's	Aa2
Standard & Poor's	AA+[6]

(5) Represents financial strength ratings for Sun Life Assurance Company of Canada.

(6) With negative outlook.

Enterprise Mission, Vision, Strategies and Imperatives

Sun Life Financial Inc. (together with its consolidated subsidiaries, the "Company" or "Sun Life Financial") is a leading international financial services organization providing a diverse range of wealth accumulation and protection products and services to individual and corporate customers.

The international financial services industry continues to undergo significant evolution driven by:

- Ongoing industry consolidation and convergence
- Changing consumer needs arising from shifting demographic characteristics
- Maturing of certain markets
- Political, economic and regulatory uncertainties
- Advances in technology

Sun Life Financial has developed a clear vision and business strategies supported by an established international operating platform and strong financial capability, positioning it to be a strong competitor in this environment. The Company operates under a business model that strives to provide scale operations in diversified markets of strategic importance. It also balances the higher growth prospects of wealth management with the stability of protection earnings. Furthermore, the Company's operations in wealth management and protection are complementary and form an integrated product platform to provide one-stop financial solutions for customers. A summary of the Company's mission, vision, strategies, strategic imperatives, accomplishments and priorities is provided below.

MISSION
To provide lifetime financial security

VISION
To be an international leader in wealth management and protection

STRATEGY

The Company's strategy is derived from its belief that the creation of shareholder value in its business is fundamentally driven by scale, diversification and operational excellence.

- Focus on markets where effective scale and scope can be built and sustained
- Balance the stable performance of protection with the strong growth prospects of wealth management
- Maintain a highly efficient and cost-effective business platform characterized by operational excellence

STRATEGIC IMPERATIVES

Value Building Growth	Capital Management	Risk Management	People Management and Development	Operational Effectiveness
Growth in earnings, EPS and embedded value generated through both organic growth and selected acquisitions	Enhance capital efficiency and improve returns on capital employed	Optimize risk-adjusted returns through the application of leading edge risk management techniques	Leverage the highly skilled employee base through continuing skill development and enhancement and performance measurement	Continuous improvement of business operations through increasing quality, shorter cycle times and improved productivity

2003 ACCOMPLISHMENTS

- Successful integration of Clarica generating value, building growth and enhancing operational effectiveness
- Proactively managed capital through share repurchases, increased dividend payments, sale of U.K. group business and early redemption of subordinated debt
- Addressed challenging interest rate conditions in the U.S. market by application of risk management techniques and through product repricing and restructuring
- Obtained regulatory approval to begin preparation of life insurance operations in Beijing, China
- The Company's operations in Asia generated significant growth with earnings up 54 per cent and sales in India up 174 per cent
- Named as one of the top 100 employers in Canada
- Ranked 3rd in 2003 Globe and Mail Report on Business study of corporate governance practices

2004 PRIORITIES

- Leverage strong Canadian market position by enhancing product offerings and capitalizing on the strength of the distribution channels
- Strengthen U.S. position by focusing on operational efficiency and scale through improved distribution productivity, integrating support services across business units and potential strategic transactions
- Address issues arising from U.S. regulatory investigations into the investment management industry
- Continuously pursue operational excellence by improving support services and related infrastructure across all operations
- Successfully launch life insurance operations in Beijing
- Continue to effectively manage capital through a share repurchase program, dividend payment policy, product repricing and restructuring, and optimization of corporate structures
- Continue to develop employee capabilities and apply appropriate performance measurement techniques

Business Developments

The following significant developments occurred in 2003.

CORPORATE DEVELOPMENT

Increase in Ownership Stake in CI Fund Management Inc.

In March 2003, the Company increased its economic interest in CI Fund Management Inc. (CI), a major Canadian mutual fund manager, from 31.7 per cent to 34 per cent by issuing two million of its common shares in exchange for approximately five million common shares of CI. This additional investment furthered the Company's strategic objective of achieving leadership positions in key target markets in North America.

In the fourth quarter, CI acquired Synergy Asset Management Inc. which closed October 6, 2003, and the Canadian operations of Assante Corporation which closed November 14, 2003. CI acquired Synergy and Assante for a combination of cash and common shares of CI. Sun Life Financial supported these transactions and maintained its 34 per cent ownership interest in CI by acquiring an additional 21 million common shares of CI for $266 million in cash.

The growth in assets and distribution capability through these transactions will solidify CI's position as a top tier Canadian fund company and allow it to take advantage of economies of scale to the benefit of CI shareholders.

Sale of Clarica's U.S. Operations

Clarica U.S., Inc. (Clarica U.S.) was acquired as part of the Company's acquisition of Clarica Life Insurance Company (Clarica) on May 29, 2002. After a review of Clarica U.S. operations, the Company concluded that it was not a strategic fit for the Company's U.S. operations and sold Clarica U.S. to Midland National Life Insurance Company on January 7, 2003.

Sale of U.K. Group Business

The Company sold its U.K. group insurance business to Unum Limited, a U.K. subsidiary of UnumProvident Corporation on February 28, 2003 as part of its efforts to realize the underlying value of its U.K. operations. Under the sale agreements, Unum Limited acquired the renewal rights to the group life business. For the Company's U.K. group income protection business, the business was fully reinsured with Unum Limited effective February 28, 2003 and formally transferred under a Court Scheme effective July 1, 2003. The sale of these operations was consistent with the Company's focus on businesses that can maintain or achieve competitive scale or scope.

OTHER BUSINESS INITIATIVES

Clarica Integration

By the end of 2003, the Company substantially completed the integration of Clarica into its existing operations. The integration work was completed on target and represents the culmination of almost two years of focused effort and management resources. The Company's Canadian operations are now positioned to continue realizing the benefits of synergy savings and operational efficiencies gained from common business platforms and integrated distribution networks as well as to compete effectively in a consolidating market place.

Beijing Expansion

The Company's joint venture in China received regulatory approval to begin preparation for life insurance operations in Beijing, China. The expansion into China's capital city complements an existing operation in Tianjin and positions the Company as a major player in northern China. The Company views this as a significant milestone for the joint venture. China, the world's largest emerging market, is a key building block for the Company's long-term growth plans in Asia.

Amalgamation of Keyport and Sun Life (U.S.)

Effective December 31, 2003, the Company amalgamated its U.S. subsidiaries, Keyport Life Insurance Company (Keyport) and Sun Life Assurance Company of Canada (U.S.) (Sun Life (U.S.)). The amalgamation will simplify the Company's corporate structure in the United States with a view to streamlining operations, achieving operational expense savings and optimizing the use of capital.

GOVERNANCE

Corporate Governance

The Company believes that transparency of financial and other key information is critically important to establish and maintain the confidence of its

stakeholders in the Company's operating integrity and financial strength. In 2003, the Company established a Disclosure Committee which will play a key role in ensuring the quality of stakeholder information.

During 2003, the Company implemented a number of measures in response to stakeholder needs and an evolving corporate governance environment:

- Separated the roles of Chairman of the Board of Directors and Chief Executive Officer
- Discontinued the distribution of stock options to Directors
- Reviewed and modified employee compensation plans
- Started a review process to ensure compliance with rules promulgated by the Securities and Exchange Commission in the United States pursuant to the *Sarbanes-Oxley Act* and the Investor Confidence Rules of the Canadian Securities Administrators

CAPITAL MANAGEMENT INITIATIVES

In 2003, the Company generated significant capital, creating flexibility for share buybacks, dividend payments and debt redemption to enhance capital efficiency and improve returns on capital employed.

Share Repurchase Program

In 2003, the Company put in place a share repurchase program to enhance shareholder value. A normal course issuer bid was effective between February 14, 2003 and January 5, 2004. During the period from February 14, 2003 to December 31, 2003, the Company repurchased approximately 18 million common shares at a cost of $527 million, representing approximately three per cent of the number of shares outstanding at the beginning of the program.

On January 8, 2004, the Board of Directors renewed the share repurchase program and authorized the purchase of up to five per cent of the common shares outstanding at that time. The purchases will be made under the renewed normal course issuer bid over the period January 12, 2004 to January 11, 2005.

Increased Quarterly Shareholder Dividend

The quarterly dividend payout per common share was increased from $0.14 in 2002 to $0.17 in 2003, representing an increase of 21 per cent. On January 29, 2004, the Board of Directors approved an additional 24 per cent increase in the quarterly dividend to $0.21 per share.

Redemption of Subordinated Notes

In September 2003, Sun Canada Financial Co., a subsidiary of Sun Life Financial Inc., redeemed $165 million of its 6 5/8 per cent Subordinated Notes due December 15, 2007. The amount repurchased represented 81.6 per cent of the original amount issued.

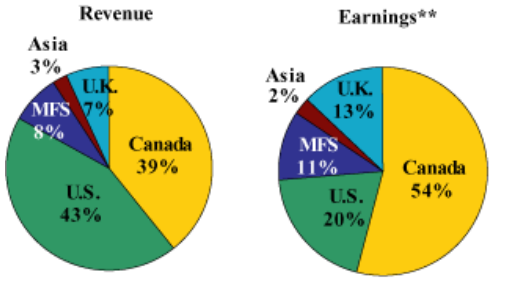
OTHER DEVELOPMENTS

On February 5, 2004, Massachusetts Financial Services Company (MFS) reached settlements with U.S. federal and state regulators related to administrative proceedings against it alleging false and misleading information in certain MFS fund prospectuses regarding market timing and related issues. Under the terms of the settlements, MFS neither admitted nor denied wrongdoing. As part of the settlement with the United States Securities and Exchange Commission (SEC), MFS agreed to pay US$225 million to compensate certain fund shareholders, of which US$50 million is a penalty, and agreed with the New Hampshire Bureau of Securities Regulation to pay an administrative fine in the amount of US$1 million. The Company recorded a $211 million after-tax charge to income in the fourth quarter of 2003 in connection with the matters discussed above. MFS further agreed with the Attorney General of the State of New York to reduce fees on the funds it advises by approximately US$25 million annually over the next five years.

Overview of Business

The Company's operations are divided into six business segments: Sun Life Financial Canada (SLF Canada), Sun Life Financial United States (SLF U.S.), MFS, Sun Life Financial United Kingdom (SLF U.K.), Sun Life Financial Asia (SLF Asia), and Corporate Capital. These reportable segments reflect the Company's management and internal financial reporting structures. Each segment has its own management and is responsible for its financial performance. Generally, the segments derive their earnings from wealth management and protection products and services. Corporate Capital primarily includes investments and expenses of a corporate nature for which management responsibility resides in the Company's corporate office.

Revenue and Earnings in 2003 by Segment*



* Excluding Corporate Capital
** Excluding after-tax charge of $211 million for the MFS regulatory settlements related to frequent trading

The Company operates under a strategic business model that balances growth with earnings stability. As product features become increasingly more complex and innovative, the lines between product categories have started to blur. However, the Company generally classifies its products into two principal categories: wealth management and protection. Revenues and expenses not directly attributable to protection or wealth management are included in Corporate and Other.

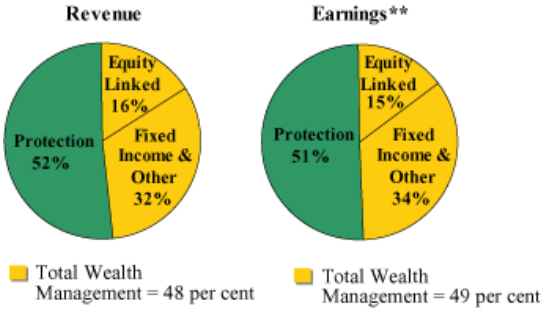
1) Wealth management comprises the Company's operations related to equity-linked and fixed income products and services in the areas of asset management, mutual funds, pensions and annuities;

2) Protection or insurance comprises the Company's individual life and health, group life and health and reinsurance operations.

Wealth management represents the Company's higher potential growth market. As at December 31, 2003, wealth management had assets of $300.6 billion, representing 84 per cent of the Company's business in terms of assets under management. The wealth management revenue is driven principally by: (i) investment advisory fees, (ii) distribution and servicing fees, (iii) mortality and expense fees, (iv) annuity premiums, and (v) net investment yield on general fund assets held primarily in the pension and fixed annuity businesses.

Protection represents a steady and consistent growth market for the Company. The premium income from protection recorded a compound annual growth rate of 14 per cent in the period from 1998 to 2003. The principal sources of protection revenue are: (i) premiums earned on individual life and health, group life and group health, and reinsurance contracts, and (ii) net investment income on assets supporting actuarial liabilities associated with protection products.

Revenue and Earnings in 2003 by Principal Product Category*



* Excluding Corporate and Other
** Excluding after-tax charge of $211 million for the MFS regulatory settlements related to frequent trading

The profitability of the Company's operations depends on, or is impacted by, in large part the following primary factors:

- External factors, including changes in equity market performance, interest rates, currency exchange rates and regulations
- The amount and composition of assets under management
- The management of market and credit risks
- The maintenance of spreads between credited rates and investment returns

- The management of the risks inherent in products with guaranteed benefit options
- Mortality and morbidity rates
- Surrender and lapse rates
- The management of product pricing
- Expense management

An expanded description of the Company's risk factors can be found on pages 21 to 26 of the Company's Annual Information Form (AIF).

The Company's portfolio of products and services by each of the business segments is summarized in the following table:

Products and Services by Business Segment

	SLF Canada	SLF U.S.	MFS	SLF U.K.	SLF Asia
Wealth Management					
Individual annuity and saving products	●	●	●	●	●
Group pensions and retirement products	●		●		●
Mutual funds	●		●		●
Asset management services	●	●	●		
Protection					
Individual life	●	●		●	●
Individual health	●				
Group life and health	●	●		●	●
Reinsurance - life retrocession	●				

Financial Performance Overview

2003 Performance

The Company reported a third consecutive year of record operating earnings. Shareholders' operating net income [1] for the year was $1,520 million, up 21 per cent compared to the $1,260 million in 2002. Shareholders net income for the year was $1,309 million, up 31 per cent compared to the $998 million in 2002. The strong financial results were achieved even though the Company faced a number of challenges in 2003.

Within the Company's Canadian operations, significant management attention was focused on the challenges of the Clarica integration to ensure its successful completion and realization of the anticipated synergy savings and operational efficiencies. The largest integration in the Canadian insurance industry was successfully completed while maintaining business momentum with earnings per share accretion of $0.26, surpassing the Company's target of $0.20. The Company also increased its ownership position in CI, a significant and growing player in the Canadian mutual fund industry.

In the early part of 2003, equity markets were exerting pressure on the Company's fee-based businesses that were sensitive to market valuations. Throughout the year, interest rates remained at historically low levels and adversely affected the Company's U.S. fixed annuity business as the net spread between the interest earned on investments and the interest credited on this business was reduced (spread compression). The challenging capital market conditions were addressed by the application of risk management techniques, product repricing and restructuring, and effective management of operating expenses.

Despite challenging economic conditions including the impact of the SARS outbreak, the Company's long-term growth engine in Asia generated an increase in earnings over 2002 of 54 per cent. Insurance sales in India increased 174 per cent and the Company received approval to begin preparation for the launch of life insurance operations in Beijing China.

The Company's ability to maintain strong financial performance in a difficult economy and challenging operational environment reflects the strength of its diversified and well-balanced portfolio, prudent and disciplined investment strategies and effective risk management. The detailed discussion of the Company's consolidated results in 2003 is provided in the sections located on pages 10 to 13 of this Management's Discussion and Analysis.

Outlook

As an international organization with significant operations in Canada, the United States, the United Kingdom, the Philippines, India, China and other countries, the Company's earnings are affected by the economic, business, political, regulatory and capital market conditions in which it conducts business as well as fluctuations of foreign currencies. To mitigate these exposures, the Company has adopted a disciplined risk management program that includes a formal process for the identification and potential mitigation of risks to the Company's earnings, liquidity and capital strength.

The Company's wealth management business, in particular, is impacted by changes in the level of interest rates. Minimum rate guarantees built into certain annuity products reduce the spread between the Company's interest earned and interest-credited rate in a low interest environment. Management proactively takes actions, such as product repricing, that it believes will provide for long-term profitability. During 2003, several U.S. states reduced the statutory required minimum rate guarantee. The Company has, where possible, reduced interest crediting rates to these minimums. In addition, the Company uses derivatives and asset/liability matching programs to help reduce the impact of interest rate volatility on its earnings.

The Company's earnings are also impacted by volatility in the equity markets due to asset-based fees, equity based investment income and segregated fund and annuity guarantees. The Company proactively attempts to reduce the impact of this volatility, on guarantees in particular, through the use of derivative arrangements. In addition, cost containment measures undertaken by MFS and SLF U.S.'s annuities business unit to bring expenses in line with market driven growth have better positioned both of these businesses to achieve profitable organic growth in flat or

1 Excludes special items as described on page 13. Operating net income is a non-GAAP measure and has no standardized definition under GAAP. This measure is presented to facilitate comparison to prior year earnings and may not be comparable to similar measures presented by other issuers. Financial results not specifically referred to as "operating" have been determined in accordance with GAAP.

declining markets and to leverage these operational efficiencies in strong markets.

Competition continues to increase as the North American life insurance market continues to consolidate. In such an environment, achieving scale and operational efficiencies becomes critical to maintaining a significant presence. With the integration of Clarica substantially complete, the Company's Canadian operations are now in a position to capitalize on the operational efficiencies attained and re-focus on product development and customer service to achieve long-term growth.

In response to the increasingly competitive U.S. life insurance environment, the Company undertook several strategic measures in 2003 in order to be positioned to compete more effectively in the future. First, MFS and SLF U.S. integrated their annuity distribution platforms to form a common distribution company, MFS/Sun Life Financial Distributors, Inc. (MFSLF). Going forward, the creation of this shared distribution company is expected to enable both entities to improve sales growth and achieve economies of scale. Second, SLF U.S. has started the process of combining the customer service, administrative and other support functions into a single service centre supporting all its business units. This initiative is expected to achieve significant cost savings and improve operational efficiency. In addition, the Company believes it has sufficient access to capital to pursue acquisitions that will complement and add scale in its target market segments.

In November 2003, the SEC and Morgan Stanley DW, Inc. (Morgan Stanley) settled an enforcement action against Morgan Stanley relating to the receipt of fees from certain mutual fund companies in return for preferred marketing of their funds. MFS was one of the 14 fund companies reported to be on Morgan Stanley's preferred list. As a result, MFS has been under investigation by the SEC relating to its directed brokerage and revenue-sharing arrangements with various distributors of its products, including Morgan Stanley. MFS is cooperating with the SEC's investigation, which is ongoing. In addition, certain of the Company's subsidiaries have received requests for information from the SEC and other regulators in connection with enquiries into directed brokerage and revenue-sharing arrangements and are responding to these requests.

As part of an industry-wide investigation of variable insurance product sponsors, certain subsidiaries of the Company received requests from the SEC for information regarding practices with respect to subaccount "market timing," practices with respect to receiving and processing exchange orders from contract owners, and oversight of such activities in separate accounts. The Company has responded to the SEC's request.

The outcome of these investigations is not yet determinable and may result in sanctions, compensation payments or other financial penalties.

For additional information about this and related matters, please see page 2 of the Company's 2003 AIF and " *Risk Factors — Investigations into U.S. Investment Industry*" on page 22 of the 2003 AIF.

Since the Company conducts business in multiple geographic locations outside Canada, its earnings are impacted by the fluctuations of foreign currencies, in particular the U.S. dollar, against the Canadian dollar. With the acquisition and integration of Clarica into its operations, the proportion of the Company's earnings subject to such fluctuations has decreased.

The Company is also subject to changes in statutes, regulations and regulatory policies in the jurisdictions in which the Company operates. Such changes could impact the Company's profitability or its competitive position in its target markets.

In spite of the factors outlined above that impact the Company's earnings, management believes the Company's long-term growth momentum remains strong. In particular, the Company believes its balanced business model sufficiently diversifies the Company's operations geographically and between the wealth management and protection businesses to achieve stable long-term growth into the future.

Consolidated Results of Operations

Shareholders' Net Income

For the year ended December 31, 2003, shareholders' net income was $1.3 billion, representing an increase of 31 per cent over $998 million for 2002. Earnings per share increased to $2.15 from $1.84 in 2002. The appreciation of the Canadian dollar against foreign currencies in the year reduced net income by $53 million.

Operating earnings[1], which exclude special items outlined on page 13, increased by 21 per cent to $1.5 billion in 2003 from $1.3 billion in 2002. Operating earnings per share were $2.50, up eight per cent from $2.32 in 2002. The strong operating earnings performance reflected the Company's continuing success in growing its core businesses and diversifying its earnings stream. The appreciation of the Canadian dollar against foreign currencies in the year reduced operating earnings by $78 million.

Earnings and Earnings Per Share

($ millions)	2003	2002	2001
Net Income from Continuing Operations	**1,308**	1,033	881
Less: Loss from Discontinued Operations	**—**	36	—
Total Net Income	**1,308**	997	881
Less: Participating Policyholders' Net Income	**(1)**	(1)	(1)
Shareholders' Net Income	**1,309**	998	882
Less: Special Items	**(211)**	(262)	10
Operating Earnings	**1,520**	1,260	872
Basic Earnings Per Share from:			
— Continuing Operations	**2.15**	1.91	2.08
— Shareholders' Net Income	**2.15**	1.84	2.08
— Operating Earnings	**2.50**	2.32	2.06
Diluted Earnings Per Share from:			
— Continuing Operations	**2.15**	1.90	2.07
— Shareholders' Net Income	**2.15**	1.83	2.07
— Operating Earnings	**2.50**	2.32	2.06

Earnings from continuing operations for 2003 were $1.3 billion, compared to $1.0 billion for 2002. Earnings from continuing operations for 2002 exclude a $36 million loss from the discontinued operations of Clarica U.S.

The Clarica acquisition added 26 cents to the Company's earnings per share in 2003, exceeding the financial target set at the time of the acquisition of 20 cents. This compared to the 6 cents accretion for the seven months after acquisition in May 2002.

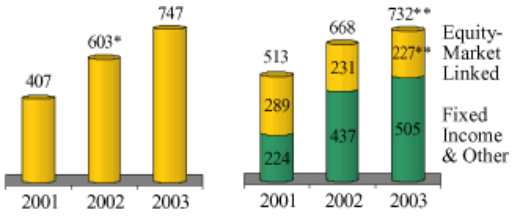
During 2003, the Company's operations in protection continued to perform well and again demonstrated their underlying strength in generating stable earnings in challenging times. The Company's protection earnings were $747 million for the year, up $144 million or 24 per cent relative to $603 million, which excluded an after-tax charge of $150 million for the run-off block of reinsurance, in 2002. This strong earnings performance reflected the full year impact of Clarica, the realization of synergy benefits from the integration of Clarica, and favourable claims experience.

The Company's reported earnings in wealth management were $521 million. The reported earnings included an after-tax charge of $211 million in connection with the SEC and New Hampshire settlements related to frequent trading in certain MFS mutual funds. Adjusting for this item, the Company's operating earnings in wealth management were $732 million, up $64 million, or 10 per cent, compared to $668 million in 2002. The rebound in the equity markets in the latter half of the year in conjunction with cost containment measures helped mitigate the earnings pressures from declining interest rates and the impact of the strengthening of the Canadian currency relative to the U.S. dollar. The equity-sensitive segment of the Company's operations earned $227 million in 2003 before the aforementioned charge related to MFS, compared to $231 million in 2002. The decrease was primarily due to lower fee income on lower average assets under management from the variable annuities business in the U.S. and reduced contribution from MFS because of the weaker U.S. dollar. These unfavourable factors were partially offset by the full year impact of Clarica.

1 Operating earnings and other financial information based on operating earnings, such as operating earnings per share and operating return on equity, are non-GAAP measures and have no standardized definitions under GAAP. They are presented to facilitate the comparison of quarterly and full-year data and may not be comparable to similar measures presented by other issuers. Financial results not specifically referred to as "operating" have been determined in accordance with GAAP.

Corporate and Other, which includes results not directly attributable to the Company's underlying wealth management and protection operations, earned $41 million for the year, compared to a loss of $123 million in 2002. The favourable change relative to 2002 was largely due to the impact of the restructuring and other related charges arising from the Clarica acquisition in 2002.

Shareholders' Net Income*/ by Principal Product Category†**
($ millions)



* Excludes after-tax charges of $150 million related to the run-off block of accident and health reinsurance business
** Excludes after-tax charge of $211 million for the cost of the MFS regulatory settlements related to frequent trading.
† Excludes Corporate and Other

Return on Equity

In 2003, return on shareholders' equity (ROE) based on operating earnings was 10.6 per cent compared to the 2002 level of 10.7 per cent. Return on shareholders' equity based on shareholders' net income was 9.2 per cent, compared to 8.5 per cent for 2002. The increase in return on equity, based on reported earnings in 2003, reflected higher earnings as well as the impact of the Company's share repurchases on average equity levels.

Assets Under Management

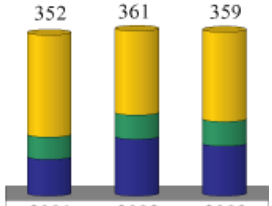
The Company's assets under management (AUM) comprise general funds, segregated funds and other assets under management which include mutual and managed funds. Managed funds represent institutional and other third-party assets that are managed by the Company. Total assets under management were $359.0 billion as at December 31, 2003, down $1.6 billion, compared to $360.6 billion as at December 31, 2002.

The Company's general fund assets decreased to $109.2 billion, down $14.2 billion, or 11.5 per cent, from the 2002 level. The decrease was primarily due to strengthening of the Canadian dollar against foreign currencies which reduced asset values by $11.7 billion, and a reduction from the sale of Clarica U.S. which had assets of $5.3 billion as at December 31, 2002.

The Company's segregated fund assets increased to $54.1 billion as at December 31, 2003, up $1.3 billion or three per cent, relative to $52.8 billion as at December 31, 2002. Increases in asset values of $7.1 billion due to market improvements were partially offset by an unfavourable impact of $5.5 billion due to the strengthening of the Canadian dollar and net outflows of $264 million.

The Company's other assets under management, excluding the Company's share of CI's assets, increased to $195.7 billion, up $11.3 billion from the December 31, 2002 level. The impact of the strengthening Canadian currency against the U.S. dollar was more than offset by net inflows of $9.9 billion and an increase of $33.5 billion resulting from market value improvements.

Assets Under Management
($ billions)



	2001	2002	2003
Other Assets Under Management	223	184	196
Segregated Funds	49	53	54
General Funds	80	124	109

Revenue

In 2003, the Company's total revenue decreased to $22.1 billion, down $1.0 billion or five per cent from $23.1 billion in 2002. The strong increase in life insurance premiums and higher investment income were more than offset by lower sales of U.S. annuities, lower U.K. revenues and the unfavourable impact of a stronger Canadian currency.

Life insurance premiums grew by $922 million or 17 per cent in 2003, primarily reflecting the full year impact of the Clarica acquisition, and increased sales of universal life products by the U.S. operations, partially offset by the impact of the strengthening of the Canadian currency. Health

insurance premiums increased by $343 million, or 17 per cent, primarily due to the additional contribution from Clarica.

Annuity premiums decreased by $2.6 billion. The decrease was primarily due to lower sales of U.S. annuities and the currency impact of a weakening U.S. dollar. Fixed annuity sales declined as minimum guaranteed interest rates and commission rates were reduced to counter the effects of spread compression. The lower fixed annuity sales were partially offset by a 58 per cent increase in equity indexed annuity sales on a U.S. dollar basis.

Investment income increased by $572 million, or 11 per cent, in 2003. The increase was primarily due to lower asset provisions, net gains on derivatives and the full year impact of Clarica, partially offset by the impact of the strengthening of the Canadian dollar. Investment income in 2002 included a gain of $173 million on the sale of Spectrum Investment Management Limited (Spectrum).

Fee income declined by $285 million or nine per cent. The decrease reflected an unfavourable impact of $274 million due to the strengthening of the Canadian currency versus the U.S. dollar.

Total Revenue

($ millions)	2003	2002	2001
Premiums			
Annuities	**4,805**	7,402	4,196
Life Insurance	**6,325**	5,403	3,759
Health Insurance	**2,413**	2,070	1,482
Total Premium	**13,543**	14,875	9,437
Net Investment Income	**5,703**	5,131	4,162
Fee Income	**2,810**	3,095	3,216
Total	**22,056**	23,101	16,815

Benefit Payments

The Company has a variety of current and future benefit payment obligations that impact overall earnings performance. Payments to policyholders, beneficiaries and depositors were $12.8 billion, up $1.1 billion or 10 per cent from 2002, primarily due to the acquisition of Clarica in May 2002. Transfers to segregated funds decreased by 59 per cent in 2003, reflecting reduced demand for equity market-based products in the first half of the year. The increase in actuarial liabilities was $2.2 billion lower than the 2002 level of $3.8 billion, reflecting the impact of lower fixed annuity sales and higher surrenders.

Benefit Payments

($ millions)	2003	2002	2001
Payments to Policyholders, Beneficiaries and Depositors	**12,812**	11,688	6,880
Net Transfer to Segregated Funds	**544**	1,329	2,606
Increase in Actuarial Liabilities	**1,624**	3,822	1,697
Total	**14,980**	16,839	11,183

Expenses and Other

Commission expenses decreased to $1.8 billion in 2003, down $61 million from the 2002 level. The decrease reflected lower annuity sales and the impact of a weaker U.S. dollar, partially offset by increased commissions from higher sales of life and health insurance products due to the full year impact of Clarica.

Excluding a pre-tax regulatory-related charge of $320 million related to MFS, operating expenses were $2.8 billion, down $11 million from 2002. Increases due to the full year impact of Clarica were more than offset by the favourable impact of a strengthening Canadian dollar, synergy savings related to the Clarica integration, operational efficiencies, and reduced transformation costs in SLF U.K.

Interest expenses increased by $17 million to $209 million in 2003. The increase reflected the full year impact of the interest expenses associated with Clarica's $700 million subordinated debt and the $800 million of new subordinated debentures issued in mid-2002, partially offset by the impact of the September 2003 redemption of $165 million of subordinated notes.

Expenses and Other

($ millions)	2003	2002	2001
Commissions	**1,848**	1,909	1,600
Operating Expenses	**2,768**	2,779	2,496
Regulatory Settlement Provisions related to MFS	**320**	—	—

Premium Taxes	**171**	168	113
Interest Expenses	**209**	192	168
Income Taxes	**387**	98	306
Non-Controlling Interests in Net Income of Subsidiaries	**65**	83	68
Loss from Discontinued Operations, Net of Taxes	**—**	36	—
Participating Policyholders' Net Income (Loss)	**(1)**	(1)	(1)
Total	**5,767**	5,264	4,750

Income taxes were $387 million in 2003, compared to $98 million in 2002. The Company's consolidated effective income tax rate for 2003 was 22 per cent, compared to eight per cent for 2002. The effective tax rate in 2002 reflected the impact of favourable tax settlements resulting from the completion of prior year tax reviews and the recognition and utilization of capital losses. Excluding these events, the Company's 2002 effective tax rate would have been approximately 28 per cent. In 2003, excluding similar adjustments and the impact of statutory rate increases on future income taxes, the Company's effective tax rate would have been 24 per cent.

Special Items Affecting Net Income

The Company undertakes strategic and operational activities to grow and strengthen its business platform on an ongoing basis. These activities can result in special gains or losses that are not directly related to its operations and usually are not recurring. The Company generally measures its financial performance based on its operating earnings, which exclude the impact of these special items. Such measurement facilitates the annual and quarterly comparison of the Company's underlying financial results on a consolidated basis.

In late 2003 regulatory investigations were launched, on an industry wide basis, in the U.S. mutual fund industry regarding market timing and late trading of mutual funds. On February 5, 2004, MFS reached a settlement with certain regulators regarding these issues. The Company recorded a $211 million after-tax charge in the fourth quarter in connection with the SEC and New Hampshire settlements.

In 2002, the sale of Spectrum to CI resulted in an after-tax gain of $173 million, which was partially offset by the net loss of $48 million on the disposition of Clarica U.S. The special items in 2002 also included after-tax restructuring and other charges of $217 million in connection with the acquisition of Clarica, an after-tax charge of $150 million related to guaranteed minimum income benefits and non Unicover-related accident and health risks in the Company's run-off reinsurance business, and other special items which had a net unfavourable impact of $20 million on net income. As a result of these special items, the Company's net income was reduced by $262 million in 2002.

Special Items

($ millions)	2003					2002					2001
	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1	Total	Total
Reported Earnings (Canadian GAAP based)	**206**	**394**	**366**	**343**	**1,309**	310	361	71	256	998	882
After-Tax Gains (Losses) on Special Items											
Regulatory Settlement Provisions related to MFS	**(211)**				**(211)**						
Net Gain on Sale of Spectrum							173			173	
Net Loss on Sale of Clarica U.S.						(48)				(48)	
SLF Canada Restructuring and Other Charges								(217)		(217)	
Charge to the Run-off Block of Reinsurance Business							(150)			(150)	
Net Gains on Sales of U.K. Assets											125
U.K. Restructuring											(88)
Subordinated Debt Redemption Costs											(30)
Other						(3)	(12)	(5)		(20)	3
Total Special Items	**(211)**	**—**	**—**	**—**	**(211)**	(51)	11	(222)	—	(262)	10
Operating Earnings	**417**	**394**	**366**	**343**	**1,520**	361	350	293	256	1,260	872

The earnings impact of the special items described above on a per share basis is summarized in the following table.

Impact of Special Items on Earnings Per Share

($ per share)	2003	2002	2001
EPS — Reported (Canadian GAAP based)	**2.15**	1.84	2.08
Net Gains (Losses) on Special Items	**(0.35)**	(0.48)	0.02
EPS — Operating	**2.50**	2.32	2.06

Sun Life Financial Canada

Business Profile

SLF Canada has a leadership position in the Canadian market with a customer base exceeding seven million people, representing almost a quarter of Canada's population. Through its five operating units, consisting of Retail Insurance, Retail and Other Wealth Management, Group Benefits, Group Retirement Services and Reinsurance, SLF Canada offers a full range of protection and wealth management products and services.

Competitive Position[1]

A significant player in most Canadian markets of strategic relevance with over seven million customers in Canada and the largest exclusive sales force, the Independent Career Advisor (ICA) channel, consisting of 4,135 independent sales advisors, managers and product specialists.

- 1st in defined contribution plans based on assets under administration
- 1st in critical illness and long-term care based on annualized premiums
- 2nd in group benefits based on annualized premiums and premium equivalents
- 3rd in individual annuities based on premiums and deposits
- 3rd in individual life based on annualized premiums

The Company has a strategic interest (34 per cent) in CI, which is the 2nd largest Canadian fund manager based on long-term assets under management[2].

Strategy

- Solidify leadership position in its core businesses with focus on scale and operating capabilities
- Aggressively grow the retail business by leveraging industry leading brands and distribution network
- Grow the business through leveraging the ability to provide integrated service to group life and health and group retirement services clients
- Be a high performance and customer-focused organization

2003 Highlights

- Shareholders' net income increased to $829 million, up 62 per cent over 2002
- Successful integration of Clarica with run rate synergy savings target achieved
- Established common platforms for business growth across all business units
- Named as one of the top 100 employers in Canada by *The Globe and Mail* for second consecutive year

Priorities for 2004

- Grow the retail business with increased advisor productivity and expand offering of innovative, new products
- Increase customer and advisor satisfaction and loyalty
- Leverage synergy savings achieved through integration and pursue further benefits through continuous improvement

Integrated Platform for Growth

With the integration of Clarica substantially complete, SLF Canada offers the domestic market competitive products and delivery systems through two strong brands. The Sun Life Financial brand is used in group retirement services, group benefits and selected retail products and distribution channels. The Clarica brand is used to serve the individual retail market through the ICA channel.

Consolidated Financial Results

In spite of the challenges of integration and the increasingly competitive life insurance industry, earnings from SLF Canada increased to $829 million, up $316 million or 62 per cent relative to $513 million

1 Competitive statistics are based on published information at and for the year ended December 31, 2003 or the information available for the latest period before December 31, 2003 and do not include the impact of mergers and acquisitions closing after December 31, 2003.

2 Long-term assets under management include mutual, segregated, labour-sponsored and other funds and pools and exclude money market funds.

in 2002. The increase was primarily due to the full year impact of Clarica, the synergies arising from the integration of Clarica, favourable mortality and morbidity experience in group insurance and the impact of improved equity markets on Retail and Other Wealth Management.

Revenue for the year was $8.6 billion, up about $2.1 billion or 32 per cent, compared to $6.6 billion in 2002. The increase reflected the revenue contribution from Clarica for the full year in 2003 versus the seven months after its acquisition in 2002.

ROE increased to 11.9 per cent from the 2002 level of 11.3 per cent, primarily due to increased earnings.

Total assets under management increased to $100.2 billion as at December 31, 2003, up $11.0 billion from $89.2 billion as at December 31, 2002. The asset growth reflected improved equity markets and higher net sales in SLF Canada's segregated and managed funds.

Summary Statement of Operations

($ millions, except as noted)	2003	2002	2001
Premiums	**5,605**	4,145	2,236
Net Investment Income	**2,546**	1,974	1,267
Fee Income	**485**	444	352
Total Revenue	**8,636**	6,563	3,855
Client Disbursements & Change in Actuarial Liabilities	**5,891**	4,625	2,800
Commissions & Other Expenses	**1,566**	1,219	724
Income Taxes	**342**	191	106
Non-Controlling Interests in Net Income of Subsidiaries	**11**	14	18
Par Policyholders' Income (Loss)	**(3)**	1	(5)
Shareholders' Net Income	**829**	513	212
Selected Financial Information			
Return on Equity	**11.9%**	11.3%	16.5%
Total AUM (billions)	**100.2**	89.2	52.5
Capital Employed	**8,925**	8,600	1,637
Goodwill	**3,765**	3,764	66

Sun Life Financial Canada — Retail Insurance

Business Profile

The Company's Canadian Retail Insurance business unit offers a full range of life and health insurance products tailored to the needs of individual customers. Its principal products include universal life, term life, permanent life, critical illness, long-term care and personal health insurance. These products are marketed through a distinctive, multi-channel distribution model consisting of the Clarica branded exclusive sales force with 4,135 independent sales advisors, managers and product specialists, and a partnership-based wholesale channel.

The Company is a leading provider of retail life and health insurance in Canada based on premium income. With its significant scale, extensive distribution network, strong brand recognition and efficient operating structure, management believes that the Company is well positioned to compete effectively in a highly competitive and mature market.

Retail Insurance is a cornerstone of the Company's business platform in Canada. It provides distribution capabilities and financial resources to facilitate the Company's overall growth in the Canadian market.

2003 Highlights

- Strong earnings of $246 million, up $106 million or 76 per cent from 2002
- Insurance sales increased to $141 million, up 22 per cent from 2002
- Conversion of over 560,000 retail policies to a common systems platform

Retail Insurance completed the necessary work in 2003 to have Clarica and Sun Life Financial branded product families administered on common systems platforms. The integrated systems are expected to provide ongoing operational efficiencies and profitable returns in the future. With integration largely behind the business unit, the focus will be on product development, business excellence and customer and advisor service.

Financial Results

Earnings increased to $246 million, up 76 per cent from $140 million in 2002. The increase in earnings was largely due to synergy savings from the Clarica acquisition and having a full year of the business acquired compared to seven months in 2002. Revenue for the year grew to $2.7 billion, up 43 per cent from 2002. The increase in revenue was primarily due to the full year impact of Clarica.

Sales of individual life and health products for the year were $141 million, up 22 per cent from 2002 primarily as a result of the full year impact of the Clarica acquisition. The sales of Clarica branded individual health products continued to be strong in 2003, with annualized premiums increasing 127 per cent over 2002. Sales in the wholesale channel were down as a result of integration challenges and channel rationalization. With the completion of integration, the focus will return to product development and profitable growth of the business.

The increased scale and synergy savings from the Clarica acquisition continued to improve operating margins and reduce unit costs.

Summary Statement of Operations

($ millions)	2003	2002	2001
Premiums	**1,860**	1,297	580
Net Investment Income	**876**	620	388
Fee Income	**7**	7	3
Total Revenue	**2,743**	1,924	971
Client Disbursements & Change in Actuarial Liabilities	**1,741**	1,289	750
Commissions & Other Expenses	**617**	443	194
Income Taxes	**142**	51	(7)
Par Policyholders' Income (Loss)	**(3)**	1	(5)
Shareholders' Net Income	**246**	140	39
Sales — New Annualized Premiums	**141**	116	61

Sun Life Financial Canada – Retail and Other Wealth Management

Business Profile

The Company's Canadian Retail and Other Wealth Management business unit includes the Company's individual annuity business, its 56 per cent owned subsidiary McLean Budden Limited (McLean Budden) and its 34 per cent owned strategic partner CI. McLean Budden is one of the premier providers of investment management services in Canada with assets under management of $29.3 billion as at December 31, 2003. CI is the 2nd largest fund company in Canada, based on long-term assets under management[1] of $39.5 billion as at December 31, 2003.

Retail and Other Wealth Management provides a strong platform for the Company to grow its retail wealth management business in Canada. CI, which is a cornerstone of this growth platform, has an outstanding track record in investment management and offers a broad selection of investment funds. CI's competitive advantages also include its superior operating capabilities, highly efficient back office operations and its preferred access to the Company's strong retail distribution network.

2003 Highlights

- Achieved earnings of $188 million, up 94 per cent from 2002
- Invested $266 million in CI to support CI's acquisition of Assante and Synergy and to maintain its equity investment at 34 per cent

Financial Results

Earnings from Retail and Other Wealth Management increased to $188 million, up $91 million or 94 per cent, compared to 2002. The increase resulted from the full year impact of Clarica, improved investment spreads, stronger stock market performance in the latter half of the year, and improved pricing for segregated fund guarantees.

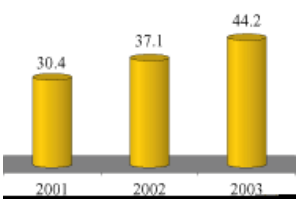
Revenue for the year grew to $1.6 billion, up $358 million or 28 per cent. The revenue growth resulted primarily from the full year impact of Clarica partially offset by a reduction in fee income as a result of the sale of Spectrum in 2002.

Total assets under management, which exclude CI's assets under management, increased to $44.2 billion as at December 31, 2003, up $7.1 billion from 2002. The increased assets were primarily in McLean Budden which benefited from net positive flows from both existing and new clients.

Summary Statement of Operations

($ millions)	2003	2002	2001
Premiums	**648**	519	227
Net Investment Income	**781**	506	300
Fee Income	**193**	239	248
Total Revenue	**1,622**	1,264	775
Client Disbursements & Change in Actuarial Liabilities	**1,139**	863	433
Commissions & Other Expenses	**239**	251	244
Income Taxes	**45**	44	35
Non-Controlling Interests in Net Income of Subsidiaries	**11**	9	18
Shareholders' Net Income	**188**	97	45

Retail and Other Wealth Management
Assets Under Management
($ billions)



1 Long-term assets under management include mutual, segregated, labour-sponsored and other funds and pools and exclude money market funds.

Sun Life Financial Canada — Group Benefits

Business Profile

The Company's Group Benefits business unit is a leading provider of group life and health insurance products in Canada. The Company has approximately 21 per cent market share in the Canadian group benefits business and services more than 10,000 employers in Canada. The Company provides life, dental, drug, extended health care, health spending accounts, and disability and flex benefit plans. Its group products are custom-designed and are positioned to fulfil the protection needs of employers of all sizes. The Company competes on its strength of scale, product offerings and industry leading e-business capabilities. The group benefit products are marketed and distributed across Canada by its experienced sales representatives in co-operation with independent brokers and benefit consultants.

2003 Highlights

- Strong earnings of $233 million, up 48 per cent from 2002
- Completed conversion of Clarica clients to a common systems platform
- Awarded IBM Canada's group health and dental benefits business
- Received ITX award for Information Technology leadership from *CIO Canada* magazine

In 2003, Group Benefits focused on integration activities while leveraging its core competencies to win new customers.

The Company capitalized on its innovative approach of providing integrated group benefits and group retirement services. This integrated approach provides seamless, one-stop solutions that significantly streamline the increasingly complex administration of group plans. It allows plan members to manage their benefit claims and retirement investments on a centralized, Internet-based platform efficiently and effectively.

Financial Results

Group Benefits reported strong results for the year, with earnings of $233 million, an increase of 48 per cent over 2002. The increase in earnings reflected better mortality and morbidity experience and the full year impact of Clarica.

Revenue for the year increased by $531 million, or 24 per cent to $2.7 billion. The growth in revenue was attributable to the addition of Clarica for the full year. Sales, measured by annualized premiums and premium equivalents, dropped by six per cent from 2002 to $181 million for 2003. This reflects the low sales activity in the large case market, which generated the large premium sales.

Summary Statement of Operations

($ millions)	2003	2002	2001
Premiums	**2,244**	1,765	1,211
Net Investment Income	**383**	358	280
Fee Income	**117**	90	53
Total Revenue	**2,744**	2,213	1,544
Client Disbursements & Change in Actuarial Liabilities	**1,964**	1,629	1,176
Commissions & Other Expenses	**451**	345	226
Income Taxes	**96**	82	61
Shareholders' Net Income	**233**	157	81
Sales — Annualized Premiums and ASO Premium Equivalents	**181**	192	235

Sun Life Financial Canada — Group Retirement Services

Business Profile

The Company's Group Retirement Services (GRS) business unit is the leading provider of defined contribution plans in Canada as measured by Benefits Canada's 2003 Defined Contribution Plan Survey. GRS also offers other group retirement services and products, including investment only segregated funds and fixed rate annuities, group life annuities and pensioner payroll services. With its strength in product and investment offerings, plan sponsor and member services and infrastructure capabilities, GRS is well equipped to meet the complex plan and service requirements of medium to large corporations and associations, and to provide cost effective solutions to smaller markets. The Company had approximately a 30 per cent market share in Canada based on assets under management, and its group products covered approximately 1.1 million plan participants at the end of 2003. The Company's products and services are distributed through pension consultants, and its own in-house sales force, brokers and advisors.

GRS represents a key part of the Company's wealth management growth platform in Canada. GRS' significant scale allows it to make effective use of technology and to price competitively without compromising operating margins.

2003 Highlights

- Earnings increased to $88 million, up 54 per cent from 2002
- Completed conversion of $10 billion in Clarica client assets to a common systems platform
- Ranked top supplier of defined contribution plans by *Benefits Canada* magazine
- First Canadian defined contribution pension plan supplier to obtain ISO 9001:2000 quality assurance certification
- Received ITX award for Information Technology leadership from *CIO Canada* magazine

Financial Results

GRS continued its focus on sales, business retention and cost controls in light of fast changing market conditions in 2003. Earnings for the year were $88 million, up $31 million or 54 per cent, primarily reflecting the full year impact of the Clarica acquisition, improved investment spreads and increased fee revenue.

Revenue increased by $160 million, or 18 per cent, to $1.0 billion primarily due to the full year impact of Clarica.

GRS sales were $1.0 billion for 2003, down 14 per cent from the 2002 level. The decrease primarily reflected market uncertainty in light of the rapid consolidation in the defined contribution pension plan industry.

Assets under management increased to $25.8 billion from $23.3 in 2002, primarily as a result of improving equity markets.

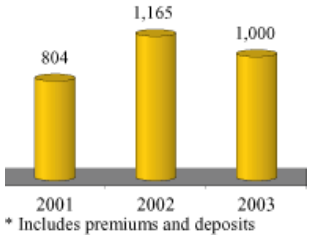
GRS provided services to approximately 6,800 Canadian companies as at December 31, 2003.

Summary Statement of Operations

($ millions, except as noted)	2003	2002	2001
Premiums	**445**	335	218
Net Investment Income	**434**	435	275
Fee Income	**152**	101	46
Total Revenue	**1,031**	871	539
Client Disbursements & Change in Actuarial Liabilities	**743**	668	415
Commissions & Other Expenses	**162**	115	57
Income Taxes	**38**	31	29
Shareholders' Net Income	**88**	57	38
Selected Financial Information			
AUM (billions)	**25.8**	23.3	11.9
Number of DC Plan Participants (000's)	**1,082**	1,067	447

Gross Sales — GRS

($ millions)



* Includes premiums and deposits

Sun Life Financial Canada — Reinsurance

Business Profile

The Company's Canadian Reinsurance operations provide customized reinsurance solutions, with a primary focus on the life retrocession business in North America. The Company is a market leader in North America with 27 per cent market share based on life retrocession in force. The Company's leadership position in life retrocession reflects its strong expertise in pricing and mortality risk management as well as its high credit rating.

The Company's reinsurance business represents an important franchise and contributes solid earnings. The Company intends to selectively pursue growth opportunities in the core life retrocession business in North America and Europe.

2003 Highlights

- Achieved leading position in terms of new individual life retrocession business in the North American market with a 40 per cent share
- Established an Irish branch in support of the development of a European business platform

Financial Results

SLF Canada's reinsurance business was acquired as part of the Clarica acquisition. Reinsurance reported higher earnings of $56 million for the full year in 2003 compared to $32 million for the seven months subsequent to acquisition in 2002. Reinsurance continued to concentrate on strengthening its business focus and solidifying its leadership position through effective product design and pricing, as well as expense control.

Revenue increased to $447 million in 2003, up 73 per cent from 2002, primarily reflecting the full year impact of Clarica. Sales of in-force insurance for the full year were $28 billion compared to $16 billion for 2002 for the seven months following the Clarica acquisition. This increase reflected a strong performance given the ongoing consolidation among reinsurers.

Summary Statement of Operations

($ millions, except as noted)	2003	2002	2001
Premiums	**408**	229	—
Net Investment Income	**34**	26	—
Fee Income	**5**	3	—
Total Revenue	**447**	258	—
Client Disbursements & Change in Actuarial Liabilities	**304**	176	—
Commissions & Other Expenses	**67**	40	—
Income Taxes	**20**	10	—
Shareholders' Net Income	**56**	32	—
Selected Financial Information			
Sales (in-force, billions)	**28**	16	—
Business In-Force (billions)	**160**	183	—

Sun Life Financial Canada — Investment Portfolio and Other

Business Profile

The Company's Canadian Investment Portfolio and Other operations include investment income and expenses not directly attributable to the Canadian strategic business units.

Financial Results

For the year ended December 31, 2003, Canadian Investment Portfolio and Other reported earnings of $18 million, compared to earnings of $30 million in 2002. The decrease in 2003 earnings primarily reflected the fact that 2002 earnings included one-time settlements of tax issues of $20 million that were only partially offset by higher investment income in 2003.

Summary Statement of Operations

($ millions)	2003	2002	2001
Premiums	**—**	—	—
Net Investment Income	**38**	29	24
Fee Income	**11**	4	2
Total Revenue	**49**	33	26
Client Disbursements & Change in Actuarial Liabilities	**—**	—	26
Commissions & Other Expenses	**30**	25	3
Income Taxes	**1**	(27)	(12)
Non-Controlling Interests in Net Income of Subsidiaries	**—**	5	—
Shareholders' Net Income	**18**	30	9

Sun Life Financial United States

Business Profile

SLF U.S. concentrates on three core businesses in the U.S.: annuities, individual life insurance for affluent customers, and group life and health insurance for small to medium sized companies. The Annuities business unit offers fixed and variable annuities, and investment management services. The Individual Life Insurance business unit offers primarily fixed and variable universal life, and corporate-owned and bank-owned life insurance. The Group Insurance business unit offers group life insurance and group health insurance, which includes short and long-term disability benefits and medical stop-loss plans.

Competitive Position[1]

A significant player in annuity and high-end speciality insurance markets.

- 20th in variable annuities and 16th in fixed annuities based on annualized premiums
- 1st in third-party distribution of annuities in U.S. bank channel based on premiums
- 2nd in universal life by average policy size
- 3rd in medical stop-loss plans based on business in force

Strategy

- Become a top tier player in selected markets
- Leverage product manufacturing and risk management strengths
- Focus and enhance distribution capabilities and coverage
- Strengthen operational scale and efficiency

2003 Highlights

- IFMG maintained its #1 position in the Kehrer Report for the sale of annuities, mutual funds and securities through banks
- Management actions were taken to reduce exposure to spread compression in fixed annuities
- Established a centralized service centre structure to increase the efficiency of operations

Priorities for 2004

- Strengthen market positions in the annuity markets
- Align distribution channels and increase wholesaler coverage in desired markets
- Improve cost efficiency of operations by consolidating back-office services
- Enhance capital efficiency through product design

In response to a period of difficult market conditions, SLF U.S. made several organizational and product changes to help strengthen its operations and its ability to profitably grow the business. As a result of these changes, the Company believes SLF U.S. is poised for more efficient and profitable growth as the business cycle improves. Toward the end of 2003, SLF U.S. launched a plan to create a service centre that combines information technology, customer service and administrative functions into one unit to support its annuities, individual insurance and group life and health businesses. This is expected to lower unit costs while increasing efficiency and improving service. The service centre will be fully operational in three years.

During 2003, SLF U.S. continued to take steps to optimize its use of capital through a combination of reinsurance arrangements, streamlining of business structures, re-balancing of the investment portfolio and the introduction of new capital efficient products.

1 Competitive statistics are based on published information at and for the year ended December 31, 2003 or the information available for the latest period before December 31, 2003 and do not include the impact of mergers and acquisitions closing after December 31, 2003.

Consolidated Financial Results

SLF U.S. reported earnings of $303 million, down $71 million or 19 per cent from 2002. This decrease was primarily due to the impact of spread compression on fixed annuities and an unfavourable currency impact of $36 million due to the weakening of the U.S. dollar partially offset by improving credit conditions. The improvements in the equity markets at December 31, 2003 would have allowed the Company to lower reserves held for guaranteed minimum death benefits. However, the reserves were not released in order to provide additional protection in the event of a decline in equity markets. Prior year results include $12 million of income from Clarica U.S., which was sold in January 2003. Revenue for the year was $9.7 billion, down $2.2 billion or 19 per cent from 2002. The decrease was largely driven by lower annuity sales and an unfavourable currency impact of $1.2 billion arising from the decline of the U.S. dollar relative to the Canadian currency. Fixed annuity sales declined as product terms and commission levels were adjusted to offset the impact of spread compression and to protect operating margins.

Return on shareholders' equity remained at 7.3 per cent in 2003, unchanged from 2002, as the impact of the benefits from continued capital efficiency measures offset the impact of reduced earnings.

Summary Statement of Operations

($ millions, except as noted)	2003	2002	2001
Premiums	**6,666**	9,165	5,821
Net Investment Income	**2,433**	2,069	1,505
Fee Income	**564**	643	485
Total Revenue	**9,663**	11,877	7,811
Client Disbursements & Change in Actuarial Liabilities	**7,709**	9,838	6,470
Commissions & Other Expenses	**1,552**	1,641	1,090
Income Taxes	**97**	38	25
Par Policyholders' Income (Loss)	**2**	(2)	4
Loss (Income) from Discontinued Operations	**—**	(12)	—
Shareholders' Net Income	**303**	374	222
Selected Financial Information			
Return on Equity	**7.3%**	7.3%	11.8%
Total AUM (billions)	**68.0**	83.3	78.5
Capital Employed	**5,058**	7,160	6,186
Goodwill	**1,607**	2,010	1,952

Sun Life Financial United States — Annuities

Business Profile

The Company's Annuities business unit is a nationwide provider of individual annuity products in the U.S. market. The Company offers a variety of annuity products supported by broad distribution capabilities, operating efficiencies and investment and risk management expertise.

Annuities represents an integral part of the Company's growth platform in the U.S.

2003 Highlights

- Launched new fixed annuity products and adapted the current asset portfolio to mitigate the risk of spread compression
- Implemented organizational changes to achieve cost savings
- Amalgamated Keyport into Sun Life (U.S.) to streamline operations

The U.S. annuities market continues to be challenging due to the persistently low interest rate environment and volatile equity markets. In 2003, the Company took actions to mitigate these environmental risks by introducing new fixed annuity products and lowering minimum interest rate guarantees. Primarily as a result of the measures taken to maintain profitability, fixed annuity sales decreased by 35 per cent on a U.S. dollar basis, while market ranking in the U.S., based on annualized premiums, dropped to # 16 from # 15 a year ago.

The Company's goal is to regain its position as a significant player in the U.S. annuities marketplace. The Company intends to achieve this goal by adding new product features, repricing fixed products, increasing the focus on sales of market value adjusted annuities and containing costs. To ensure that customer needs are adequately addressed, the Company has established a market centre that will focus on the customer through competitive analyses and customer research.

Financial Results

Earnings decreased to $163 million or 39 per cent from 2002. Of this decline, $20 million was due to the impact of the strengthening of the Canadian currency against the U.S. dollar. The balance of the decline was largely attributable to spread compression, partially offset by lower bond provisions and lower new business strain in the second half of 2003.

Revenue for the year decreased to $5.6 billion, down 33 per cent from 2002. This decline was primarily due to lower annuity sales and the impact of the weakening U.S. dollar against the Canadian currency, which resulted in a reduction of $667 million in revenue.

Annuity sales for 2003 declined 30 per cent to $5.0 billion compared to 2002. Variable annuity sales declined primarily as a result of the lack of a living benefit feature for the first half of the year and distractions arising from the reorganization of the distribution system during the formation of MFS/Sun Life Financial Distributors Inc. (MFSLF). A living benefit feature was launched mid-year and new product enhancements are planned for early 2004. The formation of MFSLF, which will be expanding the number of wholesalers in 2004, enhanced the wholesale distribution network dedicated to annuities. Fixed annuity sales declined as a result of management's decision to protect operating margins in a low interest rate environment. Indexed annuity sales recovered strongly in the latter half of the year due to more favourable product options and an expansion of the distribution channels. The strengthening of the Canadian currency against the U.S. dollar reduced annuity sales by $604 million.

At December 31, 2003, assets under management were $52.0 billion, down 16 per cent from a year ago.

Summary Statement of Operations

($ millions, except as noted)	2003	2002	2001
Premiums	**3,503**	6,297	3,525
Net Investment Income	**1,649**	1,446	714
Fee Income	**412**	505	433
Total Revenue	**5,564**	8,248	4,672
Client Disbursements & Change in Actuarial Liabilities	**4,693**	7,069	4,146
Commissions & Other Expenses	**645**	836	451
Income Taxes	**63**	74	11
Shareholders' Net Income	**163**	269	64
Selected Financial Information			
Gross Sales — Premiums and Deposits			
Variable Annuities	**2,750**	3,986	4,554

Fixed Annuities	**1,565**	2,653	353
Indexed Annuities	**729**	521	82
Total	**5,044**	7,160	4,989
Total AUM (billions)	**52.0**	62.1	65.1

Excluding the impact of a weaker U.S. dollar, AUM increased three per cent compared to 2002 primarily due to equity market improvements.

The improvements in the equity markets at December 31, 2003 would have allowed the Company to lower reserves held for guaranteed minimum death benefits. However, these reserves were not released, as allowed by the Canadian actuarial standards, in order to provide additional protection in the event of a decline in equity markets. The decline in interest rates has increased the value to the customer of the minimum interest rate guarantee contained in the fixed annuities and has been provided for in the Company's fixed annuity reserves.

Sun Life Financial United States — Individual Life

Business Profile

The Company's U.S. Individual Life operations are positioned to attract and service high net worth individuals in the U.S. market. Individual Life ranked #2 in terms of policy size in universal life products in 2003. The Company focuses on competitively priced, high-quality products including universal life, variable universal life, bank-owned life insurance (BOLI), private placement variable universal life, and corporate-owned life insurance (COLI) universal life and variable universal life. The Company's core distribution channels, consisting principally of general agents and third party intermediaries, provide access to its target customers.

Individual Life represents a core franchise of the Company's business platform in the U.S. This business unit competes aggressively in the high growth estate protection and wealth transfer segments, and the COLI and BOLI markets.

2003 Highlights

- Strong growth in offshore products with sales up 63 per cent
- Commenced sales of variable universal life products in the State of New York

Financial Results

Individual Life in the U.S. continued to deliver stable performance in 2003. Earnings were $106 million compared to $118 million in 2002. Excluding the impact of the weakening U.S. dollar against the Canadian dollar, earnings would have been up slightly from 2002.

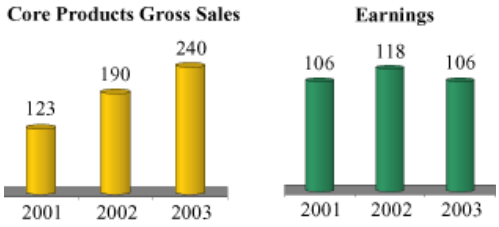
Revenue for the year grew to $2.9 billion, up 10 per cent, reflecting strong sales momentum in offshore products and U.S. issued universal life products. This increase was unfavourably affected by a weaker U.S. dollar, which caused a reduction of $351 million in revenue.

Core product sales, were up 26 per cent over 2002 and up 43 per cent on a U.S. dollar basis. The increase reflected the Company's efforts to grow its U.S. issued universal life product business and offshore product business, which experienced a sales increase of 63 per cent over 2002 on a U.S. dollar basis. COLI and BOLI sales were down as cases were delayed due to an unfavourable legislative proposal that was subsequently modified.

Summary Statement of Operations

($ millions)	2003	2002	2001
Premiums	**2,243**	1,943	1,502
Net Investment Income	**662**	701	693
Fee Income	**22**	19	11
Total Revenue	**2,927**	2,663	2,206
Client Disbursements & Change in Actuarial Liabilities	**2,320**	2,066	1,705
Commissions & Other Expenses	**456**	435	354
Income Taxes	**43**	46	37
Par Policyholders' Income (Loss)	**2**	(2)	4
Shareholders' Net Income	**106**	118	106
Sales – New Annualized Premiums			
Core Products	**240**	190	123
COLI and BOLI	**65**	217	146
Premiums and Deposits	**2,539**	3,404	2,112

Growth in U.S. Individual Life
($ millions)


Core Products Gross Sales
123
190
240
2001
2002
2003
Earnings
106
118
106
2001
2002
2003

Sun Life Financial United States — Group Life and Health

Business Profile

The Company's U.S. Group Life and Health operations provide customer-focused products and services to meet the group benefit needs of primarily small to medium-sized companies. Group Life and Health leverages its strong distribution capabilities to market group life, disability and medical stop-loss products throughout the United States. With strong underwriting expertise and distribution capabilities, the Company is a competitive provider of group life and disability products for 3.6 million group plan members. The Company's group insurance products are marketed and distributed by its sales representatives in 20 regional sales offices in the United States. These representatives maintain close relationships with independent brokers and consultants who deal directly with employers.

2003 Highlights

- Maintained #3 position in stop-loss market based on in-force business
- Maintained #13 position in group life and disability market based on sales
- Achieved sales on a U.S. dollar basis up 22 per cent from prior year with double digit increases in all product lines
- Continued to build distribution presence in many markets

The business unit continued to grow its group life and health business in the U.S. in 2003 through its network of highly trained field representatives. U.S. Group Life and Health's distribution and risk management have been key to the performance of the group insurance business.

The Company maintained its leadership position in the stop-loss insurance market through risk retention, disciplined underwriting practices and innovative managed care programs.

Financial Results

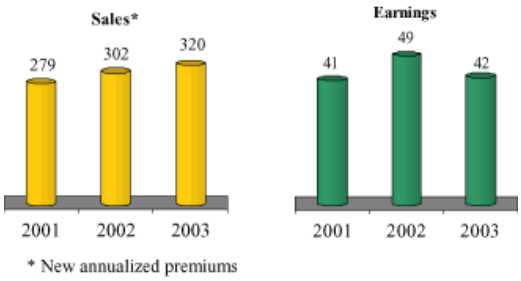
Earnings were $42 million, a decrease of 14 per cent compared to 2002. The decrease was primarily driven by the impact of the weakening U.S. dollar. On the operational front, improved mortality and favourable stop-loss performance were offset by increased disability claims. The operating expense-to-insurance premium ratio in 2003 remained at 13 per cent, unchanged from 2002 as U.S. Group Life and Health maintained expenses in line with business growth.

Revenue for the year decreased to $992 million, down $16 million or two per cent. Excluding the impact of a weaker U.S. dollar relative to the Canadian currency, revenue increased 10 per cent over the previous year, primarily driven by higher sales.

Summary Statement of Operations

($ millions)	2003	2002	2001
Premiums	**920**	925	794
Net Investment Income	**69**	80	75
Fee Income	**3**	3	2
Total Revenue	**992**	1,008	871
Client Disbursements & Change in Actuarial Liabilities	**696**	699	616
Commissions & Other Expenses	**237**	241	200
Income Taxes	**17**	19	14
Shareholders' Net Income	**42**	49	41

Growth in U.S. Group Life and Health
($ millions)



* New annualized premiums

Sun Life Financial United States — Investment Portfolio and Other

Business Profile

The Company's U.S. Investment Portfolio and Other operations include investment income and expenses not directly attributable to the U.S. core business units and the Company's distribution subsidiaries, Independent Financial Marketing Group, Inc. (IFMG) and MFS/Sun Life Financial Distributors, Inc. (MFSLF). In the U.S., IFMG is a leading distributor of insurance and investment products to retail customers through banks.

2003 Highlights

- IFMG retained the #1 ranking in sales of third-party annuities through the bank distribution channel
- Total sales by IFMG remained at 2002 level in highly unfavourable market conditions
- IFMG signed contract extensions to 2005 and beyond with its three largest banks
- Formed integrated company, MFSLF, to gain operational efficiencies and broader market penetration

Financial Results

For the year ended December 31, 2003, U.S. Investment Portfolio and Other had a loss of $8 million, compared to a loss of $62 million in 2002. The favourable change of $54 million was primarily attributable to significant bond provisions of $57 million after-tax taken in 2002 primarily related to the U.S. telecommunication, airline and energy sectors, compared to provisions of $3 million in 2003.

IFMG had sales through its distribution channels of $10.2 billion in 2003 despite a low interest rate environment, reflecting its continued expansion through the hiring of experienced sales representatives and the addition of key bank relationships.

The MFSLF integrated distribution company was launched in 2003 and had sales of $2.4 billion for the year. MFSLF will continue to focus on building a cohesive sales force network and developing its "customer solution" approach to product sales.

Summary Statement of Operations

($ millions)	2003	2002	2001
Premiums	**—**	—	—
Net Investment Income	**53**	(158)	23
Fee Income	**127**	116	39
Total Revenue	**180**	(42)	62
Client Disbursements & Change in Actuarial Liabilities	**—**	4	3
Commissions & Other Expenses	**214**	129	85
Income Taxes	**(26)**	(101)	(37)
Loss (Income) from Discontinued Operations	**—**	(12)	—
Shareholders' Net Income (Loss)	**(8)**	(62)	11

MFS Investment Management

Business Profile

MFS is a significant U.S.-based asset management company, offering investment products and services in the U.S. and in other global markets to both retail and institutional investors. MFS offers mutual funds and manages variable annuities, retirement plans and other institutional separate accounts. It also provides distribution and transfer agent services for mutual funds and retirement plans. As at December 31, 2003, the Company's equity interest in MFS was 93.2 per cent. The remaining 6.8 per cent was owned by MFS' employees.

Competitive Position[1]

- A premier global manager with total assets under management of $182.0 billion as at December 31, 2003
- 11th largest retail mutual fund company based on long-term assets under management [2] of $98 billion
- 6th largest manager of variable annuities based on assets under management of $31 billion

Strategy

- Leverage superior long-term investment performance built on the strength of investment research
- Broaden business platform to include added focus on institutional and international products
- Solidify position in the wholesale distribution channel with superior products, quality service and value-added sales support
- Capitalize on efficient operating infrastructure

2003 Highlights

- Net sales of institutional products increased by 16 per cent on a U.S. dollar basis
- Obtained substantial operational efficiencies from cost reduction efforts

Priorities for 2004

- Continue expanding global distribution
- Increase U.S. retail market share
- Exceed investment performance benchmarks with at least 75 per cent of assets across all asset categories
- Address issues arising from U.S. regulatory investigations into the investment management industry

Financial Results

Equity markets saw a general upward trend during the latter half of 2003. While the overall average of the S&P 500 was 965 for 2003 compared to 994 for 2002, the average for the fourth quarter of 2003 was 1,056, an increase of 19 per cent over fourth quarter 2002 average of 886. Primarily as a result of the improving equity markets in the latter half of the year, AUM increased by 24 per cent on a U.S. dollar basis. For 2003, MFS had a loss of $43 million, compared to earnings of $174 million for 2002. Excluding an after-tax charge of $211

Summary Statement of Operations

($ millions, except as noted)	2003	2002	2001
Net Investment Income	**(9)**	9	16
Fee Income	**1,693**	1,970	2,257
Total Revenue	**1,684**	1,979	2,273
Commissions & Other Expenses	**1,727**	1,673	1,856
Income Taxes	**5**	109	144
Non-Controlling Interests in Net Income of Subsidiaries	**(5)**	23	42
Shareholders' Net Income (Loss) — Reported	**(43)**	174	231
Less Regulatory Settlement Provisions	**(211)**	—	—

Shareholders' Net Income — Operating	**168**	174	231
Selected Financial Information			
Sales (billions)			
Gross	**47.9**	56.3	67.3
Net	**6.0**	5.1	26.4
Total AUM (billions)	**182.0**	179.4	220.2
Average Net Assets (billions)	**174.7**	192.8	214.7
Capital Employed	**235**	474	599

[1] Competitive statistics are based on published information at and for the year ended December 31, 2003 or the information available for the latest period before December 31, 2003 and do not include the impact of mergers and acquisitions closing after December 31, 2003.

[2] Long-term open-end mutual funds, excluding closed-end and money market funds.

million for the cost of the regulatory settlements related to frequent trading, and an unfavourable currency impact of $20 million, operating earnings [1] in 2003 would have increased by eight per cent compared to 2002. This solid earnings performance reflected MFS' expense management and diversification of its product platform.

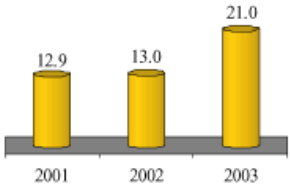
Fee income was down $277 million, or 14 per cent primarily due to the weakening of the U.S. dollar against the Canadian currency.

MFS' reduced operating expenses, excluding the aforementioned charge, to $810 million from $938 million in 2002. Correspondingly, operating expense-to-average net asset ratio decreased to 46 basis points from 49 basis points in 2002.

On the sales front, MFS reported gross sales of $47.9 billion in 2003, down five per cent from 2002 on a U.S. dollar basis. Growth in institutional and non-U.S. retail sales partially offset declines in U.S. mutual funds and variable annuities. On a net basis, MFS recorded positive sales of $6.0 billion compared to $5.1 billion in 2002. Excluding currency impact, net sales increased by 31 per cent over 2002.

During 2003, MFS continued to diversify its product portfolio and broaden its presence in institutional markets. At the end of 2003, institutional and international products represented 35 per cent of total assets under management, compared to 29 per cent as at December 31, 2002. This strategy enabled MFS to apply its investment management capabilities to a wider spectrum of products and markets, helping improve earnings stability.

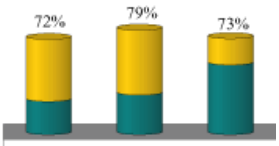
Institutional Funds Assets Under Management*
(US$ billions)



*Excluding institutional variable annuity assets

MFS' proven investment philosophy and research capability continued to produce superior investment performance in 2003. In the Lipper survey as at December 31, 2003, 72 per cent of the total number of MFS equity and fixed income funds ranked by Lipper achieved either the first or second quartile performance for the 3-year period. Results for 5 and 10-year periods were equally impressive, with 79 per cent and 73 per cent respectively, achieving the top two-quartile rankings.

Per Cent of the Number of Equity and Fixed Income Funds Ranked in the Top Half (as of December 31, 2003)



	3-Years	5-Years	10-Years
Total # of Funds	68	57	40
1st Quartile	47%	49%	20%
2nd Quartile	25%	30%	53%

Based on Lipper Data

MFS was ranked #11 among mutual fund companies in the U.S. based on long-term open-end mutual fund assets at the end of 2003 compared to #10 in 2002. The drop in MFS' ranking reflected the merger of two competitors in 2003. As at December 31, 2003, MFS had total open-end mutual fund assets of $99.8 billion, of which $98.0 billion were long-term mutual funds.

On February 5, 2004, MFS reached settlements with U.S. federal and state regulators related to administrative proceedings against it alleging false and misleading information in certain MFS fund prospectuses regarding market timing and related issues. Under the terms of the settlements, MFS neither admitted nor denied wrongdoing. The Company recorded a $211 million after-tax charge in the fourth quarter in connection with the SEC and New Hampshire settlements. As part of the settlement, MFS agreed with the Attorney General of the State of New York to reduce fees on the funds it advises by approximately US$25 million annually over the next five years.

[1] Operating net income is a non-GAAP measure and has no standardized definition under GAAP. This measure is presented to facilitate comparison to prior year earnings and may not be comparable to similar measures presented by other issuers. Financial results not specifically referred to as "operating" have been determined in accordance with GAAP.

Robert Pozen, a former Vice Chairman of Fidelity Investments and John Olin Visiting Professor at Harvard Law School, has been appointed Chairman of MFS. Robert J. Manning, has been named Chief Executive Officer, President and Chief Investment Officer of MFS. Mr. Manning, who joined MFS in 1984, is a member of the Management Committee and the Board of Directors of MFS and served as Chief Fixed Income Officer since 2001.

In addition to steps MFS had previously adopted to reinforce its frequent trading policies and procedures, MFS agreed to undertake a number of other governance reforms, including retaining an independent compliance consultant, creating an internal compliance controls committee, establishing a code of ethics oversight committee, and hiring a corporate ombudsman.

Sun Life Financial Asia

Business Profile

SLF Asia provides individual insurance in the Philippines, Hong Kong, India, China and Indonesia, group insurance in the Philippines and India, and wealth management products in India and the Philippines.

Competitive Position[1]

Poised for long-term growth with expansion in key markets.

- 2nd in individual life insurance by total premiums in the Philippines
- 2nd largest private insurer and 4th largest private mutual fund company in India through joint venture

1 Competitive statistics are based on published information at and for the year ended December 31, 2003 or the information available for the latest period before December 31, 2003 and do not include the impact of mergers and acquisitions closing after December 31, 2003.

Strategies

- Build SLF Asia into a significant long-term revenue and earnings growth operation
- Expand in core markets by leveraging the Company's expertise in high return protection products and wealth management products and services
- Support growth by building critical mass, expanding product offerings, broadening distribution channels and strengthening operating infrastructure

2003 Highlights

- Individual insurance sales up 174 per cent in India and 79 per cent in China in local currencies
- India life joint venture named best insurance company workplace in India
- China joint venture had a successful first full year of operations achieving $8 million of sales
- China joint venture obtained approval to begin preparation for life insurance operations in Beijing
- Increased efficiency of the Philippine operations through back office consolidation and process improvements

Priorities for 2004

- Continue to develop and expand alternative channels including bancassurance in core markets
- Continue to strengthen the agency channel as a foundation for growth
- Expand distribution reach particularly in India and China
- Successfully launch life insurance operations in Beijing market and prepare for further China expansion
- Ensure optimal infrastructure to support growth

Financial Results

For the year ended December 31, 2003, SLF Asia reported $37 million in earnings, up $13 million or 54 per cent from 2002. This increase was primarily due to effective expense management and higher investment income, partially offset by an unfavourable impact of $7 million due to currency movements. The Company's Philippine operations had another year of solid earnings, contributing $47 million relative to $41 million in 2002. The earnings from the Philippine operations continued to serve as the principal source of funding for the Company's growth in other Asian markets.

Summary Statement of Operations

($ millions, except as noted)	2003	2002	2001
Premiums	**421**	504	325
Net Investment Income	**162**	155	136
Fee Income	**4**	2	3

Total Revenue	**587**	661	464
Client Disbursements & Change in Actuarial Liabilities	**388**	450	280
Commissions & Other Expenses	**150**	176	159
Income Taxes	**12**	11	5
Shareholders' Net Income	**37**	24	20
Selected Financial Information			
Return on Equity	**7.8%**	4.8%	4.2%
Sales — New Annualized Premiums			
Individual Life*	**128**	105	68
Total AUM (billions)	**2.1**	2.2	1.9
Capital Employed	**443**	519	514

* Includes 100% of sales for joint ventures. Individual life sales would be $97 million, $92 million, and $68 million for 2003, 2002 and 2001, respectively, if joint venture sales were included at 50%.

Revenue decreased to $587 million, down $74 million or 11 per cent from 2002, reflecting the unfavourable effect of currency movement due to a stronger Canadian dollar and a decrease in the sale of single premium products in the Philippines. SLF Asia's ROE for 2003 increased to 7.8 per cent from 4.8 per cent in 2002 due to improved earnings. Despite the improvement in 2003, the ROE in Asia remained in the single digit percentage, reflecting the impact of the Company's continuing investments in the region in pursuit of long-term returns.

The Philippines

In 2003, the Philippine business unit ranked 2nd by total insurance premiums in the Philippine market. Competition in the industry intensified with new players broadening into non-agency channels, while consumer demand remained sluggish due to unfavourable economic conditions. The total insurance premiums in the Philippines decreased by 16 per cent to $198 million for the year ended December 31, 2003, primarily as a result of a decrease in sales of single premium products and also the decline of the Philippine peso against the Canadian dollar, which had an unfavourable impact of $31 million. Growth in sales of pre-need products remained strong, with sales increasing 19 per cent over 2002 on a local currency basis.

Philippines Operations
Total Insurance Premiums
(PHP billions)



On a local currency basis, earnings in the Philippines grew by 32 per cent in 2003. During 2003, the operation embarked on process re-engineering to enhance customer focus and to improve operating efficiencies. This will help ensure more sustainable business growth in the long term.

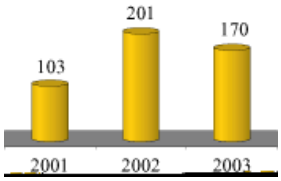
The mutual fund operations in the Philippines continued to perform strongly as gross sales increased by 31 per cent in 2003 compared to a year ago on a local currency basis. Mutual fund assets under management were $100 million as at December 31, 2003 and were up 64 per cent on a local currency basis compared to the 2002 level.

Hong Kong

After a growth in sales of 94 per cent in 2002, sales declined 15 per cent in 2003 on a local currency basis. Sales in the earlier months of 2003 were very low, being severely affected by the shift in consumer preference away from variable products and by the SARS outbreak. Anticipated growth in unit-linked products did not occur because of shifts in consumer preference and market volatility.

The Hong Kong operations responded to the market conditions by launching two new retirement products, revamping existing traditional products, restructuring the agency channel and continuing to strengthen the bancassurance and other channels. Also, there has been a considerable focus on improving the back office infrastructure and client service operations. These initiatives provide a solid platform for further growth moving forward.

Hong Kong Operations
New Annualized Premiums
(HK$ millions)

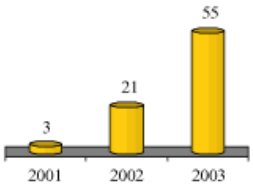


India

The Company's India life insurance joint venture, Birla Sun Life Insurance Company Limited (Birla Sun Life), continued to experience rapid sales growth in 2003, with individual life sales up 156 per cent to $55 million for the year. On a local currency basis, individual life sales were up 174 per cent. In 2003, its third year of operation, Birla Sun Life's achievements include:

- Ranked second amongst private insurers in terms of first year annualized premiums
- #1 in alternate channels based on annualized premiums
- Highest average premium for individual life sales
- Named the best insurance company workplace in India

Birla Sun Life
New Annualized Premiums*
($ millions)



* Represents 100 per cent of the sales of the Indian joint venture

Birla Sun Life operated 33 branches in 27 cities in India at the end of 2003. To capture the high growth potential in the Indian market, the joint venture expanded its direct sales force to over 9,000 agents in 2003 compared to less than 4,000 a year ago. The joint venture has also diversified the sources of production via other channels such as bancassurance.

The Company's India asset management joint venture, Birla Sun Life Asset Management Company Limited, increased its asset base to $2.8 billion at the end of 2003 compared to $1.9 billion in 2002. The number of investor accounts grew to approximately 499,000 from 346,000 a year ago. It was the fourth largest private mutual fund company in India at the end of 2003.

China

The year 2003 marked another important milestone for the Company's China joint venture, Sun Life Everbright Life Insurance Company Limited. Following the successful launch of its life insurance operations in Tianjin in April 2002, the joint venture received regulatory approval to begin preparation for life insurance operations in Beijing.

Despite the SARS outbreak, the Tianjin operations maintained strong sales momentum, with sales increasing to $8 million in 2003, representing an increase of 79 per cent relative to 2002[1] on a local currency basis. The launch of new products, active agency management and strong performance in some rural districts provided the sales increase. While the joint venture continued to grow its primary distribution channel, the agency force, to approximately 2,500 agents as at the end of 2003 from 1,600 a year ago, it also expanded into bancassurance through an alliance with three local banks as at December 31, 2003.

Indonesia

After a slow first quarter, sales improved progressively with the launch of a unit-linked product at the end of 2002, which contributed approximately 50 per cent of the sales for 2003. Total sales in 2003 grew 61 per cent over 2002 on a local currency basis. The strong sales increase was mainly driven by the variable unit-linked product and improved agent productivity.

1 Since the joint venture commenced operations in April 2002, sales for 2002 represented only eight months versus twelve months in 2003.

Sun Life Financial United Kingdom

Business Profile

SLF U.K. manages a large block of in-force annuity and insurance policies. The Company no longer offers annuity or insurance products to new customers and the in-force policies now constitute a run-off block of business.

Strategies

- Realize the underlying value of in-force business
- Maximize return on equity by effective capital management
- Minimize operational risks and regulatory exposures

2003 Highlights

- Maintained a high level of ROE at 21.5 per cent
- Sold the group business
- Completed migration of individual life and pension policies from legacy systems onto one common system
- Transferred £125 million of capital for redeployment in other business areas

Priorities for 2004

- Deliver stable net income from the underlying insurance business
- Continue to reduce administration costs of in-force business
- Maintain good level of customer service
- Continue to maximize shareholder value

Financial Results

For the year ended December 31, 2003, SLF U.K. contributed $203 million to the Company's earnings, an increase of seven per cent relative to 2002. Earnings from the U.K. individual insurance business increased by $36 million or 24 per cent compared to 2002. This improvement was largely attributable to a reduction in operating expenses, improvements in equity markets and the favourable impact of reinsurance arrangements effected in 2003.

The strong earnings performance continued to underscore the success of the Company's strategic shift, implemented in 2001. In 2003, the sale of the U.K. group health business and the renewal rights of the group life business, along with the outsourcing of the back office operations for the remaining U.K. group life business, further allowed the Company to focus on realizing the value of its U.K. in-force annuity and insurance business.

Revenue declined by $385 million or 21 per cent compared to 2002, primarily due to the sale of the group business, lower individual premiums as the closed block of business runs off and a reduction in annuity vestings. ROE for the year was 21.5 per cent, primarily reflecting the strong earnings performance and the impact of capital transfers to the Company.

Equity capital employed in the U.K. decreased to $908 million, down $112 million compared to 2002. The decrease was largely due to the transfer of capital for redeployment in other business areas of the Company, as well as a decline in the British pound sterling against the Canadian dollar.

Summary Statement of Operations

($ millions, except as noted)	2003	2002	2001
Premiums	**724**	990	967
Net Investment Income	**626**	730	934
Fee Income	**93**	108	166
Total Revenue	**1,443**	1,828	2,067
Client Disbursements & Change in Actuarial Liabilities	**1,069**	1,426	1,499
Commissions & Other Expenses	**163**	230	395
Income Taxes	**8**	(18)	(7)

Shareholders' Net Income	**203**	190	180
Selected Financial Information			
Return on Equity	**21.5%**	21.9%	15.8%
Total AUM (billions)	**17.6**	19.8	20.3
Capital Employed	**1,207**	1,400	1,242

Corporate Capital

Business Profile

Corporate Capital refers to investment income, expenses, capital and other items not allocated to the Company's operating units. This reporting unit also includes the Company's run-off reinsurance line, which is a closed block of mostly accident and health reinsurance business.

2003 Highlights

- Purchased and cancelled 18 million shares as part of stock repurchase program
- Redeemed $165 million of subordinated debentures

Priorities for 2004

- Continue to develop, evaluate and execute value enhancing opportunities
- Continue to optimize the Company's overall capital structure

Financial Results

For the year ended December 31, 2003, Corporate Capital reported a loss of $20 million compared to a loss of $277 million in 2002. Full year 2003 results improved by $257 million over 2002 results, which included a $217 million restructuring charge. The improvements in equity markets at December 31, 2003 would have allowed the Company to set lower reserves held for guaranteed minimum income benefits. However, the reserves were only partially released in order to provide additional protection in the event of a future decline in equity markets.

Equity increased to $1.4 billion from the $788 million as at December 31, 2002, primarily reflecting the transfer of capital from operating units to Corporate Capital during the year, partially reduced by amounts for the Company's share buyback program and shareholder dividends paid out in the year.

Summary Statement of Operations*

($ millions)	2003	2002**	2001
Premiums	**127**	71	88
Net Investment Income	**297**	500	444
Fee Income	**16**	(4)	1
Total Revenue	**440**	567	533
Client Disbursements & Change in Actuarial Liabilities	**(77)**	500	134
Commissions & Other Expenses	**555**	483	341
Income Taxes	**(77)**	(233)	33
Non-controlling Interests in Net Income of Subsidiaries	**59**	46	8
Loss (Income) from Discontinued Operations	**—**	48	—
Shareholders' Net Income (Loss)	**(20)**	(277)	17
Capital Employed	**1,917**	986	227

* Excluding consolidation adjustments of activities between segments.

** As restated.

Risk Management

Risk Framework

The basis of risk management within the Company is embedded in the enterprise-wide risk management framework, which was developed and adopted to enable the Company to effectively manage its risks. The framework provides oversight to the risk management activities within major operating areas and business units, as it is designed to provide discipline and consistency to the practice of risk management in all business units.



Objectives: The framework specifies the four key objectives of the risk management program: (i) avoidance of risks that could materially affect the value of the Company; (ii) contribution to sustainable earnings; (iii) acceptance of risks that the Company can manage in order to increase returns; and (iv) transparent disclosure of the Company's risks.

Risk Philosophy: The Company is in the business of accepting risks for appropriate return. It will take on those risks that meet the objectives of the organization. The program design aligns risk management with the corporate vision and strategy and embeds it within the business management practices of the business units.

Risk Culture: The risk culture of the Company entails a common philosophy and principles about risk, supported by consistent expectations, beliefs, attitudes and behaviours.

Accountabilities: Accountability provides clear lines of responsibility and authority for risk acceptance and risk taking. The Board of Directors has appointed a standing committee, the Risk Review Committee, composed of independent directors, which is dedicated to the oversight of risk management within the Company. The committee's key duties include responsibility for: (i) ensuring that the major areas of risk of the business activities of the Company are identified and reviewed by management, and (ii) approving, and reviewing compliance with, the policies and programs implemented by the Company for the management and control of risk. The responsibility for the management of risk has been delegated to management who report on key risk issues to the committee on a regular basis.

The foundation of the Company's risk framework is the risk identification, assessment and management program, which utilizes common categorization of risk; risk management processes; and risk policies to govern the activities of the organization by providing standards for measurement and control of the risks to which the Company is exposed.

Key Risk Processes

The Company has a formal risk management program which is implemented by management in each business group. The risk management program includes a process that applies qualitative and quantitative analysis of the risk exposures, with appropriate reporting to senior management and the Board of Directors. The results of such reporting are utilized to develop a company-wide view of the most significant risks, which is developed on an annual basis and reported to the Risk Review Committee.

Market Risk Tolerance and Earnings at Risk

The Company has established market risk tolerance limits that set out the maximum income sensitivity of business groups to changes in interest rates, equities and foreign exchange markets. These limits are based on the sensitivity of a one-year forward projection of income tested by business groups against a set of internally prescribed market shocks. Deviations from the applicable limits are reported to the Risk Review Committee.

To complement the above, the Company has also developed an Earnings-at-Risk measurement model. The model provides to management and the Risk Review Committee an analysis of capital market risks at a 95^{th} percentile confidence level of the maximum deviation of earnings by major businesses based on a one-year forward projection. The Earnings-at-Risk model is also able to project a distribution of possible deviations of earnings to further assist in risk management activities.

Sensitivity of Earnings

The following table sets out the sensitivity of the Company's earnings to changes in the interest rate environment and equity markets based on the existing business mix. These amounts are estimated assuming limited management actions to mitigate the impact of the changes, but do reflect activities undertaken in early 2004 to reduce interest rate sensitivities. Interest rate sensitivity has increased from 2002 as a result of the sustained low interest rate environment.

($ millions)	Increase (Decrease) in Earnings
Interest Rate Sensitivity[1]	
1% Increase	107
1% Decrease	(100)
Equity Market Sensitivity[2]	
10% Increase	171
10% Decrease	(110)

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

(2) Represents the percentage change in equity markets

Risk Policies

The Company has adopted consolidated risk management policies to provide a consistent approach to measurement, mitigation and control and monitoring of risk exposures. Risk policies have been established with respect to the major risks facing the Company.

Risk Categories

The risks facing the Company can generally be classified into four categories:

- **Market risk:** the uncertainty arising from changes in market prices or indices and the cost of embedded options and guarantees related to equity markets and/or interest rates;
- **Credit risk:** the uncertainty surrounding the likelihood of default;
- **Insurance risk:** the uncertainty due to differences between the actual and expected amounts of claims and benefit payments and the cost of embedded options and guarantees related to insurance risks;
- **Operational risk:** the uncertainty arising from events caused by failures of people, process and technology as well as external dependencies.



MARKET RISK

Asset/Liability Management

The Company's asset/liability management maximizes long-term economic value within established risk tolerance limits and constraints. The Company's insurance liabilities are segmented according to major product type with investment guidelines established for each segment. Asset mix, asset quality, liquidity and interest rate exposure are regularly measured and compared to policy objectives and liability requirements for each product segment.

Interest rate risk is the risk of asset-liability mismatch resulting from interest rate volatility.

To manage interest rate risk, the Company has a matching policy for each portfolio of assets and associated liabilities in order to keep potential losses within acceptable limits. For interest sensitive business lines, such as individual and group annuities, the primary approach is to manage the sensitivity of the duration gap between assets and liabilities. Duration gap analysis measures the sensitivity of a change of the duration gap between assets, liabilities and off-balance sheet instruments to interest rate changes. Specifically, the Company employs a "key rate duration" technique that examines the duration gap of assets and liabilities at discrete points on the yield curve. These gaps are managed within specified tolerance limits.

Market risk is the uncertainty arising from changes in market prices or indices and the cost of embedded options and guarantees related to equity markets and/or interest rates.

To manage market risk, the Company's exposure to these market risks is monitored and managed against established risk tolerance limits, such as the Earnings-at-Risk monitoring tools noted above. Stock holdings

are diversified by industry type and corporate entity. Real estate holdings are diversified by location and property type. The effects of a large and sustained adverse market movement are regularly monitored through Dynamic Capital Adequacy Testing and other stress testing techniques.

Other important factors to consider in assessing the Company's exposure to market risk include the use of derivatives and the Company's policies regarding liquidity management and foreign exchange risk. Additional discussion on the Company's use of derivatives and its policies on liquidity management are disclosed in the Financial Position and Liquidity section. Discussion on the impact of currency fluctuations and other risk factors can be found on pages 21 to 26 in the Company's 2003 AIF.

CREDIT RISK

Credit Risk Management

Credit risk is the uncertainty surrounding the likelihood of default.

To manage credit risk associated with fixed income investments, the Company uses detailed credit and underwriting policies, detailed diversification requirements, comprehensive due diligence and aggregate counter-party exposure limits within fixed income portfolios. A numerical credit risk factor is assigned to all fixed income investments and an aggregate credit risk factor is developed for major operations and the Company in aggregate, which are monitored against pre-established limits and reported periodically to the Board of Directors. Provisions for impaired assets are charged against the carrying value of the asset. Allowances for possible future asset defaults are also provided for in the actuarial reserves.

Reinsurance Ceded Risk Management

Reinsurance ceded risk is the counterparty risk relating to externally reinsuring exposures.

The Company maintains a reinsurance ceded policy to establish limits and to monitor the level of reinsurance ceded to any single reinsurer or group of reinsurers. These limits are also consolidated across operations to capture total exposure to any single reinsurer.

INSURANCE RISK

Product Design & Pricing Risk

Product design & pricing risk is the risk arising from inappropriate or inadequate product design and pricing including deviations from the assumptions used in pricing products as a result of uncertainty concerning future investment yields, mortality and morbidity experience, expenses, rates of policy termination and taxes.

To manage product design and pricing risk the Company sets standards and guidelines that address product design and pricing methods, pricing assumptions, profit margin objectives, required scenario analysis, documentation, internal peer review and pricing approval processes. The product design and pricing risk management process also includes completion of an annual compliance assessment by all business units and the internal audit of business unit pricing on a rotating basis.

Mortality and Morbidity Risk Management

Mortality and morbidity risk is the risk of incurring higher than anticipated mortality and morbidity claim losses on any one policy or group of policies.

To manage mortality and morbidity risk, the Company follows detailed uniform underwriting procedures to determine the insurability of applicants and to manage exposure to large claims. Underwriting requirement limits are regularly scrutinized against industry standards.

Group insurance policies are underwritten prior to the issue of the policy and again at each renewal. The Company's group insurance underwriting is driven by risk selection, plan design and rating techniques.

The risk policies approved by the Board of Directors include limits on the maximum amount of insurance that may be issued and the maximum amount that may be retained. These limits vary by geographic region. Amounts in excess of these limits are reinsured.

OPERATIONAL RISK

Operational Risk Management

Operational risk is the uncertainty arising from events caused by failures of people, processes or technology as well as external dependencies.

To manage operational risk, the Company has worldwide policies and guidelines as well as specific

policies and guidelines for each business in which it operates.

The Company has established a formal risk identification program in which management for each business group identifies the current key risks that may impact upon the business. Exposures to these risks are assessed on a qualitative and quantitative basis. Risk control programs are documented and action plans are established for mitigating the exposure. Utilizing the input from the Business Groups, the Company also identifies the key risks that may materially impact the corporation as a whole. These risks are monitored regularly by senior management and reported to the Risk Review Committee on an annual basis.

The Company maintains a comprehensive insurance program that provides protection against potential losses. This program includes appropriate levels of self-insurance. The Company's environmental risk management program is designed to protect investment assets from losses due to environmental problems and to ensure compliance with applicable laws. The Environmental risks arise primarily from the Company's real estate, mortgages and structured finance portfolios. The senior investment officer in each Business Group is responsible for ensuring that the local environmental policy is appropriate for local operating conditions.

An expanded description of the Company's risk factors can be found on pages 21 to 26 of the Company's 2003 AIF.

Critical Accounting Estimates

The Company's significant accounting policies, including actuarial policies, are described in detail in Notes 1, 2, 8, 9 and 11 to the Company's Consolidated Financial Statements. These policies require management to make judgments involving assumptions and estimates, some of which may relate to matters that are inherently uncertain. The estimates described below are considered particularly critical to understanding the Company's financial performance. As part of the Company's financial control and reporting, judgements involving assumptions and estimates are reviewed internally and by independent advisors on a regular basis. Accounting policies requiring estimates are applied consistently in the determination of the Company's financial results.

BENEFITS TO POLICYHOLDERS

The Company's benefit payment obligations over the life of its annuity and insurance products are determined by internal valuation models and are recorded in its financial statements, primarily in the form of actuarial liabilities. The determination of the value of these obligations is fundamental to the Company's financial results and it requires management to make certain assumptions about, among other factors, mortality and morbidity rates, policy terminations, equity market performance, interest rates, asset default, inflation and expenses over the life of its products.

In calculating actuarial liabilities and other policy liabilities, assumptions must be made about the timing and amount of many events, including death, accident or sickness disability, investment, inflation, policy termination, expenses, taxes, premiums, commissions and policyholder dividends. The general approaches to the setting of the assumptions used by the Company are described later in this section.

The Company uses best estimate assumptions for expected future experience. Uncertainty is inherent in the process, as no one can accurately predict the future. Some assumptions relate to events that are anticipated to occur many years in the future and are likely to require subsequent revision. Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to change or if the actuary is less certain about the underlying best estimate assumption, a correspondingly larger provision is included in the actuarial liabilities.

In determining these provisions, the Company ensures:

- When taken one at a time, each provision is reasonable with respect to the underlying best estimate assumption, and the extent of uncertainty present in making that assumption.
- In total, the cumulative effect of all provisions is reasonable with respect to the total actuarial liabilities.

With the passage of time and resulting reduction in estimation risk, the provisions are released into income. In recognition of the long-term nature of policy liabilities, the margin for possible deviations generally increases for contingencies further in the future. The best estimate assumptions and margins for adverse deviations are reviewed annually and revisions are made where deemed necessary and prudent.

4 **Mortality**

Mortality refers to the rate at which death occurs for a defined group of people. Insurance mortality assumptions are generally based on the Company's average five-year experience. For annuities, Company experience is combined with industry experience, since the Company's own experience is insufficient to be statistically reliable. Assumed future mortality rates on annuities are adjusted to reflect expected improvements in mortality. Assumed mortality rates for life insurance contracts do not reflect any future improvement that might occur.

For products where higher mortality would be financially adverse to the Company, a one per cent increase in the best estimate assumption would decrease the net income by $84 million. For products where lower mortality would be financially adverse to the Company, a one per cent reduction in the mortality assumption would decrease the net income by $30 million.

4 **Morbidity**

Morbidity refers to the rate of accident or sickness, and recovery therefrom, for a defined group of people. Most of the Company's disability insurance is marketed on a group basis. In Canada, the Company offers critical illness policies on an individual basis and long-term care both on a group and individual basis. Medical stop loss insurance is offered on a

group basis in the United States. In Canada, group morbidity assumptions are based on the Company's five-year average experience, modified to reflect the trend in recovery rates. For long-term care and critical illness insurance, assumptions are developed in collaboration with our reinsurers and are largely based on their experience. In the United States, Company experience is used for both medical stop loss and disability assumptions, with some consideration for industry experience. Larger provisions for adverse deviation are used for those benefits where Company or industry experience is limited. For products where the morbidity is a significant assumption, a one per cent change in that assumption would reduce the net income by $17 million.

4 **Policy Termination Rates**

Policyholders may allow their policies to terminate prior to the end of the contractual coverage period by choosing not to continue to pay premiums or by exercising one of the non-forfeiture options in the contract. Assumptions for termination experience on life insurance are generally based on the Company's average five-year experience. Termination rates vary by plan, age at issue, method of premium payment and policy duration. For universal life contracts, it is also necessary to set assumptions about premium cessation occurring prior to termination of the policy. Studies prepared by industry or actuarial bodies are used for certain products where the Company's experience is too limited to be statistically valid.

For individual life insurance products where fewer terminations would be financially adverse to the Company, net income would be decreased by $56 million if the termination rate assumption was reduced by 10 per cent starting in policy year six (five per cent for participating policies and policies with adjustable premiums). For products where more terminations would be financially adverse to the Company, net income would be decreased by $61 million if an extra one per cent of the in-force policies were assumed to terminate each year beginning in policy year six (0.5 per cent for participating policies and policies with adjustable premiums).

4 **Equity Markets and Segregated Fund Guarantees**

The Company has a large volume of accumulation annuities primarily in the United States subject to equity market movements. The Company also reinsures the guarantees offered on accumulation annuities issued by other insurance companies in the United States, although the Company no longer accepts new business on these reinsurance treaties. The Company monitors its experience for these guarantees on a monthly basis, and has hedged a large percentage of its exposure with long dated put options against the S&P 500. Effective January 1, 2004, the rules for accounting for hedge instruments have changed. Taking account of this, and in recognition of the fact that equity markets, in particular the S&P 500, have risen significantly in the past few months, the Company decided to revise its hedging strategy going forward to more effectively manage the impact of equity market changes over a broader range of the S&P 500 index. In addition, the improvement in equity markets at December 31, 2003 would have allowed the Company to set lower reserves held for guaranteed minimum death benefit and guaranteed minimum income benefit. However, the reserves were not released in order to provide additional protection in the event of a future decline in equity markets.

The Company has a block of unit-linked products in the United Kingdom which offer guaranteed annuity purchase price options. While not segregated fund guarantees, the exposure to the annuity options is dependent on the equity market movements.

The Company has a large volume of accumulation annuities primarily in the United States subject to equity market movements. The Company monitors its experience for the accumulation annuities sold in the United States on a monthly basis, and has hedged a large percentage of its exposure with long dated put options against the S&P 500. The sensitivity of the actuarial liability for the various guarantees offered under these products to changes in the equity market is significant for those blocks of business. For example, an immediate 10% drop in equity markets as at December 31, 2003 would decrease the net income for segregated fund guarantees by $77 million. The impact of this change on net income is included in the equity market sensitivities reported in the table on page 37.

4 **Interest Rates**

Interest rate risk is the potential for financial loss arising from changes in interest rates. For example, the Company is exposed to this risk when the cash flows from assets and the policy obligations they support are significantly mismatched. This mismatch may result in the need to either sell assets to meet policy payments and expenses, or to re-invest excess asset cash flows under unfavourable interest environments.

To manage this risk, a matching policy is established for each portfolio of assets and related liabilities.

Asset/liability management programs are in place to implement this policy. The primary approach used is duration gap analysis, which measures the sensitivity of assets and liabilities to interest rate changes across the entire yield curve. Key rate duration analysis is used to examine the duration gap of assets and liabilities at discrete intervals on the yield curve. These gaps are managed within specified tolerance limits.

Interest rate sensitivity is provided for in the actuarial liabilities for all policies, with adequate provisions to absorb moderate changes in interest rates.

For certain product types, including participating insurance and certain forms of universal life policies and annuities, the effect of changes in the interest rate environment will be largely passed through to policyholders as changes to the amount of dividends declared or to the rate of interest credited. These changes occur routinely as interest rates change, and reflect the normal operation of these policies according to their contractual terms.

An immediate one per cent parallel increase in interest rates at December 31, 2003 across the entire yield curve, assuming the Company did not take any investment actions other than those taken in early 2004, would result in an estimated increase in net income of $107 million. Conversely, an immediate one per cent parallel decrease in interest rates, assuming no investment actions other than those taken in early 2004, would result in an estimated decrease in net income of $100 million. Included in the impact in earnings is the impact on the change in actuarial reserves.

4 **Asset Default**

In addition to the allowances for losses on invested assets outlined in Note 8 of the Company's 2003 Consolidated Financial Statements, the actuarial liabilities included an amount of $2.0 billion determined on a pre-tax basis to provide for possible future asset defaults and loss of asset value. This provision results from a reduction in the expected future investment yield or a reduction in the value of equity assets recognized in the computation of actuarial liabilities. The reduction varies depending on the creditworthiness of the class of asset.

4 **Operating Expenses and Inflation**

Actuarial liabilities provide for future policy-related expenses. These include the costs of premium collection, claims adjudication and processing, actuarial calculations, preparation and mailing of policy statements and related indirect expenses and overhead. Expense assumptions are mainly based upon recent Company experience using an internal expense allocation methodology. The increases assumed in future expenses are consistent with the inflation rate used in the scenario testing under the standards established by the Canadian Institute of Actuaries. The sensitivity of actuarial liabilities to a 10 per cent increase in unit expenses company-wide would result in a decrease in net income of $238 million.

MARKET VALUE OF INVESTMENTS

As described in Note 1 to the Company's 2003 Consolidated Financial Statements, stocks, including certain other equity type investments, and real estate are originally recorded at cost and the carrying value is adjusted toward fair value each quarter at rates of five per cent and three per cent, respectively. Fair values of stocks and certain other equity investments are disclosed in Note 8(a) of the Company's Consolidated Financial Statements and are based on quoted market prices or references to market values for similar investments. For real estate, market values are determined by qualified appraisers. Appraisals are obtained annually for high value properties and at least once every three years for other properties.

Certain equity derivatives are accounted for on the same basis as stocks, while other equity index futures, swaps, forwards and options are reported at their fair values on the balance sheet with increases and decreases in their value reported in net investment income. For more details, refer to Note 1 to the Company's 2003 Consolidated Financial Statements.

Fair values of interest rate swap and foreign exchange contracts are determined by discounting expected future cash flows using market interest and exchange rates for similar instruments. Fair values of options, financial futures and common stock index swaps are based on quoted market prices or the value of the underlying securities or indices.

Market values are subject to fluctuations as economic and business conditions change. Where a readily observable market value is not available, management judgement is required in determining market values. As at December 31, 2003, the market value of stocks, including certain other equity type investments, and real estate comprised approximately eight per cent of invested assets.

ALLOWANCE FOR INVESTMENT LOSSES

The Company had total general fund invested assets of $97.2 billion as at December 31, 2003, the majority of which was invested in medium to long-term, high quality fixed income instruments. The Company maintains a prudent policy in setting the allowance for investment losses. Comprehensive reviews are performed on the Company's invested assets on a regular basis. Management considers various factors to identify invested assets of potential concern. Consideration is given to general economic and business conditions, industry trends, specific developments with regard to security issuers and current market values where available. When an asset is classified as impaired, allowances for losses are established to adjust the carrying value of the asset to its estimated recoverable amount. The determination of the estimated recoverable amount is based on estimates of net realizable value. The use of different methodologies and assumptions may have a material effect on the estimates of net realizable value. Sectoral allowances are also established for classes of assets when there is concern about the ultimate collection of principal or interest because of a general deterioration of a particular business sector. These allowances represent management's best estimate, based on market conditions, of probable losses within a portfolio that have not yet been specifically identified. Provisions for losses on investments, which increase the allowances, are charged against net investment income. Write-offs, net of any recoveries, reduce the allowances.

As at December 31, 2003, the Company's total impaired assets amounted to $457 million, which were net of specific allowances of $242 million. The corresponding market value of these impaired assets was approximately $456 million as at December 31, 2003.

GOODWILL AND OTHER INTANGIBLES

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net identifiable tangible and intangible assets. The Company had a carrying value of $6.0 billion in goodwill as at December 31, 2003, consisting primarily of $3.7 billion arising from the Clarica acquisition and $1.6 billion arising from the Keyport acquisition.

Identifiable intangible assets consist of finite-life and indefinite-life intangible assets. As at December 31, 2003, the Company's finite-life intangible assets had a carrying value of $601 million, reflecting primarily the value of the banking distribution channel, the sales potential of its field force, and asset administration contracts. The Company's indefinite-life intangible assets had a carrying value of $906 million, reflecting fund management contracts, brand names and state licenses.

The goodwill and indefinite-life intangible assets are tested for impairment on an annual basis, based on the fair values of the reporting units and the intangible assets.

Accounting Policies

Changes in Accounting Policies in 2003

In 2003, the Company adopted certain new accounting standards and policies that are detailed in Note 2 to the Company's 2003 Consolidated Financial Statements. None of these changes are considered material to the determination of the Company's financial position or results.

Future Adoption

The Company intends to adopt the following recently issued accounting standards in future years. The standards are summarized below and detailed in Note 2 to the Company's 2003 Consolidated Financial Statements.

4 **Hedging Relationships**

The Company will adopt Hedging Relationships, CICA Handbook Accounting Guideline 13, on January 1, 2004. This Guideline requires that all conditions with respect to identification, documentation, designation and effectiveness of hedges be met before hedge accounting can be adopted and applies to all hedges existing on or after January 1, 2004. Certain of the derivatives that are still considered to be part of a hedging relationship, including the options that hedge the guaranteed minimum death benefit products, will not qualify for hedge accounting under the new requirements in Accounting Guideline 13. As a result, these derivatives will be carried at their fair values effective January 1, 2004. The resulting transitional gain will be deferred and recognized into income in the same period as the original hedged items. Subsequent increases or decreases in the fair values of these derivatives will be reported in net investment income in the consolidated statements of operations.

4 Consolidation of Variable Interest Entities

The Company will adopt Consolidation of Variable Interest Entities, CICA Handbook Accounting Guideline 15 on January 1, 2005. This Guideline provides guidance for application of consolidation principles to those entities defined as variable interest entities (VIEs) in which equity investors do not have the characteristics of a "controlling financial interest" or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Guideline requires that all entities be designated as either voting interest entities or variable interest entities. VIEs are subject to consolidation by the Primary Beneficiary which is defined as the party who has exposure to the majority of a VIE's expected losses and/or expected residual returns.

The CICA is monitoring the developments of the Financial Accounting Standards Board (FASB) relating to recently issued revised FASB Interpretation No. 46, Consolidation of Variable Interest Entities, the U.S. GAAP equivalent of Accounting Guideline 15, since the intention is to harmonize the Accounting Guideline with U.S. GAAP. The Company will continue to review the status of VIEs as this harmonization occurs.

4 Financial Instruments Disclosure and Presentation

The Company will adopt the amendments to the accounting requirements in CICA Handbook Section 3860, Financial Instruments – Disclosure and Presentation on January 1, 2005. Securities issued by the Company that give the Company an unrestricted obligation to settle the principal amount in cash or in the equivalent value of its own shares, must be classified as debt.

In the third quarter 2003 interim financial statements, the Company indicated that it would adopt these amendments on January 1, 2004. Subsequent to the issue of those financial statements, the CICA announced the postponement of the effective date of implementation to January 1, 2005. As a result, the Company will not be adopting the new accounting requirements until January 1, 2005, and therefore will no longer be required to reclassify the Sun Life ExchangEable Capital Securities issued by Sun Life Capital Trust (the Trust) from non-controlling interests in subsidiaries to other liabilities, as it is expected that the Trust will be deconsolidated upon adoption of the Consolidation of Variable Interest Entities, Accounting Guideline 15, on the same date.

4 Impairment of Long Lived Assets

The Company will adopt Impairment of Long-Lived Assets, CICA Handbook Section 3063, on January 1, 2004. Under this standard an impairment loss is recognized when the carrying amount of an asset to be held and used exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The Company does not expect this standard to have a material effect on the consolidated financial statements.

Investments

The Company holds a diverse set of portfolios for its asset management, mutual fund and variable annuity operations, as well as for the Company's general funds. The Company maintains prudent, uniform investment policies with specific guidelines appropriate for each of its business groups. For its general funds, the Company focuses on maintaining high-quality, well-diversified portfolios that are appropriate for its general fund obligations. The investment of the Company's general funds is described below.

Investment Policies

The primary aim of the Company's investment strategy for its general fund assets is to ensure that all investments are properly structured relative to the maturities of their liabilities and that adequate liquidity is maintained at all times. The Risk Review Committee of the Board of Directors regularly reviews and approves investment policies that set prudent standards and procedures for the investment of the Company's assets. These policies include limits for interest rate, credit, equity market, real estate market, liquidity, concentration, currency and derivative risks. Compliance with these policies is monitored and reported upon by the Company's Corporate Office on a regular basis. In addition, management is required to advise the Board of Directors annually, in writing, whether there has been adherence to these policies.

Investment Profile

The Company had total consolidated general fund invested assets of $97.2 billion at December 31, 2003, compared to $110.5 billion at December 31, 2002. The decrease was primarily due to the strengthening of the Canadian dollar, which reduced assets by $10.6 billion, and the sale of Clarica U.S. in January 2003, which had invested assets of $5.1 billion at December 31, 2002.

The investment portfolio is broadly diversified and carefully managed with respect to the nature of the Company's underlying policy obligations. The Company invests the majority of its general funds in medium to long term fixed income instruments such as bonds and mortgages. The Company's portfolio composition is very conservative, with approximately 90 per cent of the general funds in cash and fixed income investments as at December 31, 2003. Real estate comprised three per cent of the general funds, of which approximately 67 per cent related to the participating policyholders' account. Common stock comprised approximately four per cent of the general funds, of which approximately 73 per cent was related to the participating policyholders' account. The Company's shareholders' net income generally is not affected by the performance of investments held in the participating policyholders' account.

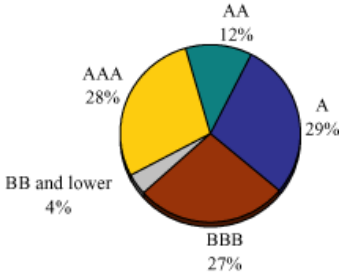
Investments

	2003		2002		2001	
($ millions)	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	% of Total
Bonds	**66,090**	**68**	73,367	66	48,077	65
Mortgages	**13,601**	**14**	15,799	14	8,622	12
Stocks	**3,473**	**4**	4,221	4	4,882	7
Real Estate	**3,067**	**3**	3,223	3	2,316	3
Cash and Equivalent Investments	**4,972**	**5**	7,152	7	4,809	7
Policy Loans and Other Invested Assets	**5,973**	**6**	6,726	6	4,558	6
Total Carrying Value	**97,176**	**100**	110,488	100	73,264	100
Total Market Value	**102,252**		114,993		74,763	

Bonds

The Company's bond portfolio represented 68 per cent of invested assets at December 31, 2003, compared to 66 per cent at the end of the previous year. The Company's bond portfolio is actively managed through a regular program of purchases and sales directed at optimizing yield, quality and liquidity,

Bonds by Investment Grade



while ensuring that the asset portfolio remains matched to liability requirements. At December 31, 2003, the bond portfolio had a carrying value of $66.1 billion and a market value of $70.1 billion compared with $73.4 billion and $77.5 billion at the end of 2002. The decrease in bond investments was primarily attributable to the strengthening of the Canadian dollar, which had the effect of reducing bonds by $8.2 billion, and the sale of Clarica U.S. in January 2003 which had bonds of $3.9 billion at December 31, 2002.

At December 31, 2003 and 2002 the Company held $15.1 billion and $17.4 billion, respectively, of non-public bonds, which constituted 23 per cent and 24 per cent, respectively, of the Company's overall bond portfolio. Of such amounts, non-public bonds rated "A" or higher represented 54 per cent and 52 per cent, respectively, of total non-public bonds, and non-public bonds rated "BBB" or higher represented 91 per cent and 89 per cent, respectively, of total non-public bonds at such dates. The decrease in non-public bond holdings was primarily due to the impact of the strengthening of the Canadian dollar and the sale of Clarica U.S. in January 2003.

The Company's bond portfolio is also diversified by country. As at December 31, 2003, 39 per cent of the total bond portfolio was invested in Canada, 44 per cent in the U.S. and 11 per cent in the U.K., based on the jurisdiction of the incorporation of issuers.

Mortgages

The Company's mortgage portfolio represented 14 per cent of invested assets at December 31, 2003, unchanged from the end of 2002. The Company's mortgage portfolio totalled approximately $13.6 billion compared to $15.8 billion at the end of 2002. The decrease in mortgage investments was primarily attributable to the disposition of Clarica U.S., the impact of the strengthening of the Canadian dollar and the securitization of mortgages during 2003 in the United States. As at December 31, 2003, 72 per cent of the total mortgage portfolio was invested in Canada, 26 per cent in the U.S., and two per cent in the U.K.

The Company's mortgage portfolio is almost entirely first mortgages. While the Company generally requires a maximum loan to value ratio of 75 per cent, it may invest in mortgages with a higher loan to value ratio in Canada if the mortgage is insured.

As at December 31, 2003, commercial mortgages accounted for 70 per cent and residential mortgages accounted for 30 per cent of the Company's total mortgage portfolio. Approximately 48 per cent of mortgage loans mature by December 31, 2008. As part of its ongoing investment activities, the Company seeks to renew a significant proportion of those mortgages that meet the Company's investment criteria.

The Company also originates and manages mortgage-backed investments for institutional clients. This fee-based business allows the Company to leverage its extensive commercial mortgage underwriting expertise and enhance its asset management strength. In 2003, the Company offered $623 million of commercial mortgage-backed securities in the U.S. The Company had $1.9 billion in managed mortgage assets as at December 31, 2003, compared to $1.8 billion at the end of 2002.

Stocks

The Company's equity portfolio represented four per cent of invested assets at December 31, 2003, unchanged from the end of 2002. At December 31, 2003, the Company's stock portfolio had a carrying value of $3.5 billion compared with $4.2 billion at the end of 2002. The decrease was primarily due to the sale of equities in the U.K. and the impact of the strengthening of the Canadian dollar during 2003. The market value of its stock portfolio remained at $3.1 billion at the end of 2003, unchanged from the end of 2002 as the decrease in carrying value and the unfavourable currency impact due to the strengthening of the Canadian dollar against foreign currencies were offset by higher equity valuations. The Company's equity investments held in the participating policyholders' account accounted for 73 per cent of the Company's total stock holding as at December 31, 2003.

The Company's equity portfolio is diversified by country. At December 31, 2003, $802 million or 23 per cent of the Company's equity portfolio related to Canadian issuers, $1.0 billion or 29 per cent to U.S. issuers, $1.5 billion or 43 per cent to U.K. issuers, and $152 million or five per cent to issuers from other jurisdictions. The portfolio is also well diversified by industry classification and specific issuer.

Real Estate

The Company's real estate portfolio represented three per cent of invested assets at December 31, 2003, unchanged from the end of 2002. At December 31, 2003, 61 per cent of the portfolio was located in Canada, 27 per cent in the United States and 12 per cent in the United Kingdom. The Company's real

estate portfolio had a carrying value of approximately $3.1 billion and a market value of approximately $3.3 billion at December 31, 2003, compared with $3.2 billion and $3.4 billion, respectively, at the end of 2002.

Commercial office properties are the major component of the real estate portfolio, representing approximately 50 per cent of real estate investments at December 31, 2003.

The Company actively manages its real estate portfolio, focusing on acquisitions and dispositions, leasing and the management of properties. The Company is also engaged in the real estate advisory business and management of third-party properties.

Impaired Assets

Total impaired assets, net of total specific and sectoral allowances, amounted to $333 million at December 31, 2003, compared to $457 million as at December 31, 2002. The decrease of $124 million reflects the disposal of certain impaired holdings, the impact of the additional allowances taken during the year, and the strengthening of the Canadian dollar, which was offset primarily by the addition of impaired bonds in the U.S. securitization sector. The Company's net impaired ratio, defined as net impaired assets to total invested assets, decreased to 0.34 per cent from 0.41 per cent at the end of 2002.

The Company had allowances of $366 million against gross impaired assets of $699 million as at December 31, 2003. Impaired assets are primarily bonds related to the U.S. securitization, utilities and transportation sectors.

In addition, the Company had $2.0 billion for possible future asset defaults included in its actuarial liabilities as at December 31, 2003, compared with $1.9 billion in 2002. The increase is primarily attributable to changes in methodology, largely offset by the sale of Clarica U.S. and the strengthening of the Canadian dollar against other currencies.

The Company takes provisions for impaired bonds and mortgages. In 2003, the Company took provisions of $113 million, net of recoveries, on invested assets compared to net provisions of $365 million in 2002. The 2003 provisions were primarily related to investments in the airline and securitization sectors in both the United States and Canada. The 2002 provisions were primarily related to bond investments in the communications, airlines and energy sectors in the United States.

Deferred Net Realized Gains

Deferred net realized gains represent net gains on the sale of invested assets that have not yet been recognized in income. In accordance with Canadian generally accepted accounting methods for insurance companies, net realized gains on the sales of bonds and mortgages are deferred and amortized into future investment income on a constant yield basis over the remaining period to maturity. Net realized gains on the sale of stocks and real estate are deferred and amortized into future investment income at the quarterly rate of five per cent and three per cent, respectively, of the unamortized balance.

The Company had $3.1 billion in deferred net realized gains as at December 31, 2003, of which $2.3 billion represented net gains on invested assets backing actuarial liabilities and $0.8 billion represented net gains on invested assets backing capital. Gains on bonds and stocks collectively represented 95 per cent of total deferred net realized gains as at December 31, 2003.

Net Unrealized Gains

Net unrealized gains represent the difference between market value and carrying value of investments, which are not recorded on the Company's balance sheet other than with respect to stocks and real estate. Carrying values for stocks and real estate are determined on a moving average market method of accounting whereby a portion of unrealized gains or losses is included in the carrying value of investments. The related changes in unrealized gains and losses are credited to or charged against income.

The Company had $5.1 billion in net unrealized gains as at December 31, 2003 compared to $4.5 billion as at December 31, 2002. The increased unrealized gains were primarily related to the Company's stock portfolio.

Hedging Activities

The Company has entered into several derivative arrangements to hedge specific exposures.

As described on page 41, the Company hedged its exposure to annuity guarantees with long-dated put options against the S&P 500. Under the current accounting rules, these options were carried at their intrinsic value on the balance sheet with changes in this value being included in the increase in actuarial

reserves, offsetting the change in actuarial liabilities from equity market fluctuation of these products. In 2003, there was no impact on earnings from this hedging arrangement. Under the new accounting rules effective January 1, 2004, this arrangement will not qualify as a hedge and therefore the options will be carried at fair value with the resulting transitional gain deferred and amortized over the remaining term of the options. While the revised hedging strategy allows the Company to manage the impact of changes in equity markets over a broader range of the S&P 500 index, the Company's earnings will be subject to more volatility because the derivatives will be carried at fair value. To address this change in the accounting rules and changes in equity market conditions, the Company revised its future hedging strategy through the use of a basket of put options to more effectively manage the impact of equity market changes over a broader range of the S&P 500 index.

Cross currency swaps are used to reduce the impact of currency fluctuations on certain investment financing activities. The accounting for these contracts is consistent with the underlying investment. Changes in exchange gains and losses on cross currency swaps hedging the investment financing activities are included in other liabilities and the currency translation account in equity, offsetting the respective exchange gains and losses arising from the conversion of the investment financing activities. The net interest income or expense on these swaps is recorded as investment income with the offset to other assets or other liabilities. The net impact of this arrangement on earnings was not material in 2003 and is not expected to have a material impact on future earnings.

Total return swaps are used to reduce the impact of changes in the fair value of the Company's restricted share units. The total return swaps are adjusted to fair value over the vesting period of the restricted share units with changes in the fair value recorded in operating expenses to offset the changes in the fair value of the restricted share units. In 2003, the impact on earnings of this relationship was immaterial. Effective 2004, this arrangement will not qualify as a hedge under the new accounting rules and the derivative will therefore be recorded at fair value on the balance sheet. This change is not expected to have a material impact on the Company's earnings.

Financial Position and Liquidity

The Company maintains a strong financial position and adequate liquidity to ensure it can meet its obligations.

Principal Sources of Funds

The primary source of funds for the Company is cash provided by operating activities, including premiums, investment management fees and net investment income. These funds are used primarily to pay policy benefits, dividends to policyholders, claims, commissions, operating expenses and interest. Cash flows generated from operating activities are generally invested to support future payment requirements, including the payment of dividends to shareholders. The Company may also raise funds from time to time through borrowing and the issue of securities to finance growth, acquisitions or other needs.

Net cash, cash equivalents and short-term securities declined by $2.2 billion in 2003 primarily because of lower net cash from operating activities of $1.2 billion and lower net cash provided by financing activities of $1.5 billion. Net cash generated from operating activities was lower than 2002 largely as a result of lower premiums and higher surrenders, in particular, in U.S. annuities. Net cash provided by financing activities was lower in 2003 primarily reflecting the impact of share repurchases of $527 million and an increase of $119 million in dividend payments. In addition, financing activities in 2002 included inflows of $799 million and $200 million, respectively, from the issuance of subordinated debentures and Sun Life ExchangEable Capital Securities (SLEECS).

At December 31, 2003, the Company maintained cash, cash equivalents and short-term securities totalling $5.0 billion. Short-term securities in 2003 included $0.8 billion, up from $0.6 billion in 2002, relating to certain derivative strategies and $0.9 billion, down from $1.2 billion in 2002, held in conjunction with bond repurchase agreements. In addition to providing for near-term funding commitments, cash, cash equivalents and short-term securities include amounts which support short-term liabilities.

The Company had a $323 million line of credit from a financial institution of which $284 million was unused. This line of credit has a term of two years.

Cash Flow

($ millions)	2003	2002	2001
Net Cash Provided by Operating Activities[1]	**3,245**	4,453	1,957
Net Cash Provided by (Used in) Financing Activities	**(1,204)**	292	908
Net Cash Provided by (Used in) Investing Activities	**(2,564)**	(3,216)	(2,953)
Changes due to Fluctuations in Exchange Rates	**(455)**	44	168
Increase (Decrease) in Cash and Cash Equivalents	**(978)**	1,573	80
Cash and Cash Equivalents, beginning of period	**4,156**	2,583	2,503
Cash and Cash Equivalents, end of period	**3,178**	4,156	2,583
Short-term Securities, end of period	**1,794**	2,996	2,226
Cash, Cash Equivalents and Short-term Securities, end of period	**4,972**	7,152	4,809

1 Includes net cash provided by discontinued operations.

Liquidity

The Company's primary liquidity requirement is to meet operating cash outflow obligations such as the payment of claims and expenses and debt servicing, and to ensure its ability to pay shareholder dividends. The Company generally maintains a conservative liquidity position that exceeds on a consolidated basis all the liabilities payable on demand. To further strengthen its liquidity, the Company actively manages and monitors its capital levels, the asset/liability matching position, the diversification and credit quality of its investments, and its cash forecasts and actual amounts against established targets. In addition, the Company maintains standby credit facilities with a variety of banks. The agreements relating to the Company's debt, letters of credit, and lines of credit contain covenants of the nature normally found in these types of agreements relating to solvency, credit ratings and other such matters. The Company is in material compliance with these covenants.

The Company is subject to various regulations in the jurisdictions in which it operates. The ability of the Company's operating subsidiaries to pay dividends and transfer funds within the Company is regulated in certain jurisdictions. Transfers of funds across certain jurisdictions or among the Company's subsidiaries require local regulatory approvals and the satisfaction of certain conditions. Through effective cash management and capital planning, the Company ensures that its subsidiary operations, as a whole and on a stand-alone basis, are properly funded and maintain adequate liquidity to meet obligations, both individually and in aggregate.

Based on the Company's historic cash flows and current strong financial performance, management believes that the cash flow from the Company's operating activities will continue to provide sufficient liquidity for the Company to satisfy debt service obligations and to pay other expenses.

Capital Structure

The Company's capital consists of equity, preferred shares, SLEECS which qualify as Tier 1 capital for regulatory capital purposes, cumulative capital securities and subordinated debt. Shareholders' equity decreased to $13.9 billion, down $924 million from the 2002 level. The decrease was primarily due to the currency translation impact of $1.4 billion resulting from the strengthening of the Canadian currency against the U.S. dollar and the British pound sterling, share repurchases of $527 million, as well as shareholder dividends of $413 million. The decrease was partially offset by the earnings during the year.

The number of Sun Life Financial Inc. common shares outstanding decreased to 600 million as at December 31, 2003, compared to 618 million as at December 31, 2002. The decrease was primarily due to the Company's share repurchase program, which repurchased approximately 18 million common shares in 2003.

The Company has also granted stock options to certain employees and directors that may be exercised at the closing price of the common shares on the trading day preceding the grant date. During 2003 the Company stopped granting stock options to directors and therefore no stock options have been granted to directors since 2002.

As at January 31, 2004, there were 599,970,665 common shares and 15,052,890 stock options outstanding.

Sun Life Assurance Company of Canada (Sun Life Assurance), the principal operating subsidiary of the Company, had preferred shares outstanding of $155 million as at December 31, 2003. These shares were originally issued by Clarica Life Insurance Company.

Through a subsidiary of Sun Life Financial Inc., Sun Life Capital Trust, the Company has $950 million of Series A SLEECS and $200 million of Series B SLEECS outstanding. In certain limited circumstances, these securities can be converted into 40 Sun Life Assurance preferred shares per thousand dollars face amount. These preferred shares are exchangeable into Sun Life Financial Inc. common shares at a price equal to 95 per cent of the trading price at the time of exchange. The number of common shares ultimately issuable upon the conversion of the SLEECS depends on the prevailing market price of the common shares at the time of exchange and is thus not determinable until the conversion date.

The Company's long-term debt decreased with the redemption of $165 million of its 6 5/8 per cent subordinated notes. At December 31, 2003, the Company had cumulative capital securities of $774 million, which were issued in U.S. dollars with no scheduled maturity date, $1.5 billion of subordinated debentures issued in Canadian dollars with maturities between 2013 and 2028, and subordinated notes of $228 million issued in U.S. dollars with maturities between 2007 and 2015.

Including the SLEECS and preferred shares as part of debt, the Company's debt-to-total capital ratio decreased to 21 per cent as at December 31, 2003 from 22 per cent at December 31, 2002.

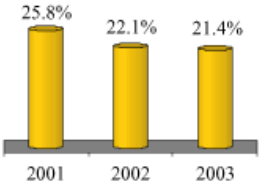
Shareholder Dividends

Sun Life Financial Inc. increased its quarterly shareholder dividend to $0.17 per share, up 21 per cent from $0.14 per share in 2002. Total shareholder dividends for 2003 were $0.68 per share, representing a payout ratio of approximately 27 per cent. On January 29, 2004, the Board of Directors approved an additional 24 per cent increase to $0.84 per share. Sun Life Financial Inc.'s dividend policy is reviewed periodically by the Board of Directors, and is dependent upon the Company's earnings, financial condition and capital requirements.

Capital Adequacy

The Company has policies in place that ensure that adequate capital levels are maintained in the countries in which it has operations. In Canada, the Company has been subject to the Minimum Continuing Capital and Surplus Requirements (MCCSR) established by the Office of the Superintendent of Financial Institutions (OSFI). In September 2003, OSFI indicated that it is developing a capital regime for non-operating insurance holding companies. The guidelines are anticipated to be issued in the first quarter of 2004 and are expected to recommend that the MCCSR test no longer be applied at the consolidated insurance holding company level to assess solvency. In lieu of this measure, OSFI is expected to use leverage and servicing ratios to measure capital adequacy. Sun Life Financial Inc. has maintained strong debt-to-capital ratios and believes that it is well positioned to meet the new guidelines. Sun Life Financial Inc. also maintains a strong capital position that is well in excess of the MCCSR requirements that currently apply to it.

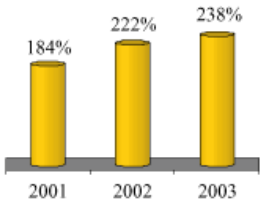
Total Debt-to-Capital Ratio*



* Total debt includes SLEECS and preferred shares

It is anticipated that Sun Life Assurance will continue to be subject to MCCSR requirements. MCCSR is the ratio of available capital to required capital of a life insurance company. Under the guidelines of OSFI, insurance companies are generally expected to maintain a minimum MCCSR ratio of 150 per cent. Sun Life Assurance's MCCSR ratio was well in excess of these guidelines as at December 31, 2003. The increase in MCCSR ratios was primarily driven by the positive effect of improving equity market conditions on capital required and the sale of Clarica U.S.

MCCSR Ratio*



* Represents Sun Life Assurance's MCCSR ratio. The 2001 ratio has been restated to reflect the impact of the amalgamation of Sun Life Assurance and Clarica on December 31, 2002.

Off-Balance Sheet Arrangements

The Company and its subsidiaries, in the normal course of business, are engaged in a variety of financial arrangements. The principal purposes of these arrangements are:

(i) to earn management fees and additional spread on a matched book of business;
(ii) to hedge and match the Company's liabilities, and reduce risks associated with currency, interest rate and stock market fluctuations;
(iii) to reduce financing costs.

While most of these activities are reflected on the Company's balance sheet with respect to assets and liabilities, certain of them are either not recorded or are recorded on the Company's balance sheet in amounts that differ from the full contract or notional amounts. The types of off-balance sheet activities the Company undertakes primarily include:

- asset securitization
- security lending
- financial derivatives
- financial reinsurance

4 Asset Securitization

The Company's asset securitization program primarily comprises mortgage-backed securities and collateralized bond obligations. The purpose of these structures is to leverage the Company's investment expertise to source and manage assets for third party customers for which the Company is paid origination or management fees.

The Company generally uses special purpose entities (SPEs) to carry out these activities. SPEs may be organized as trusts, partnerships or corporations. In an asset securitization, the Company transfers assets to an SPE in exchange for cash. The SPE obtains the cash needed to pay for the assets it receives by issuing securities to investors. As part of the SPE arrangement, the Company may subscribe to a subordinated investment in the securities issued by the SPE. The Company is generally retained to manage the asset in the SPE on a fee-for-service basis. All of the asset securitization transactions undertaken by the Company are structured on a non-recourse basis under which the Company has no exposure to the default risks associated with the assets in the SPE, other than through any retained interest held by the Company, which is not expected to be material.

The Company's asset securitization program, excluding MFS' securitization activities, is summarized in the following table.

($ millions)	2003	2002
As at December 31		
Balance of Securitized Assets	**3,075**	3,050
The Company's Retained Interests	**165**	136
For the year ended December 31		
Cash Flow Received on Retained Interests and Servicing Fees	**26**	19
Sales Proceeds from New Securitizations Including Gains Before Taxes	**693**	525

During 2003, the Company sold commercial mortgages with a carrying value of $623 million to a U.S. trust that subsequently issued securities backed by the commercial mortgages. In 2002, the Company sold commercial mortgages with a carrying value of $497 million to a U.S. trust which subsequently issued securities backed by the commercial mortgages. The Company was retained by both trusts to service and administer the mortgages. It also retained a subordinated investment in both issued securities. These transactions resulted in pre-tax gains of approximately $70 million and approximately $28 million, respectively. These gains are being amortized into income over time.

The Company, through MFS, manages collateralized debt obligations. The Company's exposure in these collateralized debt obligations is limited to its equity investment and the management fee income earned. The net carrying value of the Company's equity investment at December 31, 2003 was $4 million and the expected annual management fees are approximately $3 million.

4 Securities Lending

The Company maintains a securities lending program through which certain securities from its investment portfolio are loaned to other institutions for short periods. The purpose of this program is to generate additional fee income. The Company conducts its program only with well-established, reputable banking institutions that carry a minimum rating of "AA". Collateral that exceeds the market value of the loaned securities is deposited by the borrower with a lending agent, usually a securities custodian, and retained by the lending agent until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. It is Company practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency, in securities lending transactions.

The Company's securities lending program is summarized in the following table.

($ millions)	2003	2002
As at December 31		
Balance of Securities Loaned	**568**	1,675
Value of Collateral	**642**	1,884
For the Year Ended December 31		
Fee Income Received	**3**	4

The Company's loaned securities, which are included in invested assets, had a carrying value and market value as at December 31, 2003 of approximately $568 million and $609 million, respectively. As at December 31, 2002, the Company's loaned securities had a carrying value and market value of approximately $1.7 billion and $1.8 billion, respectively.

4 Financial Derivatives

The Company uses derivative instruments for hedging and risk management purposes or in replication strategies to reproduce permissible investments. The Company does not engage in the speculative use of derivatives. The permissible derivative instruments include swaps, financial futures, options and forward contracts to manage risks or to replicate the exposures associated with interest rate, currency and equity market fluctuations.

The Company generally enters into derivative transactions with counterparties with an "AA" rating or better. Where a counterparty's rating is downgraded below this level, the Company has credit support arrangements in place which require additional collateral at lower thresholds.

The Company uses financial models and techniques to ensure the continuing effectiveness of its hedging strategies. The Company monitors the gaps in market sensitivities between liabilities and the supporting assets. The gap is managed within defined tolerance limits by the use of derivative instruments. From time to time, there may be little availability of assets having the appropriate characteristics to maintain the gaps within predetermined risk tolerances. Generally, a derivative transaction will be pursued if the asset purchase or sale is not considered as financially beneficial compared to an alternative transaction using permissible derivative instruments.

Changes in the fair value of derivatives entered into for hedging purposes almost completely offset either changes in the fair value of an on balance sheet item or changes in the amount of future cash flows. The details of accounting policies in respect of derivatives are described in Note 1 of the Consolidated Financial Statements.

The Company's derivative instruments are summarized in the following table.

($ millions)	2003	2002
As at December 31		
Total Notional Amount	**26,163**	24,858
Net Fair Value	**715**	130
Risk-Weighted Credit Equivalent Amount	**53**	48

Derivative transactions are measured in terms of notional amounts which serve as the basis for calculating payments and are generally not actual amounts that are exchanged. The net fair value represents the unrealized gains, net of unrealized losses, of all derivative financial instruments. The risk-weighted credit equivalent amount is a measure of credit risk, weighted according to the nature of the derivative and the creditworthiness of the counter-parties. The risk-weighted credit equivalent amount is determined in accordance with guidelines provided by OSFI. Additional details regarding the Company's derivatives, including investment income derived from both on- and off-balance sheet derivatives, can be found in Notes 8 and 9 of the Company's Consolidated Financial Statements. Information on the Company's derivatives reported on a U.S. GAAP basis can be found in Note 23 of the Company's Consolidated Financial Statements.

4 Financial Reinsurance

The Company engages in financial reinsurance to generate fee income. Financial reinsurance treaties are structured primarily to provide regulatory capital relief for U.S. insurance companies. Such relief results in the ceding company holding a lower reserve amount than would otherwise be required under accounting requirements of the National Association of Insurance Commissioners in the United States.

The Company's financial reinsurance transactions are structured so that the risk of a loss in any one year is minimal. These reinsurance transactions are usually structured for a term of five years or less.

The Company's financial reinsurance program is summarized in the following table.

($ millions)	2003	2002
As at December 31		
Business In Force Equivalent	**395**	458
Risk-Weighted Amount*	**1**	1
For the Year Ended December 31		
Fee Income Received	**5**	5

* Represents the risk equivalent amount weighted according to the nature of the risk profile of each financial reinsurance treaty

Business in force equivalent is measured as the amount of capital relief that is provided by financial reinsurance. The risk-weighted amount is a measure of the underlying risk associated with financial reinsurance treaties. It represents the economic capital required to support these treaties.

Contractual Obligations

	Payments Due by Period				
($ millions)	Total	Within 1 Year	1-3 Years	4-5 Years	Over 5 Years
Long-Term Debt	3,654	—	—	35	3,619
Operating Leases	610	120	280	46	164
Credit-Related Arrangements Contractual Commitments	1,700	1,157	543	—	—
Letters of Credit	514	514	—	—	—
Total Contractual Obligations	6,478	1,791	823	81	3,783

Commitments, Guarantees, Contingencies and Reinsurance Matters

In the normal course of business, the Company enters into leasing agreements, outsourcing arrangements, and agreements involving indemnities to third parties. The Company is also engaged in arbitration proceedings in the U.S. and U.K. with certain companies that have contracts to provide reinsurance to the Company. Details regarding the Company's commitments, guarantees and contingencies are summarized in Note 21 of the Company's Consolidated Financial Statements.

4 **Lease Commitments**

The Company leases offices and certain equipment. These are operating leases with rents charged to operations in the year to which they relate. Total future rental payments for the remainder of these leases were $610 million as at December 31, 2003.

4 **Contractual Commitments**

In the normal course of business, the Company provides credit instruments to its customers to facilitate their financial needs. These various contractual commitments are not reflected in the Consolidated Financial Statements. At December 31, 2003, there were outstanding contractual commitments of $1.7 billion. The majority of these commitments are to extend credit under commercial and residential mortgage loans.

4 **Letters of Credit**

The Company issues letters of credit in the normal course of business. At December 31, 2003, letters of credit in the amount of $514 million have been issued.

4 **Outsourcing Agreements**

The Company enters into long-term outsourcing contracts from time to time to allow the Company to focus on its core business and enhance customer services. The following are the material long-term outsourcing contracts.

In March 2002, the Company entered into a five year outsourcing contract with Marlborough Stirling Group, a U.K. based services provider, to outsource the administration of its closed block of U.K. individual annuity and insurance business, consisting of around 800,000 policies. The contract has subsequently been extended by two years through to 2009. The value of the main contract is estimated at approximately $315 million over its term. The future payments to Marlborough Stirling are estimated to be approximately $33 million in 2004 and $122 million for the remaining term of this contract after 2004. The outsourcing arrangement has reduced the Company's operating costs and risks, enhanced its strategic flexibility in the U.K. market, and represents another step in the implementation of the Company's strategic initiative to rationalize its U.K. operation.

In August 2002, the Company entered into an outsourcing contract with IBM Canada Limited (IBM), under which IBM provides a wide range of technology services to the Company over a seven-year period. The value of this contract is estimated to be approximately $250 million over its life. Beginning in 2004, this agreement was broadened in scope to include e-Messaging and mainframe services. The future payments to IBM, based on currently anticipated usage levels are estimated to be approximately $37 million a year for the remaining term of this contract.

Additional Information

Additional information relating to the Company can be found in the Company's Consolidated Financial Statements and accompanying notes for the year ended December 31, 2003, the Company's 2003 AIF and other documents filed with applicable securities regulators in Canada and may be accessed at www.SEDAR.com and have also been filed with the Securities and Exchange Commission in the United States.

EXHIBIT 3



Sun Life Financial Inc.

Renewal Annual Information Form

For the Year Ended December 31, 2003

February 17, 2004

Presentation of Information

Sun Life Financial Inc. (SLF Inc.) became the publicly traded holding company of Sun Life Assurance Company of Canada (Sun Life Assurance) on the conversion of Sun Life Assurance from a mutual insurance company to an insurance company with share capital on March 22, 2000. In this Annual Information Form (AIF), the terms "Sun Life Financial" and the "Company" refer, at all times after the demutualization, to SLF Inc. and its consolidated subsidiaries and joint ventures and, at all times prior to the demutualization, to Sun Life Assurance and its consolidated subsidiaries and joint ventures.

Unless otherwise indicated, all information in this AIF is presented as at and for the year ended December 31, 2003 and amounts are expressed in Canadian dollars. Financial information is presented in accordance with Canadian generally accepted accounting principles (GAAP) including the accounting requirements of the Office of the Superintendent of Financial Institutions.

Documents Incorporated by Reference

The following documents are incorporated by reference into this AIF: (i) SLF Inc.'s Management's Discussion and Analysis for the year ended December 31, 2003 (Management's Discussion and Analysis), and (ii) SLF Inc.'s Consolidated Financial Statements and accompanying notes for the year ended December 31, 2003 (the Consolidated Financial Statements). These documents have been filed with applicable securities regulators in Canada and may be accessed at www.sedar.com and have also been filed with the Securities and Exchange Commission in the United States.

Forward-looking Statements

Some of the statements contained or incorporated by reference in this AIF, including those relating to Sun Life Financial's strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" or similar expressions, are forward-looking statements within the meaning of securities laws. Forward looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sun Life Financial as set forth under "General Development of the Business" and "Business of Sun Life Financial". These statements are not historical facts but instead represent only Sun Life Financial's expectations, estimates and projections regarding future events.

The forward-looking statements contained or incorporated by reference in this AIF are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. The future results and stockholder value of Sun Life Financial may differ materially from those expressed in the forward looking statements contained or incorporated by reference in this AIF due to, among other factors, the matters set forth under "Risk Factors" on pages 21 to 26 of this AIF and the factors detailed in Sun Life Financial's other filings with Canadian and U.S. securities regulators, including the factors detailed in Sun Life Financial's annual and interim management's discussion and analysis, and the annual and interim financial statements and the notes thereto. Sun Life Financial does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this AIF or to reflect the occurrence of unanticipated events, except as required by law.

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CORPORATE STRUCTURE

Incorporation

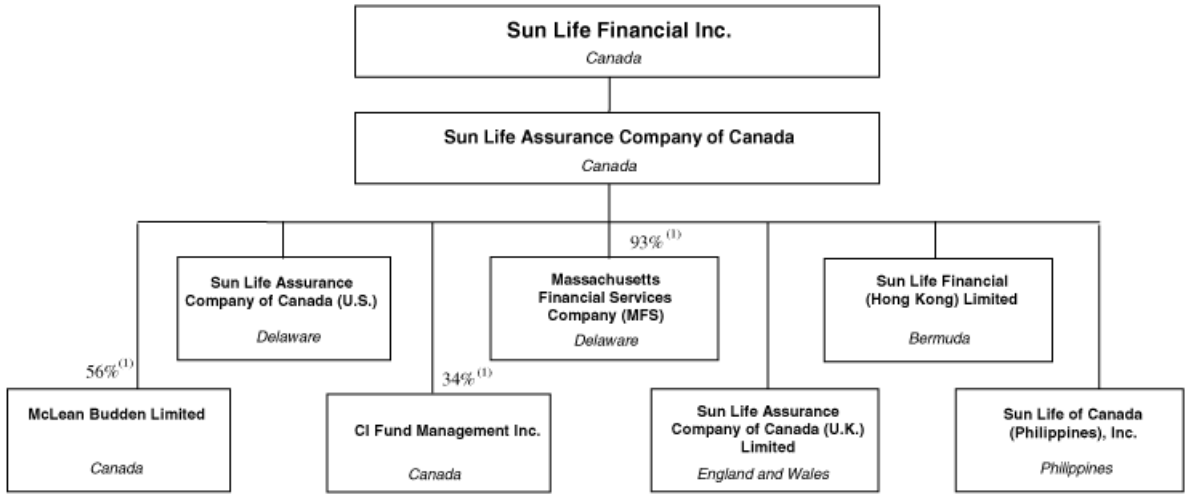
Sun Life Financial Inc. (SLF Inc.), formerly known as Sun Life Financial Services of Canada Inc. prior to a name change pursuant to Letters Patent of Amendment on July 2, 2003, was incorporated under the *Insurance Companies Act* (Canada) (the Insurance Act) on August 5, 1999. On the completion of the demutualization of Sun Life Assurance Company of Canada (Sun Life Assurance) on March 22, 2000, SLF Inc. became the holding company which holds directly all the outstanding shares of Sun Life Assurance. In this Annual Information Form (AIF), the terms "Sun Life Financial" and the "Company" refer, at all times after the demutualization, to SLF Inc. and its consolidated subsidiaries and joint ventures and, at all times prior to the demutualization, to Sun Life Assurance and its consolidated subsidiaries and joint ventures.

Sun Life Assurance was incorporated by a Special Act of Parliament of Canada in 1865. Sun Life Assurance was converted into a mutual company through a process that was completed in 1962 under the provisions of the *Canadian and British Insurance Companies Act* , R.S.C 1952, c. 31. The Special Act of Sun Life Assurance, as amended, was replaced in 1992 by amending letters patent issued under the Insurance Act. Sun Life Assurance was converted on its demutualization from a mutual insurance company to a stock insurance company pursuant to letters patent of conversion issued under the Insurance Act on March 22, 2000. On May 29, 2002, SLF Inc. acquired Clarica Life Insurance Company (Clarica). On December 31, 2002, Clarica was amalgamated with Sun Life Assurance and the amalgamated company operates under the legal name of Sun Life Assurance Company of Canada.

Sun Life Financial traces its roots in Canada back to 1865, in the United States to 1895, in Asia to 1892, and in the United Kingdom to 1893. SLF Inc.'s corporate office is located at Sun Life Tower, 150 King Street West, Toronto, Ontario, Canada M5H 1J9. Sun Life Financial's principal office in Canada is located at 227 King Street South, Waterloo, Ontario, Canada, N2C 4C5, its principal office in the United States is located at One Sun Life Executive Park, Wellesley Hills, Massachusetts, U.S.A. 02481, its regional headquarters for Asia are located at Two Pacific Place, 88 Queensway, Hong Kong, and its principal office in the United Kingdom is located at Basing View, Basingstoke, United Kingdom RG21 4DZ.

Principal Subsidiaries and Significant Equity Investments

Sun Life Financial offers wealth management and protection products and services (as described under "Business of Sun Life Financial") through direct and indirect subsidiaries and joint ventures in Canada, the United States, the United Kingdom, Hong Kong, the Philippines, India, China and Bermuda. The corporate structure of SLF Inc., including its principal direct and indirect subsidiaries (with the jurisdiction of incorporation of each indicated in italics), and significant equity investments is shown below. Unless otherwise indicated, all principal subsidiaries are 100 per cent owned.



(1) As at December 31, 2003

GENERAL DEVELOPMENT OF THE BUSINESS

Overview

Sun Life Financial experienced significant growth during the period between 1998 and 2003. Assets under management and revenue experienced compound annual growth rates of 7 per cent and 10 per cent, respectively during the period. Sun Life Financial's growth strategy is to balance the higher long-term growth prospects of wealth management with the stability of protection earnings.

The recent growth of Sun Life Financial reflects several trends that have generally impacted the financial services industry. The first trend is the maturing of the protection market in North America. In Canada and the United States, Sun Life Financial has been shifting the focus of its protection business towards universal life and other non-participating products as a result of increasing demands for these products. In Asia, Sun Life Financial has been focusing on emerging markets offering significant long-term growth opportunities.

The second trend has been the growing need for wealth accumulation products, including annuities, group pensions and mutual funds, driven by the increasing concern of individuals outliving their assets. Sun Life Financial has benefited from this trend towards wealth management by being a strong, well-established provider of these products in Canada and the United States. Sun Life Financial is also expanding its wealth management operations in the Philippines and India.

The Company believes that transparency of financial and other key information is critically important to establish and maintain the confidence of its stakeholders in the Company's operating integrity and financial strength. In 2003 the Company established a Disclosure Committee which will play a key role in ensuring the quality of stakeholder information. The Disclosure Committee is supported in its role by disclosure review and attestation processes in each of its business segments.

The recent mergers and acquisitions in Canada will drastically change the competitive landscape as the top four players will control more than two thirds of virtually all life insurance markets in Canada. Among other effects, these combinations are causing certain major group insurance clients to hold off purchase decisions. Being the first among the major competitors to complete integration efforts allows Sun Life Financial to increase its focus on the development of new products and services, so that it is in a strong position to compete for new business.

In June 2003, U.S. Treasury bond yields dropped to the lowest levels in 40 years. The low interest rate environment adversely affected the Company's fixed annuity business in the U.S., as the net spread between interest earned on investments and interest credited on the annuities was reduced (spread compression). Management has taken measures to mitigate the issue by lowering crediting rates and reducing commissions at the expense of short-term market share.

During 2003, the Company integrated the annuity distribution platforms of MFS Investment Management (MFS) and the U.S. operations of Sun Life Financial (SLF U.S.) through the formation of MFS/Sun Life Financial Distributors, Inc. (MFSLF). The creation of this integrated distribution company will enable both entities to focus their marketing efforts and achieve economies of scale. For longer term revenue and earnings growth the Company is making strategic investments in India and China, as well as expanding operations in existing markets in Asia.

On February 5, 2004, MFS, its Chief Executive Officer, John Ballen, and its President, Kevin Parke, reached settlements with federal and state regulators related to administrative proceedings against them alleging false and misleading information in certain MFS fund prospectuses regarding market timing and related issues. Under the terms of the settlements, MFS and the executives neither admitted nor denied wrongdoing.

As part of the settlement with the United States Securities and Exchange Commission (SEC), MFS agreed to pay US$225 million to compensate certain fund shareholders, of which US$50 million is a penalty, and agreed with the New Hampshire Bureau of Securities Regulation to pay an administrative fine in the amount of US$1 million. The Company recorded a $211 million after-tax charge to income in the fourth quarter of 2003 in connection with the SEC and New Hampshire settlements. MFS further agreed with the Attorney General of the State of New York (NYAG) to reduce fees on the funds it advises by approximately US$25 million annually over the next five years. Messrs. Ballen and Parke agreed with the SEC to suspensions for nine and six months,

respectively, other restrictions on their employment for a three year period, and to pay approximately US$315,000 each, including US$250,000 in penalty.

Robert Pozen, a former Vice Chairman of Fidelity Investments and John Olin Visiting Professor at Harvard Law School, has been appointed Chairman of MFS. Robert J. Manning, has been named Chief Executive Officer, President and Chief Investment Officer of MFS. Mr. Manning, who joined MFS in 1984, is a member of the Management Committee and the Board of Directors of MFS and served as Chief Fixed Income Officer since 2001.

In addition to steps MFS had previously adopted to reinforce its frequent trading policies and procedures, MFS agreed to undertake a number of other governance reforms, including retaining an independent compliance consultant, creating an internal compliance controls committee, establishing a code of ethics oversight committee, and hiring a corporate ombudsman.

In November 2003, the SEC and Morgan Stanley DW, Inc. (Morgan Stanley) settled an enforcement action against Morgan Stanley relating to the receipt of fees from certain mutual fund companies in return for preferred marketing of their funds. MFS was one of the 14 fund companies reported to be on Morgan Stanley's preferred list. As a result, MFS has been under investigation by the SEC relating to its directed brokerage and revenue-sharing arrangements with various distributors of its products, including Morgan Stanley. MFS is cooperating with the SEC's investigation, which is ongoing.

In addition, certain of the Company's subsidiaries have received requests for information from the SEC and other regulators in connection with enquiries into directed brokerage and revenue-sharing arrangements and are responding to these requests.

As part of an industry-wide investigation of variable insurance product sponsors, certain subsidiaries of the Company received requests from the SEC for information regarding practices with respect to sub-account "market timing" practices with respect to receiving and processing exchange orders from contract owners, and oversight of such activities in separate accounts. The Company has responded to the SEC's request.

See also the *"Risk Factors – Investigations into U.S. Investment Industry"* on page 22 of this AIF.

Acquisitions, Disposals and Business Combinations

Sun Life Financial maintains an ongoing program of assessing its businesses and corporate strategies in order to optimise the use of capital and enhance shareholders' value.

Details of Sun Life Financial's 2003 business development activities are discussed on pages 4 to 5 of SLF Inc.'s 2003 Management's Discussion and Analysis and financial details of acquisitions and disposals are discussed on pages 12 to 15 of SLF Inc.'s 2003 Consolidated Financial Statements, which are incorporated by reference into this AIF

Following is a brief summary of the Company's acquisitions, disposals and business combination activities over the past three years:

C.I. Fund Management Inc.

On July 25, 2002, Sun Life Financial acquired 71 million common shares of CI Fund Management Inc. (CI), a major Canadian mutual fund manager, in exchange for the all the shares of the Company's Canadian mutual fund subsidiaries, Spectrum Investment Management Limited and Clarica Diversico Ltd. Including this transaction, the Company's economic interest in CI was 31.7% on July 25, 2002.

On March 20, 2003, Sun Life Financial further increased its ownership interest in CI by issuing approximately 2 million common shares of SLF Inc. in exchange for approximately 5 million common shares of CI. As a result of this transaction, Sun Life Financial now owns approximately 34 per cent of the outstanding common shares of CI.

In the fourth quarter of 2003, CI Fund Management Inc. (CI) acquired Synergy Asset Management Inc. and the Canadian operations of Assante Corporation. Sun Life Financial supported the transaction and maintained its 34 per cent ownership interest in CI by acquiring additional CI common shares for $266 million.

Clarica Life Insurance Company (Clarica)

On May 29, 2002, SLF Inc. acquired Clarica, which was a leading provider of insurance and investment products in the Canadian market. Clarica was amalgamated with Sun Life Assurance on December 31, 2002. The amalgamated company operates under the legal name of Sun Life Assurance Company of Canada.

On January 7, 2003, the Company sold Clarica U.S. Inc., a subsidiary acquired as part of the Clarica acquisition, to Midland National Life Insurance Company after concluding that it was not a strategic fit for the Company's U.S. operations.

Keyport Life Insurance Company (Keyport)

On October 31, 2001, the Company completed the acquisition of Keyport and Independent Financial Marketing Group, Inc. (IFMG). Keyport was a U.S.-based provider of fixed and variable annuities. IFMG is a distributor of annuities and mutual funds through financial institutions across the United States. The aggregate purchase price for Keyport and IFMG was US$1.7 billion. Keyport was amalgamated with Sun Life Assurance Company of Canada (U.S.) on December 31, 2003.

Sun Life Financial United Kingdom Operations

In March 2001, the Company exited the direct sales force distribution business and stopped selling individual life insurance and pension products to new customers in the U.K. This strategic move allowed Sun Life Financial to focus on realizing the underlying value of its U.K. in-force individual life and pension policies

In December 2001, the Company sold its asset management unit, SLC Asset Management Limited (SLCAM) and in November 2001, the Company sold its banking subsidiary, Sun Bank plc, a United Kingdom bank. The net proceeds from the sales of SLCAM and Sun Bank plc were $242 million and $144 million, respectively.

In March 2002, the Company signed agreements with the Marlborough Sterling group, a U.K.-based software and service provider specializing in financial services sectors, to outsource the administration of its closed book of U.K. individual life and pension business.

On February 28, 2003, the Company sold its U.K. group insurance business to Unum Limited, a U.K. subsidiary of UnumProvident Corporation, as part of its efforts to realize the underlying value of its U.K. operations. Under the sale agreements, Unum Limited acquired the renewal rights to the group life business. For the group income protection business, the business was fully reinsured with Unum Limited effective February 28, 2003 and formally transferred under a Court Scheme effective July 1, 2003.

BUSINESS OF SUN LIFE FINANCIAL

Overview

Sun Life Financial is a leading international financial services organization, providing a wide range of savings, retirement, pension, mutual funds, investment management, and life and health insurance products and services to individual and corporate customers. At December 31, 2003, without reflecting industry mergers and acquisitions closing after December 31, 2003, Sun Life Financial was the largest Canadian life insurance organization based on total assets under management of $359 billion. Sun Life Financial recorded total revenue of $22.1 billion and shareholders' net income of $1.3 billion for the year ended December 31, 2003. At December 31, 2003, Sun Life Financial had approximately 13,570 employees worldwide and an extensive global distribution network consisting of career sales forces in certain countries, independent insurance agents, investment dealers and financial planners.

Sun Life Financial's operations in Canada, the United States, the United Kingdom and Asia, as well as its risk management policies and investment activities, are described in detail in SLF Inc.'s Management's Discussion and Analysis, which is incorporated by reference into this AIF.

Sun Life Financial's portfolio of products and services by each business segment is summarized in the following table:

Products and Services by Business Segment

	SLF Canada	SLF U.S.	MFS	SLF U.K.	SLF Asia
Wealth Management					
Individual annuity and savings products					
Group pensions and retirement products					
Mutual funds					
Asset management services					
Protection					
Individual life					
Individual Health					
Group life and health					
Reinsurance — life retrocession					

Wealth Management

Sun Life Financial's wealth management operations are conducted primarily in Canada, the United States, and the United Kingdom. It is expanding this business in Asia. Sun Life Financial focuses on meeting the savings and retirement needs of its customers and helping them plan and achieve lifetime financial security. It offers a broad range of wealth management products with fixed income or equity-linked investment features. Fixed income products, including primarily fixed annuities, pensions and group retirement products and services, are less sensitive to market volatility and generate relatively predictable profits. Equity-linked products, including mutual funds, variable annuities and asset management services, are directly driven by market performance and the demand for these products could be adversely affected by market fluctuations. Sun Life Financial's wealth management operations are well diversified.

Protection

Sun Life Financial offers protection products and services primarily in Canada, the United States and Asia. In addition, the Company has a run-off block of individual insurance business in its U.K. operations. Sun Life Financial's protection operations comprise (i) retail insurance, offering a wide range of individual life and health insurance products; (ii) group benefits, offering customized group products to meet the protection needs of employers; and (iii) reinsurance, primarily life retrocession. Sun Life Financial's individual life insurance products are positioned to provide value-added protection for individual customers. Its group insurance products are custom-designed to fulfill the protection needs of group plan members.

The Wealth Management and Protection Industries

The global financial services industry is undergoing a period of significant evolution, particularly in North America. The wealth management and protection industries are transforming rapidly in response to demographic shifts, changing customer expectations, changing government regulations, advances in technology

and increased competition and consolidation in the financial services sector. Throughout 2003, equity markets continued to experience volatility and interest rates remained at historically low levels.

Demographic shifts, particularly in North America, highlighted by increasing life expectancies and a growing retirement population, have resulted in an increased emphasis on retirement planning and saving, with a focus on inter-generational wealth transfer vehicles. Concerns about the ability of governments to finance traditional sources of retirement income have led consumers to focus on self-directed investments intended to supplement these sources of retirement income. Customers in the insurance and wealth management industries have also grown increasingly sophisticated which, together with a growing desire for self-directed investments, has resulted in a more knowledgeable customer base that is more demanding.

Changes in the regulation of the financial services industry in North America have reduced the traditional barriers between the banking, insurance and investment industries, heightening competition in these markets. Several of the major Canadian banks have significant operations in securities, wealth management and insurance operations. The Canadian financial services legislation provides a regulatory framework for further convergence of the banking, insurance and investment industries. On June 23, 2003, the government of Canada released a policy paper titled "Response of the Government to Large Bank Mergers in Canada: Safeguarding the Public Interest for Canadians and Canadian Businesses." This document was prepared in response to reports issued by the House of Commons Standing Committee on Finance and the Senate Standing Committee on Banking, Trade and Commerce on the public interest considerations in reviewing bank mergers. The government announced that it would not accept or consider any merger proposals among large financial institutions until after September 30, 2004. Sun Life Financial's position on further consolidation in the Canadian financial services industry is outlined in a submission to the Government of Canada dated December 31, 2003 titled *Consolidation of the Canadian Financial Services Sector in the Public Interest,* and is accessible on Sun Life Financial's Web site, www.sunlife.com. In the United States, recent consolidation has created larger financial institutions involved in the banking, insurance and investment management businesses, and the enactment of the *Gramm-Leach-Bliley Act of 1999*, which implements fundamental changes in the regulation of the U.S. financial services industry, may encourage further consolidation.

Financial services companies, particularly in North America, are increasing their development of multiple distribution channels, including independent third party brokers and financial planners, and making increasing use of electronic communication channels, such as the Internet, to reach customers.

Competition

The wealth management and protection markets in which Sun Life Financial engages are highly competitive. Sun Life Financial's competitors include other insurance companies, mutual fund companies, banks, financial planners and other providers. Frequently, competition is on the basis of pricing and ability to provide value-added services to distributors and customers. Among other things, the competition in the wealth management and protection industries throughout the world has resulted in a trend towards the global consolidation of the financial services industry. Within the Canadian market, the pace of consolidation accelerated further following acquisition announcements by two key players. Management believes that Sun Life Financial will increasingly face more competition from large, well capitalized financial services companies in each jurisdiction in which it operates.

Sun Life Financial intends to sustain its competitive advantage and leadership in the marketplace through its financial strength and high credit ratings, its recognized brand, its product innovation and underwriting expertise, and its quality customer services. The acquisition of Clarica has created a stronger organization in Canada with enhanced products, expanded distribution power, greater management depth and lower cost structures, and has further strengthened Sun Life Financial's ability to compete successfully at home and in the international marketplace.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Selected consolidated financial information for three most recent completed financial years can be found in SLF Inc.'s 2003 Management's Discussion and Analysis on page 1 under the heading "*Financial Highlights*"

and on page 10 under the heading "*Consolidated Results of Operations – Earnings and Earnings Per Share*", which are incorporated by reference into this AIF.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SLF Inc.'s 2003 Management's Discussion and Analysis is incorporated by reference into this AIF and should be read in conjunction with SLF Inc.'s 2003 Consolidated Financial Statements.

ASSET-BACKED SECURITIES

Sun Life Financial issues asset-backed securities from time to time as part of its normal course of business. The details of Sun Life Financial's asset securitization program are presented on page 52 in SLF Inc.'s 2003 Management's Discussion and Analysis and on pages 21 to 22 in SLF Inc.'s 2003 Consolidated Financial Statements, which are incorporated by reference into this AIF.

MARKET FOR SECURITIES

The common shares of SLF Inc. are listed on the Toronto (TSX), New York (NYSE) and Philippine (PSE) Stock Exchanges under the ticker symbol of "SLF".

TRANSFER AGENTS

The transfer agents for SLF Inc. are as follows:

Shareholder's Country of Residence	Transfer Agent and Location
Canada and the United States	CIBC Mellon Trust Company PO Box 7010, Adelaide Street Postal Station, Toronto, Ontario, Canada, M5C 2W9
United Kingdom	Capita IRG Plc Bourne House, 34 Beckenham Road, Beckenham, Kent, United Kingdom, BR3 4TU
Philippines	The Hong Kong and Shanghai Banking Corporation Limited 30/F The Discovery Suites, #25 ADB Avenue, Ortigas Centre, Pasig, Metro Manila, Philippines
Hong Kong	Computershare Hong Kong Investor Services Limited Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

DIRECTORS AND EXECUTIVE OFFICERS

Board of Directors

In 2003, the Board of Directors had five standing committees:

1. Audit Committee
2. Conduct Review Committee
3. Risk Review Committee
4. Management Resources Committee
5. Governance Committee

On February 12, 2004, the Board combined the responsibilities of the Audit Committee and the Conduct Review Committee into one committee called the Audit and Conduct Review Committee.

The following table sets out the directors of SLF Inc. and, for each director, his or her municipality of residence, principal occupation, years as a director, the year in which the term of office expires, and membership on board committees.

Name and Municipality of Residence	Position with SLF Inc.	Principal Occupation	Term as Director	Board Committee Membership
Robert M. Astley Waterloo, Ontario	Director	President, Sun Life Financial Canada	Director since[1]: 2002 *1989 Term expires[2]: 2004	(none)
James C. Baillie Toronto, Ontario	Director	Counsel, Torys LLP	Director since: 2000 Term expires: 2005	Audit Conduct Review Risk Review
William R. Fatt Toronto, Ontario	Director	C.E.O., Fairmont Hotels & Resorts Inc.	Director since: 2001 Term expires: 2004	Management Resources Risk Review
David A. Ganong St. Stephen, New Brunswick	Director	President, Ganong Bros. Limited	Director since: 2002 *1991 Term expires: 2005	Governance Management Resources
Germaine Gibara Montreal, Quebec	Director	President, Avvio Management Inc.	Director since: 2002 *1997 Term expires: 2004	Governance Risk Review
Stanley H. Hartt Toronto, Ontario	Director	Chairman, Citigroup Global Markets Canada Inc.	Director since: 1993 Term expires: 2004	Audit Conduct Review Risk Review
Krystyna T. Hoeg Toronto, Ontario	Director	President & C.E.O., Corby Distilleries Limited	Director since: 2002 *1999 Term expires: 2005	Audit Conduct Review
Idalene F. Kesner Bloomington, Indiana	Director	Chairperson, MBA Program, Frank P. Popoff Chair of Strategic Management, Kelley School of Business, Indiana University	Director since: 2002 *1997 Term expires: 2005	Audit Conduct Review

1 "Director since" means the date on which the director first joined the Board of SLF Inc. Where a director served as a director of Sun Life Assurance before the formation of SLF Inc. in 1999, the date on which that director first joined the board of Sun Life Assurance is indicated. Where a director served as a director of Clarica Life Insurance Company prior to the combination transaction with SLF Inc. on May 29, 2002, the date on which that director first joined the board of Clarica is indicated by *.

2 "Term expires" means the director's term expires at the close of the annual meeting in the year shown. At the annual meeting on June 4, 2003 the shareholders approved an Amendment to By-Law No. 1 to change the directors' term of office from three years to one year. Upon the expiry of the director's current term of office, he or she will be elected annually.

John D. McNeil Toronto, Ontario	Director	Chairman, Fairmont Hotels & Resorts Inc.	Director since: 1987 Term expires: 2004	Risk Review
Bertin F. Nadeau Montreal, Quebec	Director	Chairman and C.E.O., GescoLynx Inc.	Director since: 1990 Term expires: 2005	Governance Management Resources
Ronald W. Osborne Toronto, Ontario	Director	Corporate Director	Director since: 1989 Term expires: 2004	Audit Conduct Review Management Resources
Madeleine M. Paquin Montreal, Quebec	Director	President and C.E.O., Logistec Corporation	Director since: 2001 Term expires: 2004	Governance
C. James Prieur Toronto, Ontario	Director	President & C.O.O., SLF Inc. and Sun Life Assurance	Director since: 2002 Term expires: 2004	(none)
Sir Bob Reid London, England	Director	Deputy Governor, Bank of Scotland	Director since: 1997 Term expires: 2004	Audit Conduct Review Risk Review
Donald A. Stewart Toronto, Ontario	Director	C.E.O., SLF Inc. and Sun Life Assurance	Director since: 1996 Term expires: 2004	(none)
William W. Stinson Toronto, Ontario	Director	Chairman SLF Inc. and Sun Life Assurance	Director since: 1985 Term expires: 2004	Governance
W. Vickery Stoughton Los Angeles, California	Director	Chairman & C.E.O., Careside, Inc.	Director since: 1988 Term expires: 2004	Management Resources

Each director of SLF Inc. has been engaged for more than five years in his or her present principal occupation or in other capacities with the company or organization (or predecessor thereof) in which he or she currently holds his or her principal occupation, except Mr. Astley who, prior to January 2003, was President and Chief Executive Officer of Clarica, Mr. Baillie who, prior to January 2000, was a partner at Torys and Mr. Osborne who, prior to December 2003, was President and Chief Executive Officer of Ontario Power Generation Inc., or its predecessor, Ontario Hydro.

Messrs. Ganong, Osborne and Stoughton are or have been directors or officers of publicly traded companies which, in the ten years preceding the date of this AIF became bankrupt, made proposals under legislation relating to bankruptcies or insolvencies or were subject to or instituted any proceedings, arrangements or compromises with creditors.

Audit Committee Financial Expert

SLF Inc.'s board of directors has determined that it has at least one audit committee financial expert serving on its audit committee. Mr. Ronald W. Osborne has been determined to be an audit committee financial expert and is independent, as that term is defined by the New York Stock Exchange's listing standards. The United States Securities Exchange Commission has indicated that the designation of Mr. Osborne as an audit committee financial expert does not make Mr. Osborne an "expert" for any purpose, or impose any duties, obligations or liability on Mr. Osborne that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation or affect the duties, obligations or liabilities of any other member of the audit committee or board of directors.

Executive Officers

The executive officers of SLF Inc. as at the date of this AIF, were as follows:

Name and Municipality of Residence	Position
Donald A. Stewart Toronto, Ontario	Chief Executive Officer
C. James Prieur Toronto, Ontario	President and Chief Operating Officer
Robert M. Astley Waterloo, Ontario	President, Sun Life Financial Canada
Thomas A. Bogart Toronto, Ontario	Executive Vice-President and Chief Legal Officer
David W. Davies Epsom, Surrey, United Kingdom	Managing Director & Chief Executive Officer, Sun Life Assurance Company of Canada (U.K.) Limited
Paul W. Derksen Mississauga, Ontario	Executive Vice-President and Chief Financial Officer
Douglas C. Henck Hong Kong, China	President, Sun Life Financial Asia
Peter G. Pereira Mississauga, Ontario	Executive Vice-President and Chief Information Officer
Robert C. Salipante Wellesley, Massachusetts, USA	President, Sun Life Financial United States

Each executive officer of SLF Inc. has been engaged for more than five years in his present principal occupation or in other capacities with the company or organization (or predecessor thereof) in which he currently holds his principal occupation, with the following exceptions. Prior to January 2003, Mr. Astley was President and Chief Executive Officer of Clarica. Prior to September 2002, Mr. Davies was Trustee and Advisor for Alba Life, Police Mutual Friendly Society and LAHC, prior to March 2002, he was Chief Executive for Royal National Pension Fund for Nurses, and prior to February 1999, he was a Consultant for the Britannia Life subsidiary of Britannia Building Society. Prior to February 2000, Mr. Derksen was Executive Vice-President and Chief Financial Officer of CT Financial Services Inc. Prior to April 2000, Mr. Henck was Senior Vice-President, AIG Life Division of American International Group, Inc. Prior to January 2004, Mr. Pereira was Chief Information Officer and Vice-President, Information Technology, of Telus Corporation, and prior to January 2002, he was Chief Information Officer and Vice-President, Information Technology and Global Outsourcing, of GE Capital Information Technology Solutions, and prior to January 2001, he was Vice-President, North American SAP, of GE Capital Information Technology Solutions. Prior to February 2003, Mr. Salipante was a private consultant, and prior to April 2002, he was President and General Manager of ING U.S. Financial Services.

As at December 31, 2003, Sun Life Financial's directors and executive officers, as a group, owned, directly or indirectly, or had voting control or direction over, 438,196 common shares of SLF Inc., or less than 1 per cent of the total common shares outstanding.

CODE OF ETHICS

All employees, officers and directors of Sun Life Financial, including the Chief Executive Officer, Chief Financial Officer and Controller, are subject to and are required to annually confirm adherence to the Sun Life Financial Code of Business Conduct. The Code of Business Conduct is available at www.sunlife.com.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

For the years ended December 31, 2003 and 2002, the fees paid by Sun Life Financial for audit work performed by Deloitte & Touche LLP were as follows:

	Year Ended December 31	
($millions)	**2003***	**2002***
Audit Services	9.2	8.7
Audit-Related Services	2.1	1.2
Tax Services	1.5	2.3
Other Services	0.3	10.2

* *In order to reflect new SEC reporting guidance, 2003 fees include, and 2002 fees have been restated to include; administrative and out-of-pocket expenses and fees relating to segregated funds (known as separate accounts in the U.S.)*

Audit Fees

Audit fees were paid for professional services rendered by the auditors for the audit of Sun Life Financial's annual financial statements and segregated funds as well as services provided in connection with statutory and regulatory filings.

Audit-Related Fees

Audit-related fees were paid for assurance and related services that are reasonably related to the performance of the audit or review of the annual financial statements and are not reported under the audit fees category above. These services consisted of employee benefit plan audits, special audits in connection with acquisitions, internal control reviews and consultations concerning financial accounting and reporting standards.

Tax Fees

Tax fees were paid for tax compliance, tax advice and tax planning professional services. These services consisted of tax compliance, including the review of original and amended tax returns, assistance with questions regarding tax audits and refund claims, tax advice in connection with acquisitions and tax planning and advisory services relating to domestic and international taxation.

Other Fees

Other fees were paid for products and services other than the audit fees, audit-related fees and tax fees described above.

Audit Committee Approval

Sun Life Financial established a policy requiring pre-approval of services provided by Sun Life Financial's external auditors in July 2002 and amended and restated the policy in October 2002. Set out below is the amended and restated policy. All fees paid to Sun Life Financial's external auditors since July 2002 have been approved by Sun Life Financial's Audit Committee in accordance with the policy in effect at the time. None of the services described in the table above were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of SEC Rule 2-01 of Regulation S-X.

The Company no longer has any engagements with its auditors for services identified in item 3 of the following policy.

Policy Restricting the Use of the Company's External Auditors

1. This policy governs all proposals by the Company or any of its subsidiaries to engage, as a service provider, the external auditor or any of its affiliates, related businesses or associated persons as defined in the Sarbanes-Oxley Act of 2002 ("S-O Act") (collectively referred to as the "External Auditor").

2. The External Auditor will normally be engaged to provide audit and audit-related services, including advisory services related to the External Auditor's audit and audit-related work such as advice pertaining to internal audit, tax, actuarial valuation, risk management, and regulatory and compliance matters, subject to the prohibitions contained in the S-O Act and in any other applicable laws, regulations or rules. The S-O Act prohibitions are set out in Appendix 1.

3. Any engagement of the External Auditor for services that would be legally prohibited by the S-O Act and that was in place at the date this policy was initially established may continue in place until such prohibition becomes operative or it is otherwise prohibited by applicable law, regulation or rule. The Controller will maintain a list of such engagements. The Company will not enter into any other such engagements prior to the S-O Act prohibitions becoming operative.

4. Each engagement of the External Auditor to provide services will require the approval in advance of the Audit Committee of Sun Life Financial Inc. and the audit committee of any affected subsidiary that is itself directly subject to the S-O Act. The Audit Committee may establish procedures regarding the approval process, which will be co-coordinated by the Controller.

5. The Company and its subsidiaries will not employ or appoint as chief executive officer, chief financial officer, controller, chief accounting officer, appointed actuary, or equivalent position within the Company or subsidiaries, any person who was employed by the External Auditor and who provided any services to the Company or subsidiary at any time during the previous two years.

6. The Controller is responsible for the application and interpretation of this policy, and should be consulted in any case where there is uncertainty regarding whether a proposed service is, or is not, an audit or audit-related service. The Controller will revise Appendix 1 as required, from time to time, to reflect changes in applicable laws, regulations or rules.

7. This policy, as amended and restated, is effective from October 30, 2002.

Appendix 1

Sarbanes-Oxley Act of 2002 — Prohibition on services

The External Auditor will be prohibited from providing the following services after the applicable provisions of the S-O Act become operative:

a) bookkeeping or other services related to the accounting records or financial statements;
b) financial information systems design and implementation;
c) appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
d) actuarial services;
e) internal audit outsourcing services;
f) management functions or human resources;
g) broker or dealer, investment adviser, or investment banking services;
h) legal services and expert services unrelated to the audit; and
i) any other service that the Public Company Accounting Oversight Board, to be established under the S-O Act, determines to be impermissible.

REGULATORY MATTERS

Sun Life Financial is subject to regulation and supervision by governmental authorities in the jurisdictions in which it does business.

Canada

General

SLF Inc. and Sun Life Assurance are governed by the Insurance Act. The Insurance Act is administered, and the activities of Sun Life Financial are supervised, by the Office of the Superintendent of Financial Institutions (OSFI). SLF Inc. and Sun Life Assurance have all the powers and restrictions applicable to life insurance companies governed by the Insurance Act. The Insurance Act permits insurance companies to offer, directly or through subsidiaries or through networking arrangements, a broad range of financial services, including banking services, investment counseling and portfolio management, mutual funds, trust services, real property brokerage and appraisal and merchant banking services.

The Insurance Act requires the filing of annual and other reports on the financial condition of insurance companies, provides for periodic examinations of insurance companies' affairs, imposes restrictions on transactions with related parties, and sets forth requirements governing certain aspects of insurance companies' businesses.

OSFI supervises SLF Inc. on a consolidated basis (including from a capital adequacy perspective) to ensure that it has an overview of activities of SLF Inc. and its consolidated subsidiaries. This consolidated regulation includes the ability to review both insurance and non-insurance activities, whether inside or outside of Canada, conducted by subsidiaries of SLF Inc. and adequate supervisory power to bring about corrective action.

Investment Powers

Under the Insurance Act, a life insurance company must maintain a prudent portfolio of investments, subject to certain overall limitations on the amount it may invest in certain classes of investments, such as commercial loans, real estate and stocks. Additional restrictions (and, in some cases, the need for regulatory approvals) limit the type of investments which Sun Life Financial can make in excess of 10 per cent of the voting rights or 25 per cent of the equity of any entity.

Minimum Continuing Capital and Surplus Requirements

The Insurance Act requires Canadian life insurance companies to maintain adequate capital and adequate and appropriate forms of liquidity in relation to their operations. OSFI has established Minimum Continuing Capital and Surplus Requirements (MCCSR). Under MCCSR, a life insurance company is required to maintain an amount of capital which is calculated by reference to, and which varies with, the risk characteristics of each category of on- and off- balance sheet assets and liabilities held by it. The MCCSR calculation involves applying quantitative factors to specific assets and liabilities, as well as to certain off-balance sheet items, based on the following risk components: (i) asset default risk, (ii) mortality/morbidity and lapse risk, (iii) interest margin pricing risk, (iv) changes in interest rate environment risk, (v) segregated fund risk, and (vi) off-balance sheet exposure. The total capital required is the sum of the capital required calculated for each of the six risk components. OSFI uses this total, in conjunction with the amount calculated as available capital, together with other considerations, in assessing the capital adequacy of a life insurance company. OSFI generally expects life insurance companies to maintain a minimum MCCSR of 150 per cent or greater, based on the risk profile of the relevant insurance company. The MCCSR ratios for each of SLF Inc. and Sun Life Assurance as of December 31, 2003 exceeded the levels that would require any regulatory or corrective action.

The principal elements of available capital include common shares, contributed surplus, retained earnings, reported surplus, unamortized deferred realized and unrealized gains and certain losses on investments not taken into account in the valuation of liabilities, a certain portion of actuarial liabilities related to future policyholder termination dividends, preferred shares, qualifying innovative capital instruments and subordinated debt. Funds raised by a life insurance company through borrowing or issuing securities are treated as different categories of available capital for MCCSR purposes depending on the characteristics of the instrument issued.

The amount of available capital is then reduced by Sun Life Financial's goodwill and controlling interests in non-life financial corporations, non-controlling substantial investments in corporations, a portion of negative policy reserves and cash value deficiencies and reserves on reinsurance ceded to unregistered reinsurers. OSFI may require that a higher amount of capital be available for an insurance company, taking into account such factors as the company's operating experience and diversification of asset or insurance portfolios. OSFI may

intervene and assume control of an insurance company if it deems the amount of available capital insufficient. MCCSR may be adjusted by OSFI in the future as experience develops, the risk profile of Canadian life insurers changes, and to reflect other risks.

In September 2003, OSFI indicated that it is developing new capital guidelines for non-operating insurance holding companies. SLF Inc. will be subject to these new guidelines and it is anticipated that Sun Life Assurance will continue to be subject to the MCCSR tests. The guidelines are anticipated to be issued in the first quarter of 2004 and are expected to recommend that the MCCSR test no longer be applied at the consolidated insurance holding company level to assess solvency. In lieu of this measure, OSFI is expected to introduce leverage and servicing ratios to measure capital adequacy.

Restrictions on Dividends and Capital Transactions

The Insurance Act prohibits the declaration or payment of any dividend on shares of an insurance company if there are reasonable grounds for believing an insurance company is, or the payment of the dividend would cause the company to be, in contravention of MCCSR, and requires an insurance company to notify the Superintendent of Financial Institutions (the Superintendent) of the declaration of a dividend at least 10 days prior to the date fixed for its payment. The Insurance Act also prohibits the purchase for cancellation of any shares issued by an insurance company or the redemption of any redeemable shares or other similar capital transactions, if there are reasonable grounds for believing that the company is, or the payment would cause the company to be, in contravention of MCCSR. Further, any purchase for cancellation of any shares issued by an insurance company or the redemption of any redeemable shares or similar capital transactions is prohibited without the prior approval of the Superintendent.

Restrictions on Ownership

The Insurance Act contains restrictions on the purchase or other acquisition, issue, transfer and voting of the shares of an insurance company. Pursuant to these restrictions, no person is permitted to acquire any shares of SLF Inc. if the acquisition would cause the person to have a “significant interest” in any class of shares of SLF Inc., without the prior approval of the Minister of Finance of Canada. In addition SLF Inc. is not permitted to record any transfer or issue of shares of SLF Inc. if the transfer or issue would cause the person to have a significant interest in SLF Inc., unless prior approval is obtained from the Minister of Finance of Canada. No person who has a significant interest in SLF Inc. may exercise any voting rights attached to the shares held by that person, unless that prior approval of the Minister of Finance of Canada is obtained. A person has a significant interest in a class of shares where the aggregate of any shares of that class beneficially owned by that person, any entity controlled by that person and any person acting jointly or in concert with that person exceeds 10 per cent of all of the outstanding shares of that class of shares.

Under the Insurance Act, the Minister of Finance of Canada may approve only the acquisition of a significant interest of up to 30 per cent of any class of non-voting shares and up to 20 per cent of a class of voting shares and provided that the person acquiring those shares does not have direct or indirect influence over SLF Inc. that, if exercised, would result in that person having control in fact of SLF Inc. In addition, the Insurance Act prohibits life insurance companies, including SLF Inc., from recording a transfer or issuing shares of any class to Her Majesty in right of Canada or of a province, an agent of Her Majesty, a foreign government or an agent of a foreign government.

SLF Inc. is required to continue to control, but not wholly own, Sun Life Assurance. Any shares of Sun Life Assurance that are not owned by SLF Inc. are required to meet the widely held criteria. The 20 per cent limit on voting share ownership and 30 per cent limit on non-voting share ownership apply to the direct and indirect cumulative ownership of Sun Life Assurance, with the effect that no single investor will be able to use the holding company structure to exceed the ownership restrictions.

On June 23, 2003, the government of Canada released a policy paper titled “Response of the Government to Large Bank Mergers in Canada: Safeguarding the Public Interest for Canadians and Canadian Businesses.” This document was prepared in response to reports issued by the House of Commons Standing Committee on Finance and the Senate Standing Committee on Banking, Trade and Commerce on the public interest considerations in reviewing bank mergers. The government announced that it would not accept or consider any merger proposals among large financial institutions until after September 30, 2004.

Appointed Actuary

In accordance with the Insurance Act, the Board of Directors of each of SLF Inc. and Sun Life Assurance has appointed a Fellow of the Canadian Institute of Actuaries as the "Appointed Actuary". The Appointed Actuary is required to value the consolidated policy liabilities of each of SLF Inc. and Sun Life Assurance as at the end of each period in accordance with accepted actuarial practices, including selection of appropriate assumptions and methods, and provide an opinion as to whether the amount of policy liabilities makes appropriate provisions for all obligations to policyholders and whether the valuation of liabilities is fairly presented in the consolidated financial statements. At least once in each financial year, the Appointed Actuary must meet with the Board of Directors or the Audit Committee to report, in accordance with accepted actuarial practice, on the financial position and the expected future financial condition of SLF Inc. and Sun Life Assurance. The Appointed Actuary is required to report to the Chief Executive Officer and the Chief Financial Officer of each of SLF Inc. and Sun Life Assurance if the Appointed Actuary identifies any matters which, in the Appointed Actuary's opinion, have material adverse effects on the financial condition of Sun Life Financial.

Provincial/Territorial Insurance Regulation

Sun Life Financial is subject to provincial regulation and supervision in each of the provinces and territories in Canada in which it carries on business. Provincial insurance regulation is concerned primarily with the form of insurance contracts and the sale and marketing of insurance and annuity products, including the licensing and supervision of insurance producers. Individual variable insurance and annuity products and the underlying segregated funds to which they relate are subject to guidelines adopted by the Canadian Council of Insurance Regulators and incorporated by reference into provincial insurance regulations. These guidelines govern a number of matters relating to the sale of these products and the administration of the underlying segregated funds. The Company is licensed to transact business in all provinces and territories in Canada.

Privacy of Customer Information

Canadian federal, and some provincial, laws and regulations require financial institutions to protect the security and confidentiality of customer information and to notify customers about their policies and practices relating to their collection and disclosure of customer information and their policies relating to protecting the security and confidentiality of that information. These laws also regulate disclosure of customer information.

Securities Laws

CI and certain subsidiaries of Sun Life Assurance, including McLean Budden Limited, Clarica Investco Inc. and IQON Financial Inc., certain of their employees or sales representatives and certain of the products offered by these subsidiaries, are registered with provincial and territorial securities commissions and are subject to regulation and supervision under securities laws in each of the provinces and territories of Canada. These registrations may be terminated or suspended for failure to adhere to certain regulatory requirements.

United States

General Regulation at the State Level

In the United States, each state, the District of Columbia, and U.S. territories and possessions have insurance laws that apply to companies licensed to carry on an insurance business in the jurisdiction. However, the state of domicile of the insurer is the primary regulator of the company. The extent of regulation by the domiciliary jurisdiction varies, but most jurisdictions have laws and regulations governing the financial aspects of insurers, including standards of solvency, reserves, reinsurance, capital adequacy and the business conduct of insurers. In addition, the laws of the various states establish state insurance departments with broad administrative powers to approve policy forms and, for certain lines of insurance, rates, grant and revoke licenses to transact business, regulate trade practices, license agents, require statutory financial statements and prescribe the type and amount of investments permitted. The primary purpose of such regulation by the state insurance departments is for the benefit of policyholders, rather than shareholders. Insurance companies are required to file detailed annual and quarterly financial statements with state insurance regulators in each of the states in which they are licensed, and their business and accounts are subject to examination by such agencies at any time. Regulators have

discretionary authority, in connection with the continued licensing of life insurance companies, to limit or prohibit the ability to issue new policies if, in their judgement, the regulators determine that an insurer is not maintaining minimum statutory surplus or capital or if the further transaction of business would be detrimental to policyholders. In addition, as part of their routine oversight process, state insurance departments conduct detailed examinations periodically (generally every three to five years) of the books, records, accounts and market conduct of insurance companies domiciled in their states. Market conduct reviews examine, among other things, content of disclosures, illustrations, and sales practices. Examinations are generally conducted in cooperation with the departments of two or three other states under guidelines published by the National Association of Insurance Commissioners (NAIC).

SLF Inc. is not regulated as an insurance company in the United States but is, as the direct or indirect owner of the capital stock of Sun Life Assurance and other U.S. insurance subsidiaries, subject to the insurance holding company acts of the states in which Sun Life Assurance and its other U.S. insurance subsidiaries are domiciled (or deemed to be commercially domiciled). Most states have enacted legislation that generally requires each insurer that is domiciled therein and that is a member of a holding company system to register with the insurance regulatory authority of that state and, annually, to furnish those authorities certain reports including information concerning capital structure, ownership, financial condition, certain intercompany transactions and general business operations. Sun Life Financial has insurance subsidiaries domiciled in Delaware, Rhode Island and New York. In addition, Michigan is Sun Life Assurance's "state of entry" and, as such, it is treated as Sun Life Assurance's state of domicile in the United States for purposes of the insurance holding company laws. Under most states' holding company laws, all transactions within the holding company system to which the domestic insurer is a party must be fair and equitable and such insurer's policyholder surplus following any such transaction must be both reasonable in relation to its outstanding liabilities and adequate for its needs. In addition, most states, including Michigan, also require prior notice or regulatory approval of the change of control of the domestic insurer or an entity that controls the domestic insurer and of material intercorporate transfers of assets or other material affiliate transactions to which the domestic insurer is a party. The laws of the states in which Sun Life Financial's U.S. insurance subsidiaries are domiciled contain similar provisions with respect to such subsidiaries and their affiliates. Generally, under such laws, a state insurance authority must approve in advance the direct or indirect acquisition of 10 per cent or more of the voting securities of an insurance company domiciled in its state.

Sun Life Assurance is licensed to transact business through its U.S. branch in every state in the United States (except New York, where it is an accredited reinsurer), the District of Columbia, Puerto Rico and the U.S. Virgin Islands. SLF Inc.'s insurance subsidiaries are, collectively, licensed to transact business in all states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

In recent years, a number of life and annuity insurers have been the subject of regulatory proceedings and litigation relating to alleged improper life insurance pricing and sales practices. Some of these insurers have incurred or paid substantial amounts in connection with the resolution of these matters. In addition, state insurance regulatory authorities regularly make inquiries, hold investigations and administer market conduct examinations with respect to insurers' compliance with applicable insurance laws and regulations. In addition, state regulatory authorities, industry groups and rating agencies have developed several initiatives regarding market conduct.

Restrictions on Dividends and Capital Transactions

As a holding company, SLF Inc. depends primarily on the receipt of funds from its operating subsidiaries to pay shareholder dividends and operating expenses. The source of these funds is primarily dividends SLF Inc. receives from its operating companies in Canada, the U.K. and Asia. The inability of its subsidiaries to pay dividends to SLF Inc. in the future may materially impair the ability of SLF Inc. to pay dividends to shareholders or to meet its cash obligations. To the extent dividends are paid by U.S. insurance companies, the insurance holding company system laws and regulations of various states regulate the amount of dividends that a domestic insurance company may pay to its parent without prior regulatory approval. In addition, covenants in surplus notes affect the Delaware domestic insurance company's ability to pay dividends by requiring it to maintain certain levels of surplus.

NAIC IRIS Ratios

The NAIC has developed a set of financial relationships or "tests" known as the NAIC Insurance Regulatory Information System (IRIS) to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that may require special attention or action by insurance regulatory authorities. A second set of confidential ratios, called Financial Analysis Solvency Tracking System, (FAST), are also used for monitoring. Insurance companies generally submit data quarterly to the NAIC, which in turn analyzes the data using prescribed financial data ratios, each with defined "usual ranges". If an insurance company's results vary significantly from expected ranges, regulators may make further inquiries. Regulators have the authority to impose remedies ranging from increased monitoring to certain business limitations to various degrees of supervision**.** For the twelve months ended December 31, 2002, Sun Life Assurance and its U.S. insurance subsidiaries were within the usual ranges for most of the IRIS ratios. Management believes that the ratios which are outside the usual range do not indicate any adverse solvency issues.

Statutory Investment and Other Valuation Reserves

Under NAIC rules, life insurance companies must maintain an asset valuation reserve (AVR), supplemented by an interest maintenance reserve (IMR). These reserves are recorded for purposes of statutory accounting practices; they are not recorded under the provisions of Canadian GAAP and therefore have no impact on SLF Inc.'s reported results of operations or financial position. These reserves affect the determination of statutory surplus, and changes in such reserves may impact the ability of a U.S. insurance subsidiary to pay dividends or other distributions to its parent and also may impact the amounts required to be maintained in trust by the U.S. branch of Sun Life Assurance. The impact of the AVR, which is a provision for potential asset credit defaults, will depend upon future composition of the investment portfolios of the U.S. branch of Sun Life Assurance and it's U.S. life insurance subsidiaries.

Michigan insurance law and the laws of several other states require life insurance companies to analyze the adequacy of their reserves annually. Sun Life Assurance's appointed actuary for the U.S. branch of Sun Life Assurance must submit an opinion that such reserves, when considered in light of the assets held with respect to those reserves, make adequate provision for Sun Life Assurance's contractual obligations and related expenses. Similarly, the appointed actuary for each of the U.S. life insurance subsidiaries submits an annual opinion.

The NAIC has adopted a model regulation called "Valuation of Life Insurance Policies Model Regulation" that establishes new minimum statutory reserve requirements for individual life insurance policies written in the future. These reserve standards have been enacted by most of the states, generally with a January 1, 2000 effective date. As a result, insurers selling some individual life insurance products such as term life insurance with guaranteed premium periods may need to adjust reserves and/or shorten guarantee periods. While the model regulation has been enacted by certain states in which Sun Life Financial has domestic companies, the enactment of the regulation has not had a material impact on Sun Life Financial. The NAIC is currently considering revisions to this regulation; however, the revisions are not expected to have a material impact on Sun Life Financial.

Risk-Based Capital Requirements

In order to enhance the regulation of insurers' solvency, the NAIC adopted a model law to implement risk-based capital requirements for life, health and property and casualty insurance companies. All states have adopted the NAIC's model law or a substantially similar law. The risk-based capital (RBC) calculation, which regulators use to assess the sufficiency of an insurer's capital, measures the risk characteristics of a company's assets, liabilities and certain off-balance sheet items. RBC is calculated by applying factors to various asset, premium and liability items. Within a given risk category, these factors are higher for those items with greater underlying risk and lower for items with lower underlying risk. Insurers that have less statutory capital than the RBC calculation requires are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy. The RBC ratios for each of the U.S. branch of Sun Life Assurance and its U.S. insurance subsidiaries as of December 31, 2002 exceeded the levels that would require any regulatory or corrective action.

Minimum Statutory Surplus and Capital

Sun Life Assurance's U.S. branch is required to maintain a certain amount of assets in trust with a financial institution acceptable to the Michigan Insurance Commissioner in an amount at all times at least equal to the sum of the U.S. branch's reserves and other liabilities, the minimum required capital and surplus and any additional amounts considered necessary by the Michigan Insurance Commissioner to cover Sun Life Assurance's liabilities plus a portion of its surplus in the United States. These assets are generally only available to meet the policyholder obligations of Sun Life Assurance to its U.S. policyholders, claimants and other U.S. branch creditors. Any amendment to the trust agreement must be approved by the Michigan Insurance Commissioner. As at December 31, 2002, Sun Life Assurance had assets in trust in excess of Michigan's requirements for branches of alien insurers including the RBC requirements referred to above.

The U.S. branch of Sun Life Assurance and it's U.S. life insurance subsidiaries are required to have minimum statutory surplus and capital of various amounts, depending on the state in which they are licensed and the types of business they transact.

Regulation of Investments

The U.S. branch of Sun Life Assurance and it's U.S. insurance subsidiaries are subject to state laws and regulations that require diversification of their investment portfolios and limit the amount of investments in certain investment categories such as below investment grade fixed income securities, equity real estate and equity investments. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring surplus, and, in some instances, would require divestiture of such non-qualifying investments.

Assessments Against Insurers

Insurance guaranty association laws exist in all states, the District of Columbia and Puerto Rico. Insurers doing business in any of these jurisdictions can be assessed for policyholder losses incurred by impaired or insolvent insurance companies. Assessments are generally based upon the proportionate share of premiums written by member insurers in the lines of business in which the impaired or insolvent insurer is engaged. A large part of the assessments paid by Sun Life Financial pursuant to these laws may be used as credits for a portion of Sun Life Financial's U.S. premium taxes. Based on the best information currently available, Sun Life Financial believes the total assessments are adequately accrued.

General Regulation of Insurance at Federal Level

Although the U.S. federal government does not directly regulate the insurance business, federal legislation and administrative policies in several areas, including pension regulation, age and sex discrimination, investment company regulation, financial services regulation and federal taxation, do affect the insurance business. For example, the U.S. Congress has from time to time considered legislation related to the deferral of taxation on the accretion of value within certain annuities and life insurance products, limitations on antitrust immunity, the alteration of the federal income tax structure and the availability of 401(k) or individual retirement accounts. In addition, legislation has been introduced from time to time in recent years which, if ever enacted, could result in the U.S. federal government assuming a more direct role in the regulation of the insurance industry.

In June 2001, the Economic Growth and Tax Relief Reconciliation Act of 2001 (the 2001 Act) was enacted. The 2001 Act contains provisions that will, over time, significantly lower individual tax rates. This will have the effect of reducing the benefits of tax deferral on the build-up of value of annuities and life insurance products. The 2001 Act also includes provisions that will eliminate, over time, the estate, gift and generation-skipping taxes and partially eliminates the step-up in basis rule applicable to property held in a decedent's estate. Some of these changes might hinder sales and result in the increased surrender of insurance and annuity products.

In May 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the 2003 Act) was enacted. The 2003 Act included a provision which reduces the tax rate on capital gains and qualifying dividends to a maximum rate of 15 per cent. The reduced rate is, however, only available (either directly or through an investment in a mutual fund or other pass through entity) to individuals. Corporate taxation of dividends and capital gains, including those derived from corporate shares held through insurance, annuity and tax-qualified

retirement plans, remains unchanged. It is not clear at this time what impact this provision has had or might have on the sale and surrender of certain products. On February 2, 2004, President Bush introduced his budget for fiscal year 2005. Included in the budget are provisions creating new tax-favoured savings initiatives — Lifetime Savings Accounts (LSA), Retirement Savings Accounts (RSA) ,and Employer Retirement Savings Accounts (ERSA) — which, if passed as proposed, could adversely affect the sale of annuity and other tax-favoured products currently offered by the Company.

In 2003, the Senate Finance Committee passed a bill entitled "National Employee Savings and Trust Equity Guarantee Act," (NESTEG) leaving open for further discussion a provision changing the current tax treatment of employers who buy Corporate Owned Life Insurance (COLI). On February 2, 2004, Senate Finance agreed upon amendments to the COLI provision. As amended, payments made to an employer under a COLI policy would be taxable unless certain qualifications, such as employment or level of compensation, are met. The provision also requires that employees covered under COLI policies be informed and give consent to the coverage before the employer purchases the COLI policy. NESTEG goes next to the Senate floor and if passed, must be reconciled with the House version of the bill. It is possible Congress may pass a more restrictive law than the Senate Finance Committee's COLI provision.

Title III of the USA PATRIOT Act of 2001 (the PATRIOT Act) amends the Money Laundering Control Act of 1986 and the Bank Secrecy Act of 1970 to expand anti-money laundering (AML) and financial transparency laws to apply to financial services companies, including some categories of insurance companies. The PATRIOT Act, among other things, seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism, money laundering or other illegal activities. To the extent required by applicable laws and regulations, the subsidiaries of SLF Inc. that are deemed "financial institutions" under the PATRIOT Act have adopted AML programs that include policies, procedures and controls to detect and prevent money laundering, designating a compliance officer to oversee the program, providing for on-going employee training, and ensuring periodic independent testing of the program. These AML programs, to the extent required, also establish and enforce customer identification programs and provide for the monitoring and the reporting to the Department of the Treasury of certain suspicious transactions.

Privacy of Customer Information

U.S. federal and state laws require financial institutions to protect the security and confidentiality of customer information and to notify customers about their policies and practices relating to their collection, use and disclosure and protection of customer information and their policies relating to protecting the security and confidentiality of that information. U.S. federal and state laws also regulate disclosure of customer information. The U.S. Congress and state legislatures are expected to consider additional laws and regulations to further protect customer information.

Securities Laws

Certain subsidiaries of SLF Inc. and certain policies and contracts offered by these subsidiaries, are subject to various levels of regulation under U.S. federal securities laws administered by the Securities and Exchange Commission (the SEC) and under certain state securities laws.

All aspects of SLF Inc.'s subsidiaries investment advisory activities are subject to various federal and state laws and regulations in jurisdictions in which they conduct business. These laws and regulations are primarily intended to benefit investment advisory clients and investment company shareholders. MFS and certain of SLF Inc.'s other U.S. subsidiaries are investment advisors registered under the *Investment Advisers Act of 1940*, as amended (the Investment Advisers Act) and, as such, are regulated by and subject to examination by the SEC. The Investment Advisers Act imposes numerous obligations on registered investment advisors, including fiduciary duties, record keeping and reporting requirements, operational requirements, and disclosure obligations. The SEC is authorized to institute proceedings and impose sanctions for violations of the Investment Advisers Act, ranging from censure to limitations on the investment advisor's activities to termination of an investment advisor's registration. Certain investment companies managed by such subsidiaries, including the MFS mutual funds, are registered with the SEC under, and subject to, the *Investment Company Act of 1940* , as amended, and the shares of certain of these entities are qualified for sale in certain states in the United States and the District of Columbia.

Certain annuity contracts and insurance policies issued by SLF Inc.'s U.S. subsidiaries are registered under the Securities Act of 1933, as amended. Sun Life Assurance Company of Canada (U.S.) and Sun Life Insurance and Annuity Company of New York file periodic reports with the SEC under the *Securities Exchange Act of 1934*, as amended (the Exchange Act). Certain other U.S. subsidiaries of Sun Life Financial. are registered as broker-dealers under the Exchange Act, are subject to the SEC's net capital rules, and are members of, and subject to regulation by, the National Association of Securities Dealers, Inc.

United Kingdom

Insurance Regulation

SLF Inc.'s U.K. life insurance subsidiary, Sun Life Assurance Company of Canada (U.K.) Limited (Sun Life (UK)) carries on certain regulated activities as principal and by way of business in the United Kingdom in relation to long-term contracts of insurance and, therefore, is required to be authorized under *the Financial Services and Markets Act 2000* (the FSM Act) by the Financial Services Authority (the FSA). All insurance companies authorized under the FSM Act are required to conduct their business in accordance with the prudential and conduct of business rules and guidance set out in *the FSA Handbook of Rules and Guidance* (the FSA Handbook), including the *Principles for Businesses* contained in the *High Level Standards* of the FSA Handbook. These include a requirement for firms including insurance companies, authorized under the FSM Act, to conduct their business with due regard to the interests of their customers and to treat them fairly. Insurance companies that are authorized under the FSM Act are also required under the *Interim Prudential Sourcebook for Insurers* (IPRU(INS)) (which is part of the FSA Handbook) to file their accounts and balance sheets and other information in prescribed form with the FSA on an annual basis.

Long-Term Assets and Liabilities

In accordance with the FSA rules set out in IPRU(INS), Sun Life (UK) is required to maintain a separate account and records in respect of its long-term insurance business and to apply the assets and liabilities attributable to its long-term insurance business to a long-term insurance fund, separate from the assets and liabilities attributable to its non-life insurance business, if any, or to shareholders. Within its long-term insurance fund, Sun Life (UK) maintains separate sub-funds in respect of assets and liabilities attributable to its participating insurance business and to its non-participating insurance business, respectively. The FSA rules set out in IPRU(INS) impose restrictions on Sun Life (UK) from applying assets attributable to its long-term insurance business for purposes other than its long-term business.

Margin of Solvency

The FSA requires that insurance companies authorized under the FSM Act maintain a required margin of solvency, the calculation of which for any particular insurance company depends upon the type and amount of insurance business a company writes. Failure to maintain the margin required is one of the grounds on which the FSA may exercise its wide powers of intervention provided for in the FSM Act. In addition, the IPRU(INS) also sets out requirements which implement the European directive on the supplementary supervision of insurance undertakings in insurance groups (98/78/EC) (the Insurance Groups Directive). These include the following: (i) a group-wide solvency calculation which is designed to eliminate "double-gearing", or the use of the same capital to cover different risks within an insurance group; (ii) a solvency margin calculation at the level of a parent company of a regulated insurer which is itself either an insurance holding company, a reinsurer or a non-European Economic Area direct insurer and which has a subsidiary direct insurer whose head office is in a member state of the European Economic Area (which is intended to allow supervisory authorities to assess the potential effect of the parent company's capital structure on the solvency of the insurance company); and (iii) the monitoring of intra-group transactions. Currently, Sun Life (UK) meets its solvency margin requirements in the United Kingdom.

Restrictions on the Distribution of Dividends

Insurance companies in the United Kingdom are subject to the provisions of the *Companies Act 1985* governing the payment of dividends, which prevents any distribution by a company except out of profits available for this purpose. In addition, under the FSA Handbook, a life insurance company cannot declare a dividend at any

time when the assets of the long-term insurance business fund do not exceed the liabilities of the long-term business. The FSA also requires that once a previously established surplus in respect of which long-term policyholders were eligible to participate has been allocated to such policyholders, an authorized insurance company may not transfer assets representing a current established surplus unless the "relevant minimum" of such surplus (calculated by reference to the percentage of the previously established surplus which was allocated to such policyholders) has been allocated to those policyholders or certain regulatory notification requirements have been satisfied. On this basis, Sun Life (UK) is currently prohibited from transferring any assets maintained in the account for participating policies to its shareholders and can only pay dividends out of non-participating surplus once this has been transferred from the long-term fund to the shareholders' fund after the annual valuation.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (administered by the Financial Services Compensation Scheme Limited) established under the FSM Act, provides for the protection of certain individual policyholders in the United Kingdom who may be affected by the inability of insurance companies who carry on insurance business in the United Kingdom to meet their liabilities.

The Financial Services Compensation Scheme is funded by statutory levies on authorized insurance companies. Separate levies are imposed on long-term and general insurance business.

Intervention

The FSA has extensive powers to intervene in the affairs of an authorized insurance company. These include the power to fine the insurance company and to vary or cancel its permission to carry on regulated activities in the United Kingdom, to require information or documents and to investigate the business of the insurance company and to require the company to take appropriate actions in order to satisfy required threshold conditions for authorization.

Reform Proposals

The regulation of the insurance industry in the United Kingdom is in the process of undergoing significant changes. In particular, the FSA is currently engaged in a number of regulatory work streams to achieve a new risk based cross sectoral prudential regulatory framework which includes enhanced individual capital adequacy standards for long-term insurance companies, and, in particular, a realistic approach to assessing the capital adequacy of an insurance company's participating business. In addition to these reforms, the FSA is in the process of reviewing the governance of participating business, and is concerned with promoting the sound management of authorized firms. In line with these reforms, Sun Life (U.K.) will publish a "Principles and Practices of Financial Management" for both of its participating funds from April 1, 2004. Consideration is also being given to the appropriate ongoing governance model.

Other Jurisdictions

In each of the countries in which subsidiaries or joint ventures of Sun Life Financial operate, local regulatory authorities supervise and monitor their business and financial condition. In a number of countries, certain insurance subsidiaries or joint ventures are required to meet specific minimum working and regulatory capital requirements.

RISK FACTORS

The following risk factors should be considered in conjunction with the other information included in this AIF and in the documents incorporated by reference in and forming part of this AIF. In particular, please see the discussion of Sun Life Financial's risk management framework described on pages 36 to 39 of SLF Inc.'s 2003 Management's Discussion and Analysis.

The following risks affect one or more of Sun Life Financial's reportable business segments.

Investigations into U.S. Investment Industry

Sun Life Financial's and, in particular, MFS' reputation could suffer materially as a result of the issues related to the investigations into the U.S. investment industry's practices. Sun Life Financial's and MFS' business is based on public trust and confidence and any damage to that trust and confidence could cause customers not to buy, or to redeem, Sun Life Financial's or MFS' products.

As part of the terms of settlement with the NYAG, MFS has agreed to reduce fees on the funds it advises by approximately US$25 million annually over the next five years. This fee reduction will reduce the fee income generated by MFS from its current assets under management and thereby have an adverse effect on Sun Life Financial's results of operations. In addition, the elimination of directed brokerage and soft dollar arrangements may have an adverse effect Sun Life Financial's ability to attract and retain assets from investors which may in turn reduce Sun Life Financial's earnings.

MFS and other subsidiaries of Sun Life Financial continue to be under regulatory investigation in connection with market timing related issues and directed brokerage and revenue-sharing arrangements with distributors, and Sun Life Financial is also cooperating with the SEC in its requests for information related to variable annuity practices. The outcome of these investigations is not yet determinable and may result in sanctions, compensation payments or other financial penalties.

Investors in MFS funds, including those invested through one of Sun Life Financial's insurance products, may chose to redeem their investments from funds or products managed by MFS.

Since December 2003, Sun Life Financial and MFS, along with certain MFS funds and trustees who serve on the Board of Trustees of these MFS funds, have been named as defendants in purported class action lawsuits filed in the United States seeking damages of unspecified amounts. The lawsuits were purportedly filed on behalf of people who purchased, owned and/or redeemed shares of MFS funds during specified periods. The suits allege that certain defendants permitted market timing and late trading in the MFS funds which allegedly caused financial injury to the funds' shareholders. All of these lawsuits seek an unspecified amount of damages. The defendants are reviewing the allegations and will respond appropriately. Additional lawsuits based upon similar allegations may be filed in the future. Although it is expected that the payments required under the terms of the settlement with the Regulators will largely mitigate any damages payable under the class action lawsuits initiated in respect of these matters, Sun Life Financial cannot predict the outcome of these actions with certainty and is accordingly unable to determine the total potential impact that they may have on Sun Life Financial's results of operations, financial position and cash flows.

Product Guarantees

Certain of Sun Life Financial's variable annuity products sold in the United States and Canada contain guarantees upon death, maturity or annuitization, where the guarantee may vary with, or may be triggered by, the market performance of the underlying funds Although Sun Life Financial has entered into various reinsurance arrangements with respect to these products (whereby Sun Life Financial has ceded certain risk to other insurance companies), has economic hedging programs in place, and has diversified its exposure to market changes in either direction, if a significant market shift is experienced within Sun Life Financial's book of business, these guarantees could have an adverse effect on Sun Life Financial's financial position and results of operations.

Sun Life Financial has also assumed some risk, through reinsurance transactions, with respect to certain variable annuity policies issued in the United States by other insurance companies that contain guarantees upon death or annuitization, where the guarantee may vary with, or be triggered by, the market performance of the underlying funds. While Sun Life Financial has established a hedging program for these reinsured policies and during 2003 strengthened reserves related to these guarantees to the maximum level permitted by actuarial standards and practices in Canada, these guarantees could have an adverse effect on Sun Life Financial, if a significant market shift is experienced in these reinsurance policies.

Interest Rate Risk

Movements in interest rates create several interest rate risks for Sun Life Financial's protection business and the fixed annuity portion of the wealth management business.

Many of Sun Life Financial's annuity products contain explicit or implicit guarantees and, if long-term interest rates fall below these guaranteed rates, Sun Life Financial may be required to increase reserves against losses, thereby adversely affecting its results of operations. Interest rate changes can also cause compression of net spread between interest earned on investments and interest credited, thereby adversely affecting Sun Life Financial's results of operations. Rapid declines in interest rates may result in, among other things, increased asset calls, mortgage prepayments or policy withdrawals and reinvestment at significantly lower yields, which could adversely affect earnings. Interest rate changes can also produce an unanticipated increase in transfers to separate account (variable) options or surrenders, which may force Sun Life Financial to sell investment assets at a loss in order to fund such transfers or surrenders and accelerate recognition of expenses related to the acquisition of fixed annuity products.

Similar risks exist in certain protection products. Interest-sensitive universal life products typically contain an explicit interest rate guarantee. In addition, some universal life products contain secondary guarantees under which cost of insurance charges are guaranteed at certain levels, or coverage is maintained in force so long as a specified minimum premium is paid, even if the account value is depleted. The value of such guarantees increases as interest rates decline.

Credit Risk

The capital and earnings of Sun Life Financial are affected by, among other things, the investment results, carrying value and levels of allowances for losses on, and write-downs of, Sun Life Financial's investment portfolio. The market value of Sun Life Financial's investments varies depending upon prevailing economic and market conditions, including interest rates and the strength of the stock markets. A pronounced and sustained decline in the Canadian or United States stock markets would reduce the market value of Sun Life Financial's general fund equity portfolio.

Sun Life Financial is also subject to credit risk relating to the uncertainty associated with the continued ability of debtors to make timely payments pursuant to the contractual terms underlying such loans. Although Sun Life Financial's bonds are mostly investment-grade and Sun Life Financial believes that it maintains prudent issuer diversification, a major economic downturn could result in issuer defaults.

Asia

The future success of Sun Life Financial's businesses in Asia depend in large part on Sun Life's ability to compete in the disparate markets of Asia which requires appropriate resources, skills, incentives and organization to execute the business strategy. The risk includes resource availability, depth, and retention, key person concentration, project implementation and succession planning. In addition, the joint venture operations in India and China have the risks inherent in joint venture relationships.

Regulatory and Related Matters

Both the wealth management business and the protection business are subject to extensive levels of regulation. Changes in laws or regulations, or in government policies, could materially and adversely affect the business and operations of Sun Life Financial.

In particular, insurance regulators in Canada and the United States have given greater emphasis in recent years to the investigation of allegations of improper life insurance pricing and sales practices by life and annuity insurers, including "churning", inappropriate sales and other misleading practices by insurance agents. In the United States, state insurance regulatory authorities regularly make inquiries, hold investigations and administer market conduct examinations with respect to insurers' compliance with applicable insurance laws and regulations.

Sun Life Financial is required to maintain adequate regulatory capital in relation to its operations. Currently, Sun Life Financial's capital ratios are in excess of those required by OSFI. These ratios can be adversely affected by changes in business conditions, such as declines in the stock market or interest rate spreads.

Effect of Changes in Market Conditions

Sun Life Financial derives a substantial portion of its revenue from fees generated by its wealth management business including, in particular, MFS. Sun Life Financial intends to continue expanding its wealth management business in the future. The fees earned from the wealth management business are generally assessed as a percentage of assets under management and therefore vary directly with the value of such assets. Accordingly, fluctuations in the market value of such assets may result in fluctuations in Sun Life Financial's wealth management revenue.

Sun Life Financial is exposed to certain equity-market related risks associated with its equity-indexed annuity products. These annuities typically provide for the crediting of interest at rates related to the performance of various equity indices. If there is a substantial decline in the applicable index, the attractiveness of equity-indexed annuity and variable annuity products to customers will be diminished, and holders of equity-indexed annuities may seek to surrender their policies prior to the end of the product term. Equity-indexed annuity policies typically provide for early surrender charges and restrictions. An increase in surrenders in such annuities, however, could have an adverse effect on Sun Life Financial. In addition to the risk of surrenders, Sun Life Financial bears the risk that the spread between the investment income earned on its investments and the interest credited declines below profitable levels.

Dependence on Third Party Relationships

Sun Life Financial distributes its wealth management and protection products through a variety of distribution channels, including broker-dealers, banks, wholesalers, its own internal sales force and other third party marketing organizations. An interruption in Sun Life Financial's continuing relationship with certain of these third parties or the impairment of their reputation or creditworthiness could materially and adversely affect Sun Life Financial's ability to market its products. There can be no assurance that Sun Life Financial would be able to find alternate sources of distribution in a timely manner. The financial strength ratings of Sun Life Financial's insurance company subsidiaries are a key competitive factor in marketing products and in attracting and retaining agents. Should the financial strength rating of one or more of those insurance subsidiaries decline, Sun Life Financial's competitive position would be negatively impacted.

Reinsurance Operations

Certain of the arrangements in Sun Life Financial's run-off reinsurance operations, including the Unicover-related treaties, are subject to litigation or arbitration. In particular, Sun Life Financial has been engaged in arbitration proceedings in the United States and in England with certain of the companies that have contracts to provide reinsurance to Sun Life Financial. In late 2003, Sun Life Financial initiated arbitration proceedings against its largest retrocessionaire. Those companies are disputing their obligation to provide retrocession cover to Sun Life Financial under their respective contracts of reinsurance. Other reinsurers of Sun Life Financial may institute similar proceedings. The liabilities of Sun Life Financial under these arrangements are subject to measurement uncertainty, and therefore uncertainty about the ultimate level of liability, but they are not expected to have a material adverse effect on Sun Life Financial's consolidated financial position. The matters related to these reinsurance arrangements are also discussed in Note 21 of SLF Inc.'s 2003 Consolidated Financial Statements.

Currency Exchange Rate Fluctuations

As an international provider of financial services, Sun Life Financial operates in a number of countries, with revenues and expenses denominated in several local currencies. In each territory in which it operates, it is Sun Life Financial's policy to invest in sufficient assets to match its aggregate liabilities and minimum surplus requirements in that territory. This approach provides an operational hedge against disruptions in local operations caused by currency fluctuations. However, changes in exchange rates can affect Sun Life Financial's net income and surplus when results in local currency are translated into Canadian dollars. Strengthening of the Canadian dollar against the U.S. dollar and the pound sterling could adversely affect Sun Life Financial's reported net income.

Competition

The wealth management and protection businesses in which Sun Life Financial engages are highly competitive. Sun Life Financial's products compete not only with those offered by other insurance companies, but with those offered by mutual fund companies, banks, financial planners and other providers. Frequently, competition is on the basis of pricing and service provided to distribution channels. Sun Life Financial has many large and well-capitalized competitors with access to significant resources. Among other things, the competition in these industries throughout the world has resulted in a trend towards the global consolidation of the financial services industry including, in particular, the insurance, banking and investment management sectors. To the extent that consolidation continues, Sun Life Financial will increasingly face more competition from large, well capitalized financial services companies in each jurisdiction in which it operates. There can be no assurance that this increasing level of competition will not adversely affect Sun Life Financial's businesses in certain countries. Sun Life Financial reports its results based on Canadian generally accepted accounting principles (Canadian GAAP). Some of the Company's competitors report on different accounting bases, such as U.S. GAAP. Because of differences in the incidence of earnings between different accounting bases, the Company may be at a disadvantage compared to some of its competitors in certain of its businesses

In the United States, national banks, with their pre-existing customer bases for financial services products, may, in the future, provide increased competition to insurers, including Sun Life Financial, as a result of, among other things, the *Gramm-Leach-Bliley Act of 1999*, which removed restrictions on bank affiliations with insurers. With the passage of this legislation, among other things, bank holding companies may acquire insurers, and insurance holding companies may acquire banks. In Canada, the federal government is currently reviewing its policies concerning bank and insurance affiliations and the distribution of insurance products through bank branches and may elect to remove the current restrictions on such affiliations or distribution. The ability of banks to affiliate with insurance companies or, in Canada, to distribute insurance products through their branches, may materially adversely affect all of Sun Life Financial's products by substantially increasing the number and financial strength of potential competitors.

Risks Relating to Canadian Operations

The following risk relates to and may only impact the earnings produced by Sun Life Financial's Canadian operations. Sun Life Financial has substantially completed the integration of Clarica with its existing Canadian operations. While management attention has been diverted to integration, product development has lagged and, in some instances, service levels have been impacted. To maintain and grow its position in the market, Sun Life Financial's Canadian operations will refocus their attention on operational, business growth and strategic issues. There is a risk that these efforts may not be successful which could adversely impact the Company's existing business and competitive position in the market place.

Risks Relating to U.S. Operations

The following risks relate to and may impact the earnings produced by Sun Life Financial's U.S. operations. Sun Life Financial's U.S. annuities business has been undergoing a number of challenges related to the current low interest environment. In particular, the U.S. annuities business was adversely affected as the net spread between the interest earned on investments and interest credited on fixed annuities contracts was reduced. Sun Life Financial's U.S. annuities business is subject to OSFI's requirements related to capital. Since many of Sun Life Financial's U.S. competitors operate under different regulatory regimes and are subject to lower capital requirements, Sun Life Financial's U.S. operations are at a competitive disadvantage. Sun Life Financial reports its results based on Canadian generally accepted accounting principles (Canadian GAAP). The Company's primary competitors report on a U.S. GAAP basis. Because of differences in the incidence of earnings between Canadian GAAP and U.S. GAAP, the Company may be at a disadvantage compared to its primary competitors in certain of its businesses.

Risks Relating to U.K. Operations

The following risks relate to and may only impact the earnings produced by Sun Life Financial's United Kingdom operations. In recent years, Sun Life Financial's United Kingdom wealth management business has experienced significant losses arising out of certain sales practices and guaranteed annuity products. In 2001, Sun Life Financial stopped selling new individual insurance in the United Kingdom, but it continues to manage its

existing block of business. Sun Life Financial's United Kingdom operations continue to be subject to regulatory overview in the United Kingdom, including reviews of past business sold, and the Company has regularly engaged in discussions with United Kingdom regulators with respect to these and other matters. Sun Life Financial's United Kingdom operations may be subject to censure if it fails to satisfy the FSA as to the scope and conduct of these reviews.

Sun Life Financial's past business sold includes a variety of endowment products in the United Kingdom. Endowment policies are sometimes sold to provide customers with a method of repaying mortgage debt at the end of a mortgage term. There can be no assurance that United Kingdom regulators will not, in the future, require providers of endowment products to bear some or all of the additional costs required to ensure that such policies meet their target mortgage debts.

Sun Life Financial in the United Kingdom has outsourced the administration of both its individual business and its group business as part of the repositioning of the business as a run-off business. There are risks inherent in outsourcing arrangements. The outsourcing contracts are monitored and controlled by a dedicated team in the United Kingdom operation, whose role includes the application of appropriate mitigation actions for these risks.

ADDITIONAL INFORMATION

Additional information including directors and officers remuneration and indebtedness, principal holders of SLF Inc.'s securities, securities authorized for issuance under equity compensation plans and interests of informed persons in material transactions, if applicable, is contained in SLF Inc.'s information circular for its most recent annual meeting of security holders that involved the election of directors.

Additional financial information is provided in SLF Inc.'s Management's Discussion and Analysis and Consolidated Financial Statements for its most recently completed financial year.

When SLF Inc. is in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities, SLF Inc. will provide to any person one copy of each of the following documents (the "Disclosure Documents") upon request: (i) this AIF and any document or the pertinent pages of any document incorporated by reference herein, (ii) the comparative consolidated financial statements of SLF Inc. for the most recently completed financial year with the accompanying auditor's report, (iii) any interim consolidated financial statements of SLF Inc. subsequent to the financial statements for its most recently completed financial year, (iv) SLF Inc.'s most recent proxy circular and (v) any other documents incorporated by reference into a preliminary short form prospectus or a short form prospectus. When SLF Inc. has not filed a preliminary short form prospectus or is not in the course of a distribution, it shall provide copies of any of the foregoing Disclosure Documents subject to its right to require persons who are not security holders to pay a reasonable charge. Requests for such copies may be sent to the Corporate Secretary of SLF Inc. at 150 King Street West, 6th Floor, Toronto, Ontario, Canada M5H 1J9. The foregoing Disclosure Documents and other additional information related to Sun Life Financial is accessible at SLF Inc.'s Web site, www.sunlife.com.

EXHIBIT 4

REPORT ON DISCLOSURE CONTROLS AND CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Sun Life Financial Inc. (the Company), including its Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15e of the United States Securities Exchange Act of 1934) as of December 31, 2003 and have concluded that these disclosure controls and procedures were operating effectively as of December 31, 2003.

In addition there have been no material changes in internal control over financial reporting (as defined in Rule 13a-15f of the United States Securities Exchange Act of 1934) during the financial year ended December 31, 2003, except the following:

During 2003, the Company's United States operations were involved in evaluating and enhancing the internal control environment acquired from the acquisition of Keyport Life Insurance Company. Significant progress has been made in this regard.

During 2003, the Company's Canadian operations were involved in integrating the business operations arising from the acquisition of Clarica Life Insurance Company. This integration was designed to combine operational strengths through selecting the best processes from the organizations that were being integrated and is now substantially complete. This integration resulted in several changes to the Company's internal controls over financial reporting. These changes were managed through the development, execution and monitoring of comprehensive integration plans.

EXHIBIT 5

AUDITORS' CONSENT

We consent to the use of our reports dated February 12, 2004 appearing in this Annual Report on Form 40-F of Sun Life Financial Inc. for the year ended December 31, 2003.

/s/ "Deloitte & Touche LLP"

Chartered Accountants
Toronto, Canada
February 17, 2004

EXHIBIT 6

COMMENTS BY AUDITORS ON CANADA-UNITED STATES OF AMERICA REPORTING DIFFERENCE

In the United States, reporting standards for auditors require the addition of an explanatory paragraph following the opinion paragraph to identify circumstances in which accounting changes affect consistency such as the matters described in Note 3 to the consolidated financial statements. Our report to the shareholders dated February 12, 2004 is expressed in accordance with Canadian reporting standards which do not require a reference to such circumstances in the auditors' report when the items are properly accounted for and disclosed in the consolidated financial statements.

/s/ Deloitte & Touche LLP

Chartered Accountants
Toronto, Ontario
February 17, 2004

EXHIBIT 7

CONSENT OF APPOINTED ACTUARY

I consent to the use and incorporation by reference of the following report in this Annual Form 40-F of Sun Life Financial Inc. (the "Company"):

My report dated February 12, 2004 on the valuation of the policy liabilities of the Company for its consolidated balance sheets at December 31, 2003 and 2002 and their change in the consolidated statements of operations for the years then ended.

Dated February 17, 2004

/s/ "Robert Wilson"

Robert W. Wilson
Vice-President and Appointed Actuary
Fellow, Canadian Institute of Actuaries
Toronto, Canada

EXHIBIT 8

Blackout Period Notice Required By U.S. SEC Regulation BTR 245.104

To: The Management Employee Directors and Executive Officers of Sun Life Financial Inc.

Section 306(a) of the Sarbanes-Oxley Act of 2002 and Regulation BTR promulgated by the Securities and Exchange Commission prohibit management employee directors and executive officers of Sun Life Financial Inc. ("SLF"), directly or indirectly, purchasing, selling or otherwise acquiring or transferring any equity securities of SLF that they previously acquired in connection with their employment as directors or executive officers of SLF during any blackout period during which U.S. employees are not able to purchase or sell interests in such equity securities under their U.S. retirement plans. This period is referred to as a "Blackout Period."

Participants in the Sun Life Assurance Company of Canada (U.S.) United States Employees' Sun Advantage Savings and Investment Plan ("Plan") will not be able to carry out certain transactions under the Plan during the Blackout Period referred to below as a result of a planned change in the recordkeeper provider for the Plan. The Blackout Period will start on December 12, 2003 at 4:00 p.m. ET and will end on January 26, 2004 at 9:30 a.m. ET and it will apply to the common shares of SLF held in the Plan. The transactions that will be suspended or affected during the Blackout Period are described in the attached Notice that has been provided to participants in the Plan.

The purpose of this Notice is to advise you that, during the Blackout Period, management employee directors and executive officers of SLF may not, directly or indirectly, purchase, sell or otherwise acquire or transfer any common shares of SLF that they previously acquired in connection with their employment as directors or executive officers of SLF.

If you have any questions concerning this notice, you should contact Eric Weinheimer, Assistant Vice-President, Law, Sun Life Assurance Company of Canada, 150 King Street West, Toronto, Ontario, M5H 1J9, phone (416) 979-4825.

Blackout Period Notice Required by U.S. Labor Dept. Regulation 2520.101-3

Important Notice Concerning Your Rights Under the
Sun Life Assurance Company of Canada (U.S.)
United States Employees' Sun Advantage Savings and Investment Plan
November 12, 2003

1. This notice is to inform you that the United States Employees' Sun Advantage Savings and Investment Plan will be changing recordkeeper providers.

2. As a result of this change, you temporarily will be unable to direct or diversify investments in your individual accounts, obtain a loan from the plan, or obtain a distribution from the plan. This period, during which you will be unable to exercise these rights otherwise available under the plan, is called a "blackout period." Whether or not you are planning retirement in the near future, we encourage you to carefully consider how this blackout period may affect your retirement planning, as well as your overall financial plan.

3. The blackout period for the plan is expected to begin and end as follows:

Inability to:	Start	End
• Request in-kind distribution of Sun Life Financial stock in a final distribution request *	December 12, 2003 (4:00 p.m. ET)	January 26, 2004
• Make investment election changes for future contributions • Make compensation deduction changes	December 19, 2003 (4:00 p.m. ET)	January 26, 2004

Inability to:	Start	End
• Make rollover contributions • Take hardship distributions**		
• Take loans* • Take age 59-1/2 in-service distributions* • Take final distributions*	December 26, 2003 (12:00 noon ET)	January 26, 2004
• Reallocate account balance between investment options	December 26, 2003 (4:00 p.m. ET)	January 26, 2004

* Please note that if you need to complete paperwork for any distribution or loan requests (including spousal consents as applicable), we recommend that you request the appropriate paperwork package by December 8, 2003 in order to ensure you have enough time to receive the package in the mail, complete the paperwork, and return it to CitiStreet (the current recordkeeper) on or before the start date of the applicable blackout period listed above.

** Please note that hardship requests and associated paperwork must be provided to the Sun Life Financial Human Resources department in a timely manner to ensure that your distribution will process on or before the December 19 start date.

4. During the blackout period you will be unable to direct or diversify the assets held in your plan account. For this reason, it is very important that you review and consider the appropriateness of your current investments in light of your inability to direct or diversify those investments during the blackout period. For your long-term retirement security, you should give careful consideration to the importance of a well-balanced and diversified investment portfolio, taking into account all your assets, income and investments. In connection with the Sun Life Financial Stock Fund, you should be aware that there is a risk to holding substantial portions of your assets in the securities of any one company, as individual securities tend to have wider price swings, up and down, in short periods of time, than investments in diversified funds. Stocks that have wide price swings might have a large loss during the blackout period, and you would not be able to direct the sale of such stocks from your account during the blackout period.

5. If you have any questions concerning this notice, you should contact Mike Gentile, Sr. Human Resources Manager, Sun Life Assurance Company of Canada (U.S.), SC3040, One Sun Life Executive Park, Wellesley Hills, MA 02481, phone 800-432-1102, extension 1065.

Please Disregard November 12, 2003 Blackout Period Notice

To: The Management Employee Directors and Executive Officers of Sun Life Financial Inc.

Dated: December 22, 2003

Section 306(a) of the Sarbanes-Oxley Act of 2002 and Regulation BTR promulgated by the Securities and Exchange Commission prohibit management employee directors and executive officers of Sun Life Financial Inc. ("SLF"), directly or indirectly, purchasing, selling or otherwise acquiring or transferring any equity securities of SLF that they previously acquired in connection with their employment as directors or executive officers of SLF during any blackout period during which U.S. employees are not able to purchase or sell interests in such equity securities under their U.S. retirement plans. This period is referred to as a "Blackout Period."

A Blackout Period Notice, dated November 12, 2003 was provided to participants in the Sun Life Assurance Company of Canada (U.S.) United States Employees' Sun Advantage Savings and Investment Plan ("Plan") as a result of a planned change in the recordkeeper provider for the Plan.

This Notice is to inform you that the Blackout Period Notice dated November 12, 2003 has been withdrawn since the Plan will not be changing recordkeeper providers in the foreseeable future. Attached is a copy of the Notice being given to participants in the Plan withdrawing the earlier Blackout Period Notice referred to above.

As a result, the Blackout Period you were previously notified about will not begin and all rights of the participants in the Plan will not be suspended and the restrictions on your ability to purchase, sell or otherwise acquire or transfer any common shares of SLF that you were previously notified of will no longer apply to you.

If you have any questions concerning this notice, you should contact Eric Weinheimer, Assistant Vice-President, Law, Sun Life Assurance Company of Canada, 150 King Street West, Toronto, Ontario, M5H 1J9, phone (416) 979-4825

Please Disregard November 12, 2003 Blackout Period Notice

Important Notice Concerning Your Rights Under the
Sun Life Assurance Company of Canada (U.S.)
United States Employees' Sun Advantage Savings and Investment Plan
December 18, 2003

1. This notice is to inform you that the Blackout Period Notice dated November 12, 2003 is being withdrawn since the United States Employees' Sun Advantage Savings and Investment Plan will NOT be changing recordkeeper providers in the foreseeable future.

2. As a result, the blackout period you were previously notified about will not begin and all rights of the participants under the United States Employees' Sun Advantage Savings and Investment Plan are NOT being suspended. You will be able to continue without interruption to direct or diversify investments in your individual accounts, obtain a loan from the plan, or obtain a distribution from the plan.

3. If you have any questions concerning this notice, you should contact Mike Gentile, Sr. Human Resources Manager, Sun Life Assurance Company of Canada (U.S.), SC3040, One Sun Life Executive Park, Wellesley Hills, MA 02481, phone 800-432-1102, extension 1065.

EXHIBIT 9

CERTIFICATION

pursuant to
18 U.S.C. Section 1350
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 40-F of Sun Life Financial Inc. (the "Company") for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies pursuant to 18 U.S.C.§ 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his respective knowledge:

(1) the Report fully complies, in all material respects, with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 17, 2004

/S/ "Donald A. Stewart"

Donald A. Stewart
Chief Executive Officer

Date: February 17, 2004

/S/ "Paul W. Derksen"

Paul W. Derksen
Chief Financial Officer

EXHIBIT 10

CERTIFICATION

I, Donald A. Stewart, Chief Executive Officer of Sun Life Financial Inc, certify that:

1. I have reviewed this annual report on Form 40-F of Sun Life Financial Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [Omitted in accordance with the guidance of SEC Release No. 33-8238]

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 17, 2004

/S/ "Donald A. Stewart"

Donald A. Stewart
Chief Executive Officer

CERTIFICATION

I, Paul W. Derksen, Chief Financial Officer of Sun Life Financial Inc., certify that:

1. I have reviewed this annual report on Form 40-F of Sun Life Financial Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [Omitted in accordance with the guidance of SEC Release No. 33-8238]

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 17, 2004

/S/ "Paul W. Derksen"

Paul W. Derksen
Chief Financial Officer